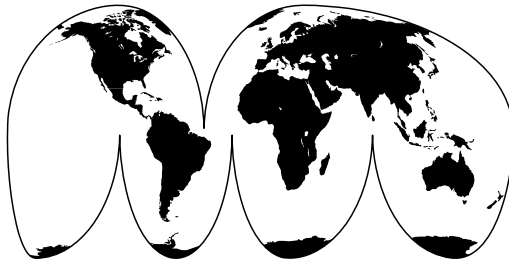


**WORLD MARK**  
**ENCYCLOPEDIA OF THE NATIONS,**  
**TWELFTH EDITION**



**Volume 4**  
**ASIA & OCEANIA**

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## Worldmark Encyclopedia of the Nations, Twelfth Edition

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ISBN 1-4144-1089-1 (set)  
ISBN 1-4144-1090-5 (v.1)  
ISBN 1-4144-1091-3 (v.2)  
ISBN 1-4144-1092-1 (v.3)  
ISBN 1-4144-1093-X (v.4)  
ISBN 1-4144-1094-8 (v.5)  
ISSN 1531-1635 (set)

This title is also available as an e-book  
ISBN 1-4144-1113-8  
Contact your Gale sales representative for ordering information.

Printed in the United States of America  
1 0 9 8 7 6 5 4 3 2 1

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# READER'S GUIDE

**GENERAL NOTE:** The Twelfth Edition of *Worldmark Encyclopedia of the Nations* (WEN) is comprised of five volumes. Volume 1 is dedicated to the United Nations and its related agencies. Volumes 2 through 5, “Africa,” “Americas,” “Asia and Oceania,” and “Europe,” contain entries on the countries of the world.

Reflecting the ever-changing status of the world geopolitical situation, the Twelfth Edition includes entries for 194 countries, one more than the previous edition. This reflects the 2006 decision of Montenegro to dissolve its relationship with Serbia to become an independent nation in its own right. Seven entries describe dependencies. This edition no longer includes volume 6, which was entitled *World Leaders*.

Some notable changes in previous editions include the Eleventh Edition's inclusion of an entry on East Timor, coverage of the aftermath of the terrorist attacks of 11 September 2001, and the expansion of the European Union and the North Atlantic Treaty Organization (NATO). Changes in the Tenth Edition included recording of the change in status for Macau; as of December 1999 Macau came under Chinese authority, and thus Macau was incorporated into the China entry (previously it was described under Portuguese Asian Dependency). Similarly, the entry for United Kingdom Asian Dependency (Hong Kong) was eliminated with the Ninth Edition; as of 1997 Hong Kong came under Chinese authority and, like Macau, is described in that country's entry. Also with the Tenth Edition, the introduction of the euro as currency in the nations of the European Union was noted. The Eighth Edition of this encyclopedia (1995) reported on the dramatic changes in the world in the early 1990s, including the dissolution of the USSR, Czechoslovakia, and Yugoslavia; the unification of Germany; the unification of Yemen; and the independence of Eritrea. These changes resulted in twenty-five new country articles. Whereas the First Edition of the *Worldmark Encyclopedia of the Nations*, in one volume, contained 119 articles, the present Twelfth Edition now contains 201.

In compiling data for incorporation into the *Worldmark Encyclopedia of the Nations*, substantial efforts were made to enlist the assistance of the government of every nation in the world, as well as of all pertinent UN agencies, who cooperated by supplying data and by revising and updating materials relevant to their sphere of interest. Material received from official sources was reviewed and critically assessed by the editors as part of the process of incorporation. Materials and publications of the UN family and of intergovernmental and nongovernmental organizations throughout the world provided a major fund of geographic, demographic, economic, and social data.

In compiling historical, economic, and political data, primary materials generated by governments and international agencies were supplemented by data gathered from numerous other sources including newspapers (most notably *The European*, the *Financial Times*, the *New York Times*, and the *Wall Street Journal*); periodicals (most notably *Current History*, *Elections Today*, *The Economist*, the *Far Eastern Economic Review*, *Foreign Affairs*, and *World Press Review*); and thousands of World Wide Web sites hosted by government agencies and embassies.

The reader's attention is directed to the Glossary of Special Terms for explanations of key terms and concepts essential to a fuller understanding of the text.

**COUNTRY NAMES:** Country names are reported (as appropriate) in three forms: the short-form name (generally conformed to the U.S. Central Intelligence Agency's *World Factbook 2006*), as commonly used in the text; the English version of the official name (generally conformed to the United Nations list of country names); and the official name in the national language(s). When necessary, textual usages of some short-form names have been rectified, usually through the substitution of an acronym for the official name, in order to strike a better balance between official usages and universal terminology. Thus the following short-form names have been adopted throughout (except in historical context to preserve accuracy): DROC (Democratic Republic of the Congo—known as Zaire prior to the Ninth Edition); ROC (Republic of the Congo); FRG (Federal Republic of Germany); North Korea: DPRK (Democratic People's Republic of Korea); and South Korea: ROK (Republic of Korea). In addition, Vietnam has replaced Viet Nam to reflect common usage.

**MAPS:** Spellings on the individual country maps reflect national usages and recognized transliteration practice. To clarify national boundaries and landforms, dark shading has been applied to waters, and lighter shading to lands not within that nation's jurisdiction. Cross-hatching has been used to designate certain disputed areas. Rivers that run dry during certain times of the year are indicated by dashed instead of solid lines.

**FLAGS AND NATIONAL EMBLEMS:** All depictions of flags, flag designations, and national emblems have been reviewed and, where necessary, corrected or changed to reflect their official usage as of 2006. In general, the term “national flag” denotes the civil flag of the nation.

**CURRENCY:** In most cases, currency conversion factors cited in the Twelfth Edition are as of the first quarter of 2006.

**WEIGHTS AND MEASURES:** The general world trend toward adoption of the metric system is acknowledged through the use of metric units and their nonmetric (customary or imperial) equivalents throughout the text. The two exceptions to this practice involve territorial sea limits, which are reported in nautical miles, and various production data, for which (unless otherwise stated) units of measure reflect the system in use by the country in question. All tons are metric tons (again, unless otherwise indicated), reflecting the practice of the UN in its statistical reporting.

**HOLIDAYS:** Except where noted, all holidays listed are official public holidays, on which government offices are closed that would normally be open. Transliterations of names of Muslim holidays have been standardized. For a fuller discussion on these points, and for a description of religious holidays and their origins and meanings, see the Glossary of Religious Holidays in this volume.

**GEOGRAPHIC INFORMATION:** To update the sections on Location, Size, and Extent; Topography, Climate, Flora and Fauna, and Environment, the following print publications (and their publishers) were used: *Geo-Data: The World Geographical Encyclopedia* (Gale Group), *World Development Indicators 2005* (The World Bank), and *World Resources* (Oxford University Press). Additional data was acquired from these websites: Library of Congress, *Country Studies: Country Profiles* (<http://lcweb2.loc.gov/frd/cs/profiles.html>); *Ramsar Convention on Wetlands* (<http://www.ramsar.org>); *UNESCO World Heritage Centre* (<http://www.whc.unesco.org>); *United Nations Environment Programme* (<http://www.unep.org>); *Weather Channel: Averages and Records* (<http://www.weather.com/common/home/climatology.html>); *World Conservation Union: Species Survival Commission* (<http://www.iucn.org/themes/ssc>); *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>).

**POPULATION DATA:** Data for the four rubrics describing population (Population, Migration, Ethnic Groups, Languages) were compiled from numerous publications of the U.S. Department of State, the World Bank, the United Nations, and the Organization for Economic Co-Operation and Development (OECD), specifically its publication *Trends in International Migration*. Also consulted were *The State of the World's Refugees* (Oxford University Press) and *International Committee of the Red Cross Annual Report* (International Committee of the Red Cross)

**RELIGIONS:** Data for this section were compiled in large part from the *2005 International Religious Freedom Report* released by the Bureau of Democracy, Human Rights, and Labor, U.S. Department of State. This is an annual report to Congress compiled in compliance with Section 102(b) of the International Religious Freedom Act (IRFA) of 1998. The *2005 Report* covers the period from 1 July 2004 to 30 June 2005 and includes the work of hundreds of State Department, Foreign Service, and other U.S. government employees. The authors gathered information throughout this period from a variety of sources, including government and religious officials, nongovernmental organizations, journalists, human rights monitors, religious groups, and academics.

**TRANSPORTATION:** Sources consulted for updated information on transportation include publications of the American Automobile Manufacturers Association, the International Road Transport Union, specifically its publication *World Transport Data*, and the *World Factbook 2006*.

**HISTORY:** In writing the History rubric, a variety of news and background information sources on each country were used. Full country profiles—including information on the history, economy, political institutions, and foreign relations on most nations of the world—are provided by the U.S. Library of Congress and by the U.S. Department of State; similar formats are published by the *BBC News International* version and *The Economist's* Country Briefings feature. In consulting news sources for up-to-date information on events, only reported facts (not editorials) were used. The *New York Times* and the *Washington Post* are more comprehensive than the *Wall Street Journal*, whose focus is placed on financial and business news. While the website of the United Nations was used extensively in compiling Volume 1 “United Nations,” of the *Worldmark Encyclopedia of the Nations*, its coverage of such problems as politics in the Middle East and global terrorism pertained to and supported the updating of history rubrics of a number of countries. Other organizations that publish journals or studies on global current events, foreign policy, international relations, and human rights include Amnesty International; Human Rights Watch; *Foreign Affairs*, published by the Council on Foreign Relations; and *Great Decisions*, published by the Foreign Policy Association. In addition, the

official websites of each nation were consulted critically for information that could be gleaned from a state's view of its own history and place in the world.

**GOVERNMENT:** The Government rubric is constructed by outlining the institutions of government as they were formed throughout a nation's modern history, up to those existing under the present constitution. *Countries of the World and Their Leaders Yearbook 2006* (Thomson Gale) outlines the form of government and provides information on political conditions.

The U.S. Library of Congress and the U.S. Department of State chronicle constitutional changes and also provide information on the form of government. Electionworld and the *World Factbook 2006* provide information on officeholders in place at the time of publication. The *BBC News International* "Country Profiles" cover current leaders and their political parties, and *The Economist* is comprehensive in its coverage of political structures and political forces in place and at work in the nations it profiles. The official government websites of individual nations were also consulted.

**POLITICAL PARTIES:** *Countries of the World and Their Leaders Yearbook 2006* not only lists the political parties present in each nation, but provides additional information on the political parties in its "History" and "Government and Political Conditions" sections. *The Economist* also has sections in its country briefings labeled "political structure" and "political forces," which describe the political climate of each nation the magazine profiles. In addition, *The Economist* provides a brief history of the nation, which often includes the history of political parties. Editors reviewed the profiles of selected nations prepared by the U.S. Library of Congress, which include comprehensive coverage of politics and political parties. The *World Factbook 2006* was consulted for a list of political parties, and often, their leaders. The website, Electionworld.org, describes the major political parties and their leaders, and also lists minor and defunct parties. Political Resources on the Net, a website, compiles links to a variety of sites useful to the researcher with a critical eye.

**LOCAL GOVERNMENT:** *Countries of the World and Their Leaders Yearbook 2006* lists the administrative subdivisions in each nation of the world; as does the U.S. State Department in its *Background Notes*, and the U.S. Central Intelligence Agency in its *World Factbook 2006*. *The Economist* was consulted for a description of regional legislatures. The U.S. Library of Congress "Country Profiles" briefings describe administrative divisions and provincial and local government.

**JUDICIAL SYSTEM:** *Countries of the World and Their Leaders Yearbook 2006*, *Background Notes*, and the *World Factbook 2006* all provided basic information on each nation's judicial system. *The Economist* was consulted for a description of the legal systems of each nation it profiles. The U.S. Library of Congress "Country Profiles" briefings provided more in-depth detail about judicial power and structure in the nations it profiles. Jurist, a web-based legal news and real-time legal research service based out of the University of Pittsburgh School of Law in Pittsburgh, Pennsylvania, was consulted as well for concise information on each nation it profiles.

**ARMED FORCES:** Statistical data on armed forces was compiled from the *World Factbook 2006*, *The Military Balance* (The International Institute for Strategic Studies), the *SIPRI Yearbook* (Stockholm International Peace Research Institute), and other print and online sources including *Current World Nuclear Arsenals* maintained by the Center for Defense Information.

**INTERNATIONAL COOPERATION:** This section was updated using data provided by news agencies and the following websites: *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>) and *Background Notes* (<http://www.state.gov/r/pa/ei/bgn>).

**ECONOMY:** In addition to numerous official online sources, data on the economies of the world were compiled from the most recent editions of the following U.S. government publications: *National Trade Estimate on Foreign Trade Barriers*, *Country Commercial Guides*, and *Economic Policy and Trade Practices*. *The Economist* was consulted for detailed information on economic structures and select indicators in its "Country Profiles" archive; it also included economic and political forecasts for the nations it profiled. The U.S. Library of Congress "Country Profiles" provided a brief historical overview of the economies of the countries it profiled, in addition to detailing the current state of various sectors of those economies. *The Index of Economic Freedom* (Heritage Foundation) was also consulted for its measurement of independent variables into broad factors of economic freedom.

**INCOME:** Statistics on national income were obtained from sources published by the United Nations, The World Bank, and the U.S. Central Intelligence Agency (CIA). CIA figures are for gross domestic product (GDP), defined as the value of all final goods and services produced within a nation in a given year. In most cases, CIA figures are given in purchasing power parity terms.

**LABOR:** Labor statistics were compiled from *World Employment* and *Yearbook of Labour Statistics* (International Labour Office—ILO) and the ILO's website *Child Labor Statistics by Country* (<http://www.ilo.org/public/english/standards/ipecc/simpoc/countries.htm>); the World Bank publication *World Development Indicators 2004*; and the U.S. State Department's *Human Rights Reports 2005*.

**AGRICULTURE, FISHING AND FORESTRY:** In addition to government sources, statistical data for these sections was compiled from the following yearbooks published by the Food and Agriculture Organization of the United Nations: *Trade; Fishery Statistics: Commodities; Fisheries; Production; Agriculture; and Forest Products*.

**MINING:** Data on mining and minerals production came from various online sources and from statistics compiled by the Minerals Information office of the U.S. Geological Survey, U.S. Department of the Interior, including Volume III of the *Minerals Yearbook*. This volume of the *Minerals Yearbook* is published both electronically on the Internet and in various print formats available from the U.S. Government Printing Office Superintendent of Documents. The *Yearbook* provides an annual review of mineral production and trade and of mineral-related government and industry developments in more than 175 countries.

**ENERGY AND POWER:** Key sources consulted include *Country Analysis Briefs* (U.S. Energy Information Administration, U.S. Department of Energy), *Key World Energy Statistics* (International Energy Agency), and *World Development Indicators* (The World Bank).

**INDUSTRY :** The primary source material for the Industry rubric was the U.S. State Department's *Country Commercial Guides*, which provide a comprehensive look at countries' commercial environments, using economic, political, and market analysis. *Background Notes* were consulted for the information on the industrial history and climate of each country profiled. Also useful was information contained in the "Country Profiles" published by the U.S. Library of Congress. The *World Factbook 2006* provides a list of key economic indicators. *The Economist* and, to a lesser extent, *BBC News* were useful in providing background material for the Industry rubric.

**SCIENCE AND TECHNOLOGY:** The following print sources were consulted: *The Nature Yearbook of Science and Technology* (Palgrave Macmillan Publishers Ltd.); *NIRA's World Directory of Think Tanks* (National Institute for Research Advancement); in addition, the following websites were accessed: *International Science and Technology Activity* (maintained by Industry Canada, Government of Canada); *Economics Departments, Institutes, and Research Centers in the World* (maintained by the Department of Economics, University of Connecticut); *Science and Technology Statistics* (maintained by UNESCO Institute for Statistics); *World Development Indicators* (maintained by The World Bank); and *Annual Statistics* (patent and trademark information, maintained by the World Intellectual Property Organization).

**DOMESTIC TRADE:** Source material for the Domestic Trade rubric came from the U.S. State Department's *Country Commercial Guides*, *Background Notes*, and the United Nations publication, *International Trade Statistics Yearbook*. Also used was information contained in the "Country Profiles" published by the U.S. Library of Congress. *The Economist* and, to a lesser extent, the *BBC* were consulted in providing background material for the Domestic Trade rubric. The World Bank's service "Doing Business" database and the U.S. Commercial Service's "Buy USA" website were consulted for information on conducting business in a nation, which included business hours and business regulations. Finally, most nations' government websites provided information on domestic trade.

**FOREIGN TRADE:** Sources consulted included 2005 *International Trade Statistics Yearbook* (Department of Economic and Social Affairs, Statistics Division, United Nations) and *Direction of Trade Statistics* (Real Sector Division, IMF Statistics Department, International Monetary Fund). The U.S. Department of State's *Country Commercial Guides* and *Background Notes* were also used. *The Economist* and the *World Factbook 2006* were consulted in listing import and export partners and key products traded. Various UN bodies—such as UNCTAD and UNESCO—provided up-to-date trade statistics.

**BALANCE OF PAYMENTS:** Balance of payments tables were computed from the International Monetary Fund's *Balance of Payments Statistics Yearbook*. In some cases, totals are provided even though not all components of those totals have been reported by the government of the country. Accordingly, in some instances numbers in the columns may not add to the total. Supplementing the IMF's *Balance of Payments Statistics Yearbook* were *The Economist's* "Country Briefings," the *World Factbook 2006*, and information taken from the U.S. State Department, in particular, the *Country Commercial Guides*. "Country Profiles" from the U.S. Library of Congress were also used. Also consulted was the United Nations publication *National Accounts Statistics: Main Aggregates and Detailed Tables*.

**BANKING AND SECURITIES:** Statistical data on securities listings and market activity was compiled in part from *Emerging Stock Markets Factbook, 2005* (Standard and Poor's) as well as from the websites *Country*

*Forecasts* ([www.countrywatch.com](http://www.countrywatch.com)) and *International Banking Statistics* ([www.bis.org/statistics/bankstats.htm](http://www.bis.org/statistics/bankstats.htm)). Various websites specific to the individual countries of the world were also consulted.

**INSURANCE:** Primary sources for information on insurance include the online resources of the Insurance Information Institute, Rowbotham and Co. LLP, PricewaterhouseCoopers, the Swiss Reinsurance Company, and J. Zakhour & Co., as well as numerous national websites dealing with insurance.

**PUBLIC FINANCE:** In addition to official government websites, analytical reports from the U.S. Department of Commerce, and news reports, the following publications were consulted for standardized statistical data: *World Factbook 2006*, *International Financial Statistics Yearbook, 2002* (International Monetary Fund), and *Government Finance Statistics Yearbook, 2002* (International Monetary Fund).

**TAXATION:** Information on Taxation was compiled from country data sheets published by international accounting firms (Deloitte and Ernst & Young). Additional information was obtained from the U.S. Commerce Department and the government websites of the countries of the world.

**CUSTOMS AND DUTIES:** Information on Customs and Duties was compiled from country data sheets published by the accounting firms of Deloitte and Ernst & Young. Additional information was obtained from the U.S. Commerce Department, the World Trade Organization and the government website of the countries of the world.

**FOREIGN INVESTMENT:** Source material for the Foreign Investment rubric included the U.S. State Department's *Country Commercial Guides*, which provided a comprehensive analysis of the foreign direct investment environments of the countries of the world, as did the World Bank publication, *A Better Investment Climate for Everyone*. The International Monetary Fund's publications *International Financial Statistics Yearbook* and *Balance of Payments Statistics Yearbook*, and the U.S. State Department's *Background Notes* were consulted for the information on foreign direct investment. Also used was information contained in the "Country Profiles" published by the U.S. Library of Congress. *The Economist* was consulted in providing basic FDI figures and other relevant data.

**ECONOMIC DEVELOPMENT:** Source material for the Economic Development rubric included the U.S. State Department's *Country Commercial Guides* and *Background Notes*. *The Economist* was consulted for economic and political forecasts for selected nations. The U.S. Library of Congress "Country Profiles" provided a brief historical overview of the economies of the countries profiled, in addition to detailing the current state of various sectors of those economies. The *Index of Economic Freedom* was also consulted for its broad description of economic freedom and development. Information on foreign aid was taken from the print publications and websites of the International Monetary Fund, World Bank, and the United States Agency for International Development (USAID).

**SOCIAL DEVELOPMENT:** Publications consulted in the preparation of this rubric include *2005 Country Reports on Human Rights Practice* (<http://www.state.gov/g/drl/rls/hrrpt/2005/index.htm>), *International Save the Children Alliance Annual Report 2004* (Cambridge House), *The State of the World's Children* (Oxford University Press), and the *World Development Report* (Oxford University Press). Additional information was obtained from country-specific websites and general news publications.

**HEALTH:** Statistical sources consulted include *Country Health Briefing Papers* (a series of reports produced by IHSD Limited and DFID Health Systems Resource Centre for the United Kingdom Department for International Development); *Health Care Systems in Transition* (European Observatory on Health Care Systems, World Health Organization Regional Office for Europe); *Health in the Americas*, Volume II (Pan American Health Organization, World Health Organization) as well as numerous websites on the individual nations of the world. In addition, country-specific health profiles published by the World Health Organization and the World Bank were consulted.

**HOUSING:** The latest government population and housing census information available was used for each country through access of official government websites. Also of use was the World Bank publication *World Development Indicators 2005*. Topics accessed on the World Bank's website included *Countries and Regions*, *Urban Development*, and *Housing and Land*. Other websites consulted included Habitat for Humanity (<http://www.habitat.org>), United Nations Human Settlements Programme (<http://unhabitat.org>) and the U.S. Agency for International Development (USAID—<http://www.usaid.gov>). USAID topics accessed included *Locations* and *Urban Programs*.

**EDUCATION:** Data on Education was obtained from various UNESCO publications including *World Education Report*, *Global Education Digest*, *Education for All Global Monitoring Report 2005*, and the UNESCO *Statistical Yearbook*. Also consulted was *EdStats* compiled by the World Bank (<http://devdata.worldbank.org/edstats/>), the *World Factbook 2006* (<https://www.cia.gov/cia/publications/factbook>), the UNESCO

website's *Country and Regional Profiles* (<http://www.uis.unesco.org/profiles/>), and *World Data on Education* (International Bureau of Education).

**LIBRARIES AND MUSEUMS:** Some information concerning libraries and museums was accessed through official government websites of various countries when links were available to tourism, education, and/or cultural ministries or departments. In addition, the following websites were consulted: American Library Association (<http://www.ala.org>); International Federation of Library Associations and Institutions (<http://www.ifla.org>); Museums of the World (<http://www.museum.com>); and United Nations Educational, Scientific, and Cultural Organization (<http://www.unesco.org>).

**MEDIA:** Primary sources for this section include the annual *Editor & Publisher* publication *International Year Book*, online data provided by UNESCO, and the media sections of the "Country Profiles" featured on the website of *BBC News*. The UNESCO profiles provide key statistics and indicators on education, science and technology, and culture and communication. In addition, government and other websites related to the countries of the world were consulted. Additional sources consulted include the publications *World Development Indicators 2005* (World Bank), *World Media Handbook* (United Nations), *World Factbook 2006*, and *2005 Country Reports on Human Rights Practices*.

**ORGANIZATIONS:** Lists of member countries were obtained through the official websites of a variety of prominent international organizations and associations, such as the International Federation of Red Cross and Red Crescent Societies, Amnesty International, Kiwanis International, the World Alliance of YMCAs, the World Organization of the Scout Movement, etc. *Associations Unlimited* (Thomson Gale) was also consulted.

**TOURISM, TRAVEL, AND RECREATION:** Statistical sources consulted include *Yearbook of Tourism Statistics* and *Compendium of Tourism Statistics*, both published by the World Tourism Organization. Tourism websites of the individual countries were also consulted, as well as the United Nations publication *Schedule of Daily Substinence Allowance Rates* and the U.S. Department of State per diem travel allowances published online at [www.state.gov/r/pa/ei/bgn](http://www.state.gov/r/pa/ei/bgn).

**FAMOUS PERSONS:** Entries are based on information available through March 2006. Where a person noted in one country is known to have been born in another, the country (or, in some cases, city) of birth follows the personal name in parentheses.

**DEPENDENCIES:** Source material for the Dependencies rubric was taken from *Background Notes* and from the website of the United Nations. The Library of Congress's "Country Profiles" archive provided up-to-date information on dependencies. *The Economist* and the website of *BBC News* were also consulted, as was *Countries of the World and Their Leaders Yearbook 2006*.

**BIBLIOGRAPHY:** Bibliographical listings at the end of country articles are provided as a guide to further reading on the country in question and are not intended as a comprehensive listing of references used in research for the article. Effort was made to provide a broad sampling of works on major subjects and topics as covered by the article; the bibliographies provide, wherever possible, introductory and general works for use by students and general readers, as well as classical studies, recent contributions, and other works regarded as seminal by area specialists. The country article bibliographies were supplemented with information obtained from a search conducted in July 2006. An extensive bibliography listing key references related to the facts in this encyclopedia follows. However, it is not a complete listing since many fact sheets, brochures, World Wide Websites, and other informational materials were not included due to space limitations.

## PRINT PUBLICATIONS CONSULTED

*African Development Indicators*. Washington, D.C.: The World Bank, 1996.

*Asia and the Pacific...A Tax Tour*, Chicago: Arthur Anderson & Co., 1986.

*Balance of Payments Statistics Yearbook*. Washington, D.C.: International Monetary Fund, 2004.

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# GUIDE TO COUNTRY ARTICLES

All information contained within a country article is uniformly keyed by means of small superior numerals to the left of the subject headings. A heading such as "Population," for example, carries the same key numeral (6) in every article. Thus, to find information about the population of Albania, consult the table of contents for the page number where the Albania article begins and look for section 6 thereunder. Introductory matter for each nation includes coat of arms, capital, flag (descriptions given from hoist to fly or from top to bottom), anthem, monetary unit, weights and measures, holidays, and time zone.

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## FREQUENTLY USED ABBREVIATIONS AND ACRONYMS

AD—Anno Domini	fl.—flourished	m <sup>3</sup> —cubic meter(s)	rev. ed.—revised edition
AM—before noon	FRG—Federal Republic of Germany	mi—mile(s)	s—south
b.—born	ft—foot, feet	Mt.—mount	sq—square
BC—Before Christ	ft <sup>3</sup> —cubic foot, feet	Mw—megawatt(s)	St.—saint
c—Celsius	GATT—General Agreement on Tariffs and Trade	n.—north	UK—United Kingdom
c.—circa (about)	GDP—gross domestic products	n.d.—no date	UN—United Nations
cm—centimeter(s)	gm—gram	NA—not available	US—United States
Co.—company	GMT—Greenwich Mean Time	oz—ounce(s)	USSR—Union of Soviet Socialist Republics
Corp.—corporation	GNP—gross national product	PM—after noon	w—west
cu ft—cubic foot, feet	GRT—gross registered tons	r.—reigned	
cu m—cubic meter(s)	ha—hectares		
d.—died	i.e.—id est (that is)		
E—east	in—inch(es)		
e—evening	kg—kilogram(s)		
e.g.—exempli gratia (for example)	km—kilometer(s)		
ed.—edition, editor	kw—kilowatt(s)		
est.—estimated	kwh—kilowatt-hour(s)		
et al.—et alii (and others)	lb—pound(s)		
etc.—et cetera (and so on)	m—meter(s); morning		
F—Fahrenheit			

A fiscal split year is indicated by a stroke (e.g. 1998/99).  
 For acronyms of UN agencies and their intergovernmental organizations, as well as other abbreviations used in text, see the United Nations volume.  
 A dollar sign (\$) stands for US\$ unless otherwise indicated.  
 Note that 1 billion = 1,000 million.



# AFGHANISTAN

Islamic State of Afghanistan  
*Dowlat-e Eslami-ye Afghanistan*

**CAPITAL:** Kabul

**FLAG:** The national flag has three equal vertical bands of black, red, and green, with a gold emblem centered on the red band; the emblem features a temple-like structure encircled by a wreath on the left and right and by a bold Islamic inscription above.

**ANTHEM:** *Eslahte Arzi (Land Reform)*, beginning "So long as there is the earth and the heavens."

**MONETARY UNIT:** The afghani (AF) is a paper currency of 100 pul. There are coins of 25 and 50 pul and 1, 2, and 5 afghanis, and notes of 10, 20, 50, 100, 500, and 1,000 afghanis. AF1 = \$0.02000 (or \$1 = AF50) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, although some local units are still in use.

**HOLIDAYS:** Now Rooz (New Year's Day), 21 March; May Day, 1 May; Independence Day, 18 August. Movable religious holidays include First Day of Ramadan, 'Id al-Fitr, 'Id al-Adha, 'Ashura, and Milad an-Nabi. The Afghan calendar year begins on 21 March; the Afghan year 1376 began on 21 March 1997.

**TIME:** 4:30 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Afghanistan is a landlocked country in South Asia with a long, narrow strip in the northeast (the Wakhan corridor). Afghanistan is slightly smaller than the state of Texas, with a total area of 647,500 sq km (250,001 sq mi), extending 1,240 km (770 mi) NE–SW and 560 km (350 mi) SE–NW. Afghanistan is bounded on the N by Turkmenistan, Uzbekistan, and Tajikistan, on the extreme NE by China, on the E and S by Pakistan, and on the W by Iran, with a total boundary length of 5,529 km (3,436 mi). Afghanistan's capital city, Kabul, is located in the east central part of the country.

## <sup>2</sup>TOPOGRAPHY

Although the average altitude of Afghanistan is about 1,200 m (4,000 ft), the Hindu Kush mountain range rises to more than 6,100 m (20,000 ft) in the northern corner of the Wakhan panhandle in the northeast and continues in a southwesterly direction for about 970 km (600 mi), dividing the northern provinces from the rest of the country. Central Afghanistan, a plateau with an average elevation of 1,800 m (6,000 ft), contains many small fertile valleys and provides excellent grazing for sheep, goats, and camels. To the north of the Hindu Kush and the central mountain range, the altitude drops to about 460 m (1,500 ft), permitting the growth of cotton, fruits, grains, ground nuts, and other crops. Southwestern Afghanistan is a desert, hot in summer and cold in winter. The four major river systems are the Amu Darya (Oxus) in the north, flowing into the Aral Sea; the Harirūd and Morghāb in the west; the Helmand in the southwest; and the Kabul in the east, flowing into the Indus. There are few lakes.

Afghanistan has recorded more than 10 earthquakes since 2000. In March 2002, the most disastrous struck Baghlān near the Hindu Kush. The earthquake left nearly 2,000 dead and 7,000

homeless. On 8 October 2005, Afghanistan was impacted by an earthquake centered in Kashmir, the Himalayan region divided by India and Pakistan. The earthquake measured 7.6 on the Richter scale, and recorded more than 140 aftershocks, one of which measured at a magnitude of 5.9. Over 50,000 people were killed in India, Pakistan, and Afghanistan. Another earthquake struck the Shinkai district of Zabul province on 23 October 2005. There were five Afghan deaths and six injuries.

## <sup>3</sup>CLIMATE

The ranges in altitude produce a climate with both temperate and semitropical characteristics, and the seasons are clearly marked throughout the country. Wide temperature variations are usual from season to season and from day to night. Summer temperatures in Kabul may range from 16°C (61°F) at sunrise to 38°C (100°F) by noon. The mean January temperature in Kabul is 0°C (32°F); the maximum summer temperature in Jalālābād is about 46°C (115°F). There is much sunshine, and the air is usually clear and dry. Rainfall averages about 25 to 30 cm (10 to 12 in); precipitation occurs in winter and spring, most of it in the form of snow. Wind velocity is high, especially in the west.

## <sup>4</sup>FLORA AND FAUNA

There are over 4,000 plant species, including hundreds of varieties of trees, shrubs, vines, flowers, and fungi. The country is particularly rich in such medicinal plants as rue, wormwood, and asa-fetida; fruit and nut trees are found in many areas. Native fauna include the fox, lynx, wild dog, bear, mongoose, shrew, hedgehog, hyena, jerboa, hare, and wild varieties of cats, asses, mountain goats, and mountain sheep. Trout is the most common fish.

## 5 ENVIRONMENT

Afghanistan's most significant ecological problems are deforestation, drought, soil degradation, and overgrazing. Neglect, scorched earth tactics, and the damage caused by extensive bombardments have destroyed previously productive agricultural areas, and more are threatened by tons of unexploded ordnance. Afghanistan has responded to the fuel needs of its growing population by cutting down many of its already sparse forests. Consequently, by late 2002, between 1 and 2% of Afghanistan's land area was forest land. That represented a 33% decrease from 1979. Only about 0.3% of the total land area is nationally protected.

Another environmental threat is posed by returning refugees to Afghanistan, of which there were over 4 million in Pakistan, Iran, and other countries in 2002, who have migrated to Kabul and other larger cities instead of returning to destroyed villages and fields. This migration has placed stress on the infrastructure of those cities, causing increased pollution and worsening sanitation conditions.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), 12 species of mammals, 17 species of birds, 1 species of reptile, and 1 plant species were threatened. Endangered species in Afghanistan included the snow leopard, long-billed curlew, Argali sheep, musk deer, tiger, white-headed duck, Afghani brook salamander, Kabul markhor, and the Siberian white crane. There were thought to be fewer than 100 snow leopards by 2002. The country's Caspian tigers have virtually disappeared.

## 6 POPULATION

The population of Afghanistan in 2005 was estimated by the United Nations (UN) at 29,929,000, which placed it at number 38 in population among the 193 nations of the world. In 2005, approximately 2% of the population was over 65 years of age, with another 45% of the population under 15 years of age. There were 107 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 50,252,000. The population density was 46 per sq km (119 per sq mi).

The UN estimated that 22% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 5.92%. The capital city, Kabul, had a population of 2,956,000 in that year. Other major population centers and their estimated populations include Qandahār, 349,300; Mazār-e Sharif, 246,900; and Herāt, 171,500. These figures are unreliable, however, because many city dwellers have left their urban homes for refuge in rural areas. Approximately 20% of the population is nomadic.

Two decades of near-constant warfare make Afghanistan's population—never certain in any case—even more difficult to assess. As many as three million Afghans are estimated to have died, and an additional six million sought refuge in Pakistan, Iran, and elsewhere in the world. The last official census was taken in 1988. As of 2006, the Afghanistan Central Statistical Office was preparing to undertake a new full census of the population.

## 7 MIGRATION

Due to the US-led bombing campaign in 2001–02 carried out against the Taliban regime, a large Afghan refugee population was created in surrounding countries. The Afghan refugee population in Pakistan in 2002 was approximately 3.7 million, and, in Iran and the west, an additional 1.6 million. Since early 2002, there were many spontaneous returnees, but the UN High Commissioner for Refugees (UNHCR) began assisting refugees to repatriate in February 2002. As of October, more than 1.5 million had returned to their homes. In 2003, there were an estimated 184,000–300,000 internally displaced persons (IDP) within the country.

In mid-2002, there was a daily influx of homeless migrants into Kabul, numbering approximately 300–400 families a day. Seventy percent of Kabul's population was living in illegal structures.

In the summer of 2001, the majority of the over one million internally displaced persons (IDPs) in Afghanistan had been driven off their land and into refugee camps by ongoing conflict and four years of drought. After 11 September 2001, the International Organization for Migration (IOM) began to deliver shelter and nonfood supplies to help the IDPs survive the Afghan winter. It dispatched road convoys from Iran, Tajikistan, and Turkmenistan to destinations in Afghanistan, carrying blankets, winter clothing, tents, and other essential items. Following the winter, with the defeat of the Taliban and the beginning of the spring planting season, the IOM worked to return the IDPs to their villages from the refugee camps. The IDP families were offered wheat, seeds, blankets, soap, agricultural tools, and other items. In addition to the IOM and the UNHCR, the International Committee of the Red Cross and UNICEF were heavily involved in repatriating refugees. Despite their efforts, by the end of 2004 the number of repatriated Afghan refugees dropped by only 2% during the year. The Return of Qualified Afghans program, designed to bring back Afghan professionals living abroad, facilitated the return of 150 Afghans (14 female and 136 male) to take up assignments in Afghanistan consistent with their professional backgrounds by June 2005.

By the end of 2004, some 2.1 million Afghan refugees were reported by 78 asylum countries. Of the world's total refugee population in 2004, Afghans constituted 23%, continuing to be the largest country of origin of refugees under UNHCR care. Tajikistan closed its border with Afghanistan in 2004.

According to Human Rights Watch, as of September 2005 one million Afghans were displaced within their own country, and 3.7 million refugees were in neighboring countries—1.5 million in Iran and more than 2 million in Pakistan. All neighboring countries closed their borders with Afghanistan by September 2005. By mid-September 2005, the Pakistani government ordered the forcible expulsion of millions of Afghan refugees living in Pakistan's tribal areas. In the rush to meet the forced expulsion deadline dozens of children died. In 2005, the net migration rate was an estimated 21.43 migrants per 1,000 population.

## 8 ETHNIC GROUPS

About the middle of the second millennium BC, Indo-Aryans began to move into and through the present area of Afghanistan. Much later came other tribal groups from Central Asia—Pactyes (from whom the present-day name “Pashtuns” derives), Sakas, Kushans, Hephthalites, and others—and a procession of Irani-



LOCATION: 29°28' to 38°30' N; 60°30' to 74°53' E. BOUNDARY LENGTHS: China, 76 kilometers (47 miles); Iran, 936 kilometers (582 miles); Pakistan, 2,430 kilometers (1,511 miles); Tajikistan, 1,206 kilometers (750 miles); Turkmenistan, 744 kilometers (463 miles); Uzbekistan, 137 kilometers (85 miles).

ans and Greeks. In the 7th century AD, Arabs arrived from the south, spreading the new faith of Islam. In the same century, Turks moved in from the north, followed in the 13th century by Mongols, and, finally, in the 15th century by Turko-Mongols. This multiplicity of movements made Afghanistan a loose conglomeration of racial and linguistic groups.

All citizens are called Afghans, but the Pashtuns (the name may also be written as “Pashtoon”, “Pushtun”, or “Pukhtun,” and in Pakistan as “Pathan”) are often referred to as the “true Afghans.” Numbering about 42% of the population in 2005, they are known to have centered in the Sulaiman range to the east; it is only in recent centuries that they moved into eastern and southern Afghanistan, where they now predominate. They have long been divided

into two major divisions, the Durrani and the Ghilzais, each with its own tribes and subtribes.

The Tajiks, of Iranian stock, comprise nearly 27% of the population and are mainly concentrated in the north and northeast. In the central ranges are found the Hazaras (about 9%), who are said to have descended from the Mongols. To the north of the Hindu Kush, Turkic and Turko-Mongol groups were in the majority until 1940. Each of these groups is related to groups north of the Amu Darya; among them are the Uzbeks, who number about 9% of the population. Other groups include the Aimaks, Turkmen, Baloch, Farsiwans (Persians), and Brahiu. In the northeast are the Kafirs, or infidels. After their conversion to Islam at the end of the 19th century, they were given the name of Nuristanis, or people of the light.

## <sup>9</sup> LANGUAGES

Both Pashtu (or Pushtu) and Dari (Afghan Persian) are the official languages of the country. Pashtu is spoken by about 35% of the population while approximately 50% speak Dari. Although Pashtu has a literature of its own, Dari, the language spoken in Kabul, has been the principal language of cultural expression, of the government, and of business. Both Pashtu and Dari are written primarily with the Arabic alphabet, however, there are some modifications. The Hazaras speak their own dialect of Dari. The Turkic languages, spoken by 11% of the population, include Uzbek and Turkmen, and the Nuristanis speak some seven different dialects belonging to the Dardic linguistic group. There are about 30 minor languages, primarily Balochi and Pashai, spoken by some 4% of the population. Bilingualism is common.

## <sup>10</sup> RELIGIONS

Almost all Afghans are Muslims. Approximately 84% are Sunnis; 15% are Shias; others comprise only 1%. The Pashtuns, most of the Tajiks, the Uzbeks, and the Turkmen are Sunnis, while the Hazaras are Shias. Most of the Sunnis adhere to Hanafi Sunnism, but a fairly sizable minority of Sunnis adhere to a more mystical version known as Sufism. The country's small Hindu and Sikh population is estimated at less than 3,000.

In 1994 the Islamic militants who called themselves the Taliban—literally “the Seekers,” a term used to describe religious students—began to impose their strict form of Islam observance in the areas that they controlled. The Taliban, composed mostly of Pashtuns, were puritanical zealots. Women were ordered to dress in strict Islamic garb and were banned from working or from going out of their houses unless accompanied by a male relative. Some men were forced to pray five times a day and grow full beards as a condition of employment in the government. Under the Taliban, repression of the Hazara ethnic group, who were predominantly Shias, was severe.

With the fall of the Taliban and the adoption of a new constitution in January 2004, Islam remains the state religion; however, the new constitution does allow for religious freedom. The constitution does not indicate a preference for Sunnism and there are no references made in the document to the use of Shariah law in the legal code. The document does state that both the president and vice president must be Muslim. The Shia minority still faces some discrimination from the Sunni majority.

## <sup>11</sup> TRANSPORTATION

Many roads were built in the years prior to 1979 to connect the principal cities and to open up formerly isolated areas. As of 2003, Afghanistan had an estimated 34,789 km (21,604 mi) of roads, of which 8,231 km (5,111 mi) were paved. Roads connect Kabul with most provincial capitals and with Peshāwar in Pakistan through the Khyber Pass. The road from Herāt to Mashhad in Iran was completed in 1971. The Salang Tunnel through the Hindu Kush, completed with Soviet assistance in 1964, considerably shortened the travel time between Kabul and northern Afghanistan. The tunnel was modernized in the mid-1980s. However, in May 1997 the Tajik leader, Ahmad Shah Masud, blew up the southern entrance of the tunnel in an effort to trap the invading Taliban forces. It was reopened in January 2002. The Qandahār-Torghundi highway in

the south was completed in 1965. In 2003 there were 29,300 passenger cars and 22,500 commercial vehicles in use.

The Khyber Pass in Pakistan is the best known of the passes providing land access to Afghanistan. Transit arrangements with Iran provide an alternative route for its commercial traffic. However, the great bulk of the country's trade moves through the former USSR. At the same time, Afghanistan's highways are badly damaged from years of warfare and neglect. Land mines are buried on the sides of many roads. Over \$1.2 billion in international aid was pledged to rebuilding Afghanistan's highways in 2002.

The only railways in the country in 2001 were a 9.6-km (6-mi) spur from Gushgy, Turkmenistan, to Towrghondi; a 15-km (9.3-mi) line from Termez, Uzbekistan, to the Kheyabad transshipment point on the south bank of the Amu Darya; and a short span into Spin Baldak in the southeast. There are no navigable rivers except for the Amu Darya, on Turkmenistan's border, which can carry steamers up to about 500 tons. In 2004, there were an estimated 47 airports, 10 of which had paved runways, and 9 heliports (as of 2005). Ariana Afghan Airlines is the national carrier. Most of Ariana Airlines planes were destroyed during the civil war in Afghanistan. Ariana lost six of its eight planes in US-led air strikes against the Taliban. Kabul's international airport reopened to international humanitarian and military flights in late January 2002 after the UN's Security Council lifted the ban early that month, and it began international flight service to Delhi, India, soon after.

## <sup>12</sup> HISTORY

Afghanistan has existed as a distinct polity for less than three centuries. Previously, the area was made up of various principalities, usually hostile to each other and occasionally ruled by one or another conqueror from Persia and the area to the west or from central Asia to the north, usually on his way to India. These included the Persian Darius I in the 6th century BC, and 300 years later, Alexander the Great. As the power of his Seleucid successors waned, an independent Greek kingdom of Bactria arose with its capital at Balkh west of Mazār-e Sharif, but after about a century it fell to invading tribes (notably the Sakas, who gave their name to Sakastan, or Sistan). Toward the middle of the 3rd century BC, Buddhism spread to Afghanistan from India, and for centuries prior to the beginning of the 9th century BC, at least half the population of eastern Afghanistan was Buddhist.

Beginning in the 7th century, Muslim invaders brought Islam to the region, and it eventually became the dominant cultural influence. For almost 200 years, Ghaznī was the capital of a powerful Islamic kingdom, the greatest of whose rulers, Mahmud of Ghaznī (r.997–1030), conquered most of the area from the Caspian to the Ganges. The Ghaznavids were displaced by the Seljuk Turks, who mastered Persia and Anatolia (eastern Turkey), and by the Ghorids, who, rising from Ghor, southeast of Herāt, established an empire stretching from Herāt to Ajmir in India. They were displaced in turn by the Turko-Persian rulers of the Khiva oasis in Transoxiana, who, by 1217, had created a state that included the whole of Afghanistan until it disintegrated under attack by Genghis Khan in 1219. His grandson Timur, also called “Timur the Lame” or Tamerlane, occupied all of what is now Afghanistan from 1365 to 1384, establishing a court of intellectual and artistic brilliance at Herāt. The Timurids came under challenge from the Uzbeks, who finally drove them out of Herāt in 1507. The great

Babur, one of the Uzbek princes, occupied Kabul in 1504 and Delhi in 1526, establishing the Mughal Empire in which eastern Afghanistan was ruled from Delhi, Agra, Lahore, or Srinagar, while Herāt and Sistan were governed as provinces of Persia.

In the 18th century, Persians under Nadir Shah conquered the area, and after his death in 1747, one of his military commanders, Ahmad Shah Abdali, was elected emir of Afghanistan. The formation of a unified Afghanistan under his emirate marks Afghanistan's beginning as a political entity. Among his descendants was Dost Muhammad who established himself in Kabul in 1826 and gained the emirate in 1835. Although the British defeated Dost in the first Afghan War (1838–42), they restored him to power, but his attempts and those of his successors to play off Czarist Russian interests against the British concerns about the security of their Indian Empire led to more conflict. In the second Afghan War (1877–79), the forces of Sher Ali, Dost's son, were defeated by the British, and his entire party, ousted. Abdur Rahman Khan, recognized as emir by the British in 1880, established a central administration, and supported the British interest in a neutral Afghanistan as a buffer against the expansion of Russian influence.

Intermittent fighting between the British and Pushtun tribes from eastern Afghanistan continued even after the establishment, in 1893, of a boundary (the Durand line) between Afghanistan and British India. An Anglo-Russian agreement concluded in 1907 guaranteed the independence of Afghanistan (and Tibet) under British influence, and Afghanistan remained neutral in both World Wars. Afghan forces under Amanullah Khan, who had become emir in 1919, briefly intruded across the Durand Line in 1919. At the end of brief fighting—the third Afghan War—the Treaty of Rawalpindi (1919) accorded the government of Afghanistan the freedom to conduct its own foreign affairs.

Internally, Amanullah's Westernization program was strongly opposed, forcing him to abdicate in 1929. After a brief civil war, a tribal assembly chose Muhammad Nadir Shah as king. In his brief four years in power, he restored peace while continuing Amanullah's modernization efforts at a more moderate pace. Assassinated in 1933, he was succeeded by his son, Muhammad Zahir Shah, who continued his modernization efforts, governing for 40 years, even though sharing effective power with his uncles and a first cousin, who served as his prime ministers.

In the 1960s, there was considerable tension between Pakistan and Afghanistan as a result of Afghanistan's effort to assert influence among, and ultimately responsibility for, Pashtu-speaking Pathan tribes living on both sides of the Durand Line under a policy calling for the establishment of an entity to be called "Pashtunistan." The border was closed several times during the following years, and relations with Pakistan remained generally poor until 1977.

In 1964, a new constitution was introduced, converting Afghanistan into a constitutional monarchy, and a year later the country's first general election was held. In July 1973, Muhammad Daoud Khan, the king's first cousin and brother-in-law, who had served as prime minister from 1953 until early 1963, seized power in a near-bloodless coup, establishing a republic and appointing himself president, and prime minister of the Republic of Afghanistan. He exiled Zahir Shah and his immediate family, abolished the monarchy, dissolved the legislature, and suspended the constitution. Daoud ruled as a dictator until 1977, when a re-

publican constitution calling for a one-party state was adopted by the newly convened Loya Jirga (Grand National Assembly), which then elected Daoud president for a six-year term.

### Afghanistan Under Communist Rule

On 27 April 1978, Daoud was deposed and executed in a bloody coup (the "Saur Revolution" because it took place during the Afghan month of Saur), and the Democratic Republic of Afghanistan emerged. Heading the new Revolutionary Council was Nur Muhammad Taraki, secretary-general of the communist People's Democratic Party of Afghanistan (PDPA), assisted by Babrak Karmal and Hafizullah Amin, both named deputy prime ministers. The Soviet Union (which later broke apart in 1991) immediately established ties with the new regime, and in December 1978, the two nations concluded a treaty of friendship and cooperation. Soon after the coup, rural Afghan groups took up arms against the regime, which increasingly relied on Soviet arms for support against what came to be known as *mujahedeen*, or holy warriors.

Meanwhile, the Khalq (masses) and Parcham (flag) factions of the PDPA, which had united for the April takeover, became embroiled in a bitter power struggle within the party and the government. In September 1979, Taraki was ousted and executed by Amin, who had beat out Karmal to become prime minister the previous March and who now assumed Taraki's posts as president and party leader. Amin was himself replaced on 27 December by Karmal, the Parcham faction leader. This last change was announced not by Radio Kabul but by Radio Moscow and was preceded by the airlift of 4,000 to 5,000 Soviet troops into Kabul on 25–26 December, purportedly at the request of an Afghan government whose president, Hafizullah Amin, was killed during the takeover.

The Soviet presence increased to about 85,000 troops in late January 1980, and by spring, the first clashes between Soviet troops and the mujahedeen had occurred. Throughout the early and mid-1980s, the mujahedeen resistance continued to build, aided by Afghan army deserters and arms from the United States, Pakistan, and the nations of the Islamic Conference Organization (ICO). Much of the countryside remained under mujahedeen control as the insurgency waged on year by year, while in Kabul, Soviet advisers assumed control of most Afghan government agencies.

By late 1987, more than a million Afghans had lost their lives in the struggle, while the United Nations High Commission for Refugees (UNHCR) estimated that some 5 million others had sought refuge in Pakistan, Iran, and elsewhere. Soviet sources at the time acknowledged Soviet losses of 12,000–30,000 dead and 76,000 wounded. Soviet troop strength in Afghanistan at the end of 1987 was about 120,000, while according to Western sources, Afghan resistance forces numbered nearly 130,000.

In early 1987, Babrak Karmal fled to Moscow after being replaced as the head of the PDPA in May 1986 by Najibullah, former head of the Afghan secret police. Najibullah offered the mujahedeen a cease-fire and introduced a much-publicized national reconciliation policy; he also released some political prisoners, offered to deal with the resistance leaders, and promised new land reform. The mujahedeen rejected these overtures, declining to negotiate for anything short of Soviet withdrawal and Najibullah's removal.

International efforts to bring about a political solution to the war—including nearly unanimous UN General Assembly condemnations of the Soviet presence in Afghanistan—were pursued within the UN framework from 1982 onward. Among these efforts were “proximity talks” between Afghanistan and Pakistan conducted by Under Secretary-General Diego Cordovez, a special representative of the UN Secretary General. After a desultory beginning, these talks began to look promising in late 1987 and early 1988, when Soviet policymakers repeatedly stated, in a major policy shift, that the removal of Soviet troops from Afghanistan was not contingent on the creation of a transitional regime acceptable to the former USSR. On 14 April 1988, documents were signed and exchanged in which the USSR agreed to pull its troops out of Afghanistan within nine months, the United States reserved the right to continue military aid to Afghan guerrillas as long as the USSR continued to aid the government in Kabul, and Pakistan and Afghanistan pledged not to interfere in each other's internal affairs.

The Russians completed the evacuation of their forces on schedule 15 February 1989, but in spite of continuing pressure by the well-armed mujahedeen, the Najibullah government remained in power until April 1992, when Najibullah sought refuge at the UN office in Kabul as mujahedeen forces closed in on the city.

#### **Afghanistan after the Soviet Withdrawal**

With the fall of the Najibullah government, the Seven-Party Alliance (SPA) of the Islamic groups based in Pakistan moved to consolidate its “victory” by announcing plans to set up an Interim Afghan Government (AIG) charged with preparing the way for elections. Meanwhile, they moved to assert their control of Afghanistan, but their efforts to establish the AIG in Kabul failed when within ten days of Najibullah's departure from office, well-armed forces of the Hezb-e Islami and Jamiat-i-Islami—two of the seven SPA parties—clashed in fighting for the control of the capital. In July, Jamiat leader Burhanuddin Rabbani replaced Sibghatullah Mojaddedi as president of the AIG, as previously agreed by all the SPA parties but the Hezb-e Islami.

Continued fighting between Jamiat and Hezb-e Islami militias halted further progress. Rabbani's forces, under Commander Ahmad Shah Masoud, dug in to block those under the control of interim “Prime Minister” Gulbuddin Hekmatyar's Hezb-e Islami and his ally, General Rashid Dostum (a former PDPA militia leader turned warlord from northern Afghanistan) from taking control of Kabul. In a 24-hour rocket exchange in August 1992 in Kabul, an estimated 3,000 Afghans died; before the end of the year, upwards of 700,000 Afghans had fled the city. Deep differences among the SPA/AIG leadership, embittered by decades of bad blood, ethnic distrust, and personal enmity, prevented any further progress toward creating a genuine interim government capable of honoring the 1992 SPA pledge to write a constitution, organize elections, and create a new Afghan polity. Despite UN attempts to broker a peace and bring the warring groups into a coalition government, Afghanistan remained at war.

#### **Rise of the Taliban**

By the summer of 1994 Rabbani and his defense minister, Ahmed Shah Masoud, were in control of the government in Kabul, but internal turmoil caused by the warring factions had brought the economy to a standstill. It was reported that on the road north of

Qandahār a convoy owned by influential Pakistani businessmen was stopped by bandits demanding money. The businessmen appealed to the Pakistani government, which responded by encouraging Afghan students from the fundamentalist religious schools on the Pakistan-Afghan boarder to intervene. The students freed the convoy and went on to capture Qandahār, Afghanistan's second-largest city. Pakistan's leaders supported the Taliban with ammunition, fuel, and food. The students, ultra-fundamentalist Sunni Muslims who called themselves the Taliban (the Arabic word for religious students, literally “the Seekers”) shared Pashtoon ancestry with their Pakistani neighbors to the south. The Taliban also found widespread support among Afghan Pashtoons hostile to local warlords and tired of war and economic instability. By late 1996, the Taliban had captured Kabul, the capital, and were in control of 21 of Afghanistan's 32 provinces. When Rabbani fled the capital, Pakistan and Saudi Arabia officially recognized the Taliban government in Kabul. In areas under Taliban control, order was restored, roads opened, and trade resumed. However, the Taliban's reactionary social practices, justified as being Islamic, did not appeal to Afghanistan's non-Pashtun minorities in the north and west of the country, nor to the educated population generally. The opposition, dominated by the Uzbek, Tajik, Hazara, and Turkoman ethnic groups, retreated to the northeastern provinces.

In May 1997 the Taliban entered Mazār-e Sharif, Afghanistan's largest town north of the Hindu Kush and stronghold of Uzbek warlord Rashid Dostum. In the political intrigue that followed, Dostum was ousted by his second in command, Malik Pahlawan, who initially supported the Taliban. Dostum reportedly fled to Turkey. Once the Taliban were in the city, however, Pahlawan abruptly switched sides. In the subsequent fighting, the Taliban were forced to retreat with heavy casualties. The forces of Ahmad Shah Masoud, Tajik warlord and former defense minister in ousted President Rabbani's government, were also instrumental in the defeat of the Taliban in Mazār. Masoud controlled the high passes of the Panjshir Valley in the east of the country. The opposition alliance was supported by Iran, Russia, and the Central Asian republics, who feared that the Taliban might destabilize the region.

By early 1998, the Taliban militia controlled about two-thirds of Afghanistan. Opposition forces under Ahmad Shah Masoud controlled the northeast of the country. Taliban forces mounted another offensive against their opponents in August–September 1998 and nearly sparked a war with neighboring Iran after a series of Shiite villages were pillaged and Iranian diplomats killed. Iran, which supplied Masoud's forces, countered by massing troops along its border with Afghanistan. Although the crisis subsided, tensions between the Taliban and Iran remained high. Masoud's opposition forces became known as the United Front or Northern Alliance in late 1999.

Despite attempts to broker a peace settlement, fighting between the Taliban and opposition factions continued through 1999 and into 2000 with the Taliban controlling 90% of the country. In March 1999, the warring factions agreed to enter a coalition government, but by July these UN-sponsored peace talks broke down and the Taliban renewed its offensive against opposition forces. By October, the Taliban captured the key northern city of Taloqan and a series of northeastern towns, advancing to the border with

Tajikistan. Fighting between the Taliban and Northern Alliance forces was fierce in early 2001.

In April 2001, Masoud stated that he did not rule out a peace dialogue with the Taliban, or even of setting up a provisional government jointly with the Taliban, but that Pakistan would have to stop interfering in the conflict first. He stated that elections would have to be held under the aegis of the UN and the “six plus two” countries, including Iran, China, Pakistan, Tajikistan, Turkmenistan, as well as Russia and the United States. The Northern Alliance was receiving financial and military assistance from its old enemy Russia as well as from Iran. In addition to Pakistan, the Taliban was recognized as the legitimate government of Afghanistan by Saudi Arabia and the United Arab Emirates. Masoud was assassinated on 9 September 2001 by two men claiming to be Moroccan journalists. His killers were thought to have been agents of the al-Qaeda terrorist group acting in concert with the plotters of the 11 September 2001 attacks on the United States.

#### Post-11 September 2001

The 11 September 2001 attacks carried out against the United States by members of al-Qaeda marked the beginning of a war on terrorism first directed against the Taliban for harboring Osama bin Laden and his forces. On 7 October 2001, US-led forces launched the bombing campaign Operation Enduring Freedom against the Taliban and al-Qaeda in Afghanistan. On 13 November the Taliban were removed from power in Kabul, and an interim government under the leadership of Hamid Karzai, a Pash-tun leader from Qandahār, was installed on 22 December. In June 2002, a Loya Jirga—Grand Assembly of tribal leaders—was held, and Karzai was elected head of state of a transitional government that would be in place for 18 months until elections could be held. More than 60% of the cabinet posts in the government went to Ahmed Shah Masoud’s Northern Alliance. Masoud was officially proclaimed the national hero of Afghanistan on 25 April 2002, and he was mentioned as a candidate for the Nobel Peace Prize. On 5 September 2002, Karzai survived an assassination attempt, and another plot against him was thwarted on 22 November. In September 2004, a rocket fired at a helicopter carrying Karzai narrowly missed its target: it was the most serious attack on his life since 2002.

In December 2002, Karzai and Pakistani and Turkmen leaders signed an agreement paving the way for the construction of a gas pipeline through Afghanistan, which would carry Turkmen gas to Pakistan.

In January 2004, a Loya Jirga adopted a new constitution providing for a strong presidency and defining Afghanistan as an Islamic republic where men and women enjoy equal status before the law. In October and November 2004, the first direct presidential election was held; Karzai was the winner with 55.4% of the vote. He was sworn in as president in December, amid tight security.

On 18 September 2005, Afghans went to the polls to elect a lower house of parliament and councils in each of the country’s 34 provinces. The elections, which had been twice postponed, were part of the process of establishing a fully representative government. Some 12 million of an estimated 25–28 million Afghans were registered to vote. There were about 5,800 candidates standing for the 249-seat Wolesi Jirga (House of Assembly) and for seats in the provincial councils. There were more than 26,000 men-only

or women-only polling stations in 5,000 locations. There were 69 different types of ballot papers, all including the names, pictures, and symbols of the candidates, to enable voters who could not read to vote. Several candidates and election workers were killed in Taliban attacks. In advance of the elections, the North Atlantic Treaty Organization (NATO) sent an extra 2,000 troops and a number of fighter jets to boost the 8,000-strong International Security Assistance Force (ISAF) protecting the country. Nearly 3,000 observers and media representatives registered to monitor the election. Final results for the elections were delayed due to accusations of fraud, and were announced in November.

The results of the elections showed that women, who were guaranteed 25% of seats in parliament, won 28%. Most of the candidates for parliament ran as independents, and a clear majority was predicted to support Karzai. However, many of the winners were former warlords, mujahedeen fighters, ex-Taliban figures, and opium dealers. Centrist, reformist figures did less well, making the parliament predominantly socially conservative and religious.

In 2005–06, several thousand troops from the US-led coalition in Afghanistan (most of them American) were engaged in battles with Taliban fighters in the eastern regions of the country bordering on Pakistani tribal areas. The coalition forces also targeted members of the Hezb-e Islami group, whose leader, Gulbuddin Hekmatyar, has similar aims as the Taliban—to fight a *jihad* (holy war) to remove the Americans from Afghanistan and unseat Hamid Karzai’s government.

### 13 GOVERNMENT

Between 1964 and 1973, Afghanistan was a constitutional monarchy for the first and only time in its history. The head of government was the prime minister, appointed by the king and responsible to the bicameral legislature. This system gave way to a more traditional authoritarian system on 17 July 1973, when Afghanistan became a republic, headed by Muhammad Daoud Khan, who became both president and prime minister. A new constitution in 1977 created a one-party state with a strong executive and a weak bicameral legislature. The communist People’s Democratic Party of Afghanistan (PDPA) abrogated this constitution after they seized power in April 1978.

Between 1978 and 1980, a communist-style 167-member Revolutionary Council exercised legislative powers. The chief of state (president) headed the presidium of that council, to which the 20-member cabinet was formally responsible. A provisional constitution, introduced in April 1980, guaranteed respect for Islam and national traditions; condemned colonialism, imperialism, Zionism, and fascism; and proclaimed the PDPA as “the guiding and mobilizing force of society and state.” Seven years later, a new constitution providing for a very strong presidency was introduced as part of the PDPA’s propaganda campaign of “national reconciliation.” Najibullah remained as president until April 1992 when he sought refuge at the UN office in Kabul as mujahedeen forces closed in on the city.

With the fall of the Najibullah government a Seven Party Alliance (SPA) of the Islamic groups announced plans to set up an Interim Afghan Government (AIG) charged with preparing the way for elections. However, Professor Burhanuddin Rabbani co-opted the process by forming a leadership council that elected him president. Subsequent fighting among warring factions plunged

the country into anarchy and set the stage for the emergence of the ultra-conservative Islamic movement, Taliban, which ousted the Rabbani government and controlled all but the northern most provinces of the country.

The Taliban, led by Mullah Mohammed Omar, formed a six-member ruling council in Kabul which ruled by edict. Ultimate authority for Taliban rule rested in the Taliban's inner Shura (Assembly) located in the southern city of Qandahār, and in Mullah Omar.

With the fall of the Taliban in December 2001, an interim government was created under the leadership of Hamid Karzai by an agreement held in Bonn, Germany. In June 2002 Karzai was elected head of state of the Islamic Transitional Government of Afghanistan (ITGA) by the Loya Jirga convened that month. He named an executive cabinet, dividing key ministries between ethnic Tajiks and Pashtuns. He also appointed three deputy presidents and a chief justice to the country's highest court.

In January 2004, a Loya Jirga adopted a new constitution providing for a strong presidency and defining Afghanistan as an Islamic republic where men and women enjoy equal status before the law. Former King Zahir Shah held the honorific Father of the Country, and presided symbolically over certain occasions, lacking any governing authority. The honorific is not hereditary. The president is both chief of state and head of government. The president's cabinet is made up of 27 ministers, appointed by the president and approved by the national assembly. The president and two vice presidents are elected by a direct vote for a five-year term; a president can only be elected for two terms.

The legislative branch is composed of a bicameral national assembly. The lower house is the 249-seat Wolesi Jirga, directly elected by each of Afghanistan's 34 provinces according to its population. Members serve a five-year term. Kabul province has the most seats with 33. Women have 68 seats guaranteed in the Wolesi Jirga, and two on each provincial council. The 102-member House of Elders (Meshrano Jirga) is indirectly elected; one-third elected by the 34 provincial councils for a four-year term, one-third appointed by the president for a five-year term, and one-third elected by local district councils for a three-year term.

On rare occasions the government may convene the Loya Jirga on issues of independence, national sovereignty, and territorial integrity; it can also amend the provisions of the constitution and prosecute the president. It is made up of members of the national assembly and chairpersons of the provincial and district councils.

In October and November 2004, the first direct presidential elections were held; Hamid Karzai was the winner with 55.4% of the vote. In September 2005, elections for the Wolesi Jirga and provincial councils were held; although a majority of the members of parliament who won would support Karzai, many warlords, former mujahedeen fighters, ex-Taliban figures, and opium dealers also won.

## <sup>14</sup>POLITICAL PARTIES

The 1964 constitution provided for the formation of political parties. However, since the framers of the constitution decided that political parties should be permitted only after the first elections, and since the parliament never adopted a law governing the parties' operation, all candidates for the parliamentary elections of August and September 1965 stood as independents. Because a law

on political parties was not on the books four years later, the 1969 elections were also contested on a nonparty basis. Throughout the 1964–1973 period, however, the *de facto* existence of parties was widely recognized. Subsequently, the framers reversed their plan to allow political parties. Under the 1977 constitution, only the National Revolutionary Party (NRP), the ruler's chosen instrument, was allowed.

The 1978 coup was engineered by the illegal People's Democratic Party of Afghanistan (PDPA), which had been founded in 1965. During its brief history, this Marxist party had been riven by a bloody struggle between its pro-Soviet Parcham (flag) faction and its larger Khalq (masses) faction. Babrak Karmal was the leader of the Parcham group, while the Khalq faction was headed until 1979 by Nur Muhammad Taraki and Hafizullah Amin. The factional struggle continued after the 1978 coup, prompting the Soviet intervention of 1979. Factional bloodletting continued thereafter also, with repeated purges and assassinations of Khalq adherents as well as bitter infighting within Parcham, this last leading to Babrak Karmal's replacement as PDPA secretary-general in May 1986 by Najibullah.

The Islamic resistance forces opposing the PDPA government and its Soviet backers in Afghanistan represented conservative, ethnically based Islamic groups which themselves have had a long history of partisan infighting (and repression by successive Kabul governments). They came together in the early 1980s to fight the common enemy, the communist PDPA and the Soviet invaders and, in 1985, under pressure from Pakistan and the United States, they were loosely united into a Seven Party Alliance (SPA), headquartered in Peshāwar, Pakistan. By 1987, commando groups affiliated with one or more of these seven parties controlled more than 80% of the land area of Afghanistan.

With arms flowing in from outside the country—a flow not halted until the end of 1991—the fighting continued, but with the final withdrawal of Soviet troops in February 1989, the SPA stepped up its military and political pressure on the communist PDPA government. However, President Najibullah proved to have more staying power than previously estimated, using Soviet arms supplies, which continued until the end of 1991 to buttress his position, while playing upon divisions among the resistance, embracing nationalism and renouncing communism, and even changing the name of the PDPA to the Wattan (Homeland) Party. It was only in April 1992, after the break-up of the Soviet Union, his army defecting from beneath him, and the mujahedeen closing on Kabul, that he sought refuge at the UN office in the capital, leaving the city in the hands of the rival ethnic and regional mujahedeen militias.

The leaders of the mujahedeen groups agreed to establish a leadership council. This council quickly came under the control of a professor, Burhanuddin Rabbani, who was subsequently elected president by the council. Fighting broke out in August 1992 in Kabul between forces loyal to President Rabbani and rival factions. A new war for the control of Afghanistan had begun.

On 26–27 September 1996, the Pashtun-dominated ultraconservative Islamic Taliban movement captured the capital of Kabul and expanded its control to over 90% of the country by 2000. The Taliban was led by Mullah Mohammed Omar. Ousted President Rabbani, a Tajik, and his defense minister, Ahmad Shah Masoud, relocated to Takhar in the north. Rabbani claimed that

he remained the head of the government. His delegation retained Afghanistan's UN seat after the General Assembly deferred a decision on Afghanistan's credentials. Meanwhile, the Taliban removed the ousted PDPA leader Najibullah from the UN office in Kabul, tortured and shot him, and hung his body prominently in the city. General Rashid Dostum, an ethnic Uzbek, controlled several north-central provinces until he was ousted on 25 May 1997 by his second in command Malik Pahlawan. Dostum fled to Turkey, but he returned that October. The Shia Hazara community, led by Abdul Karim Khalili, retained control of a small portion of the center of the country.

After the fall of the Taliban, various warlords, leaders, and political factions emerged in Afghanistan. Dostum, as head of Jumbish-e Melli Islami (National Islamic Movement), consolidated his power in Mazār-e Sharif. He was named interim deputy defense minister for the transitional government in 2002. Rabbani, as nominal head of the Northern Alliance, was also the leader of Jamiat-e-Islami, the largest political party in the alliance. Ismail Khan, a Shiite warlord of Tajik origin, earned a power base in the western city of Herāt by liberating it from Soviet control, and for a time in the 1990s kept it from Taliban control. Khan was thought to be receiving backing from Iran. Abdul Karim Khalili was the leader of the Hezb-e-Wahdat (Unity Party) and the top figure in the Shia Hazara minority. Hezb-e-Wahdat was the main benefactor of Iranian support, and the second most-powerful opposition military party. Gulbuddin Hekmatyar, the most notorious of the warlords who emerged from the fight against Soviet occupation, led the party Hezb-e-Islami. Pir Syed Ahmed Gailani was a moderate Pashtun leader and wealthy businessman who was also the spiritual leader of a minority Sufi Muslim group. Gailani was supported by pro-royalist Pashtuns and Western-educated elites of the old regime. Former King Zahir Shah, a Pashtun, said he had no intention of returning to power, but volunteered to help build a power-sharing administration for the country. Younis Qanooni, an ethnic Tajik who was named interior minister for the interim government, had also been the interior minister in the country's previous interim administration in 1996, before the Taliban came to power; he opposed the presence of UN peacekeepers in Afghanistan. Abdullah Abdullah, of the Northern Alliance, was a close friend of Ahmad Shah Masoud.

The 18 September 2005 elections for the National Assembly were contested by candidates representing scores of political parties, pressure groups, and small monarchist, communist, and democratic groups. However, most of the candidates ran as independents.

## <sup>15</sup>LOCAL GOVERNMENT

Afghanistan was traditionally divided into provinces governed by centrally appointed governors with considerable autonomy in local affairs. As of 2006, there were 34 provinces. During the Soviet occupation and the development of country-wide resistance, local areas came increasingly under the control of mujahedeen groups that were largely independent of any higher authority; local commanders, in some instances, asserted a measure of independence also from the mujahedeen leadership in Pakistan, establishing their own systems of local government, collecting revenues, running educational and other facilities, and even engaging in local negotiations. Mujahedeen groups retained links with the Peshāwar

parties to ensure access to weapons that were doled out to the parties by the government of Pakistan for distribution to fighters inside Afghanistan.

The Taliban set up a *shura* (assembly), made up of senior Taliban members and important tribal figures from the area. Each *shura* made laws and collected taxes locally. The Taliban set up a provisional government for the whole of Afghanistan, but it did not exercise central control over the local *shuras*.

The process of setting up the transitional government in June 2002 by the Loya Jirga took many steps involving local government. First, at the district and municipal level, traditional *shura* councils met to pick electors—persons who cast ballots for Loya Jirga delegates. Each district or municipality chose a predetermined number of electors, based on the size of its population. The electors then traveled to regional centers and cast ballots, choosing from among themselves a smaller number of Loya Jirga delegates, according to allotted numbers assigned to each district. The delegates then took part in the Loya Jirga.

The transitional government attempted to integrate local governing authorities with the central government, but it lacked the loyalty of warlords necessary to its governing authority. More traditional elements of political authority—such as Sufi networks, royal lineage, clan strength, age-based wisdom, and the like—still exist and play a role in Afghan society. Karzai relied on these traditional sources of authority in his challenge to the warlords and older Islamist leaders. The deep ethnic, linguistic, sectarian, tribal, racial, and regional cleavages present in the country create what is called *Qawm* identity, which emphasizes the local over higher-order formations. *Qawm* refers to the group to which the individual considers himself to belong, whether a subtribe, village, valley, or neighborhood. Local governing authority relies upon these forms of identity and loyalty.

The constitution established in 2004 provided for directly elected provincial councils, which have 9–29 members depending on population. District and village councils are directly elected for a period of three years. Municipalities administer city affairs.

## <sup>16</sup>JUDICIAL SYSTEM

Under the Taliban, there was no rule of law or independent judiciary. Ad hoc rudimentary judicial systems were established based on Taliban interpretation of Islamic law. Murderers were subjected to public executions and thieves had a limb or two (one hand, one foot) severed. Adulterers were stoned to death in public. Taliban courts were said to have heard cases in sessions that lasted only a few minutes. Prison conditions were poor and prisoners were not given food. Normally, this was the responsibility of the prisoners' relatives, who were allowed to visit to provide food once or twice a week. Those who had no relatives had to petition the local council or rely on other inmates.

In non-Taliban controlled areas, many municipal and provincial authorities relied on some form of Islamic law and traditional tribal codes of justice. The administration and implementation of justice varied from area to area and depended on the whims of local commanders or other authorities, who could summarily execute, torture, and mete out punishments without reference to any other authority.

After the fall of the Taliban, Afghanistan's judicial system was fragmented, with conflicts between such core institutions as the

Ministry of Justice, Supreme Court, and attorney general's office. In addition, the judicial system's infrastructure was destroyed; the absence of adequate court or ministry facilities, basic office furniture, and minimal supplies made substantive progress difficult. There were also tensions between religious and secular legal training with regard to appointments of new judicial personnel. Until Afghanistan's new constitution was adopted in 2004, the country's basic legal framework consisted of its 1964 constitution and existing laws and regulations to the extent that they were in accordance with the Bonn Agreement of 2001 and with international treaties to which Afghanistan was a party. The Ministry of Justice was charged with compiling Afghan laws and assessing their compatibility with international standards, but even it did not have texts of Afghan laws, which were largely unavailable, even among attorneys, judges, law faculty, and government agencies. While in power, the Taliban burned law books. There was no adequate law library in the country as of 2002.

The 2004 constitution established an independent judiciary under the Islamic state. The judicial branch consists of a Supreme Court (Stera Mahkama), High Courts, Appeals Courts, and local and district courts. The Supreme Court is composed of nine members who are appointed by the president for a period of ten years (nonrenewable) with the approval of the Wolesi Jirga. The Supreme Court has the power of judicial review. Lower courts apply Shia law in cases dealing with personal matters for Shia followers.

## 17 ARMED FORCES

As of 2005, the national army/security services had an estimated 27,000 active personnel. Headquartered in Kabul, the force is intended to encompass all of the country's tribal and ethnic groups. However progress by the new Afghan National Army (ANA) had been hindered by high desertion levels and low enlistment rates, thought in part to be caused by the growing intensity of combat missions. Another factor was the growth of private security companies, which may offer a less stressful and more lucrative alternative to the ANA. In terms of equipment, most of the army's infrastructure, barracks, and depots were destroyed along with the Taliban. What equipment that has managed to survive years of war and the overthrow of the Taliban, was entirely of Soviet design and likely to be in a poor state of repair. In 2002, Afghanistan requested \$235 million from the UN, for a 60,000-troop land army, an 8,000-member airforce, and a 12,000-guard border force. US foreign military assistance to Afghanistan in 2005 totaled \$396 million.

## 18 INTERNATIONAL COOPERATION

Afghanistan has been a member of the United Nations since 19 November 1946. Within the United Nations, Afghanistan is part of several specialized agencies, such as UNESCO, FAO, and IAEA. The country also participates in WHO, IFAD, UNIDO, the International Monetary Fund (IMF), the World Bank and IFC, and the ILO. Afghanistan is an observer in the WTO. Afghanistan is part of the Asian Development Bank, the Colombo Plan, the Economic and Social Commission for Asia and the Pacific (ESCAP), G-77, the Islamic Development Bank (IDB), the Economic Cooperation Organization, the Council for Mutual Economic Assistance (CEMA), and the Organization of the Islamic Conference (OIC).

Other groups include WFTU and Interpol. Afghanistan is also a part of the Nonaligned Movement, the Organization for the Prohibition of Chemical Weapons, and the Nuclear Test Ban. In cooperation on environmental issues, the country is part of the Convention on the International Trade in Endangered Species of Wild Flora and Fauna (CITES), the London Convention, and the UN Conventions on Desertification and Climate Change.

## 19 ECONOMY

Afghanistan's economy has been devastated by over over three decades of war. Hampered by an unintegrated economy until relatively late in the post-World War II period, only in the 1950s did the building of new roads begin to link the country's commercial centers with the wool-and fruit-producing areas. Largely agricultural and pastoral, the country is highly dependent on farming and livestock raising (sheep and goats). Approximately 85% of the people are engaged in agriculture. Industrial activity includes small-scale production of textiles, soap, furniture, shoes, fertilizer, cement, and hand-woven carpets. The country has valuable mineral resources, including large reserves of iron ore at Hajigak discovered before the 30-year-old war, but only coal, salt, lapis lazuli, barite, and chrome are available to be exploited. The discovery of large quantities of natural gas in the north, for which a pipeline to the USSR was completed in 1967, increased the country's export earnings, at least until escalation of civil strife in the late 1970s and 1980s.

Since the outbreak of war in the late 1970s, economic data have been contradictory and of doubtful reliability. In September 1987, the Afghan foreign minister asserted that 350 bridges and 258 factories had been destroyed since the fighting began in 1979. By the early 1990s, two-thirds of all paved roads were unusable, and the countryside appeared severely depopulated, with more than 25% of the population—twice the prewar level—residing in urban areas. What little is left of the country's infrastructure has been largely destroyed due first to the war, and then to the US-led bombing campaign. Severe drought added to the nation's difficulties in 1998–2001. The majority of the population continued to suffer from insufficient food, clothing, housing, and medical care as of 2006; these problems were exacerbated by military operations and political uncertainties. The presence of an estimated 10 million land mines also hinders the ability of Afghans to engage in agriculture or other forms of economic activity. Inflation, at 16% in 2005, remained a serious problem.

Opium poppy cultivation is the mainstay of the economy. Major political factions in the country profit from the drug trade. In 1999, encouraged by good weather and high prices, poppy producers increased the area under cultivation by 43% and harvested a bumper crop—a record 4,600 tons—compared with 2,100 tons the year before. A ban on poppy production cut cultivation in 2001 by 97% to 1695 hectares (4188 acres), with a potential production of 74 tons of opium. Afghanistan is a major source of hashish, and there are many heroin-processing laboratories throughout the country.

International efforts to rebuild Afghanistan were addressed at the Tokyo Donors Conference for Afghan Reconstruction in January 2002, when \$4.5 billion was collected for a trust fund to be administered by the World Bank. Priority areas for reconstruction included the construction of education, health, and sanitation facilities, enhancement of administrative capacity, the development

of the agricultural sector, and the rebuilding of road, energy, and telecommunication links.

The Afghan economic base is so disjointed that it was almost futile for the government to undertake economic development. Nonetheless, the country's GDP grew from a meager \$2.7 billion in 2000, to almost \$6 billion in 2004; and, it was expected to grow further, to \$7.1 billion, in 2005. Consequently, the GDP growth rates appear spectacular: 28.6% in 2002, 15.7% in 2003, and a more modest 7.5% in 2004. Apart from outside aid, the recent economic expansion was also helped by a good agricultural year in 2003.

The unemployment rate was estimated at 40% in 2005. Inflation dropped from 52.3% in 2002 to 10.2% in 2003, but rose again to 16.3% in 2004. In 2005, the inflation rate was expected to be around 10%. Despite the progress it registered in previous years, Afghanistan remains a very poor country, landlocked, dependent on foreign aid, and with a heterogeneous economic base (mostly agriculture).

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Afghanistan's gross domestic product (GDP) was estimated at \$21.5 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$800. The annual growth rate of GDP was estimated at 8%. The average inflation rate in 2005 was 16.3%. It was estimated that agriculture accounted for 38% of GDP, industry 24%, and services 38%. Foreign aid receipts amounted to \$1,533 million.

The World Bank reports that in 2003 household consumption in Afghanistan totaled \$4.31 billion based on a GDP of \$4.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that in 2003 about 53% of the population had incomes below the poverty line.

## 21 LABOR

As of 2004, Afghanistan's labor force was estimated at 15 million, with an estimated 80% of the labor force engaged in agriculture, followed by industry and services at 10%, each. However, it was estimated that 40% of the country's work force was unemployed, as of 2005. The textile industry is the largest employer of industrial labor; weaving of cloth and carpets is the most important home industry.

As of 2005, Afghan law offered wide protection to workers, but little is known about the enforcement of labor statutes. Workers are unaware of their rights and there is no central authority to enforce those rights. There is no legal right to strike, nor does the country have a history of real labor-management bargaining. There are no courts or mechanisms for settling labor disputes. Wages are entirely subject to market forces, except for government employees, whose wages are set by the government. Although child and forced or compulsory labor are prohibited, little is known about enforcement. By law, children under the age of 15 cannot work more than

30 hours per week, but there is no evidence this is enforced. According to UNICEF, it is estimated that there are one million children under the age of 14 in the workforce. Children as young as six years old are reportedly working to help sustain their families. The vast majority of Afghan workers are in the informal economy.

## 22 AGRICULTURE

About 12% of the land is arable and less than 6% currently is cultivated. During periods when external forces are not influencing the ability of farmers to grow crops, Afghan farmers grow enough rice, potatoes, pulses, nuts, and seeds to meet the country's needs; Afghanistan depends on imports for some wheat, sugar, and edible fats and oils. Fruit, both fresh and preserved (with bread), is a staple food for many Afghans. Agricultural production is a fraction of its potential. Agricultural production is constrained by dependence on erratic winter snows and spring rains for water; irrigation is primitive. Relatively little use is made of machines, chemical fertilizer, or pesticides.

The variety of the country's crops corresponds to its topography. The areas around Qandahār, Herāt, and the broad Kabul plain yield fruits of many kinds. The northern regions from Takhar to Badghis and Herāt and Helmand provinces produce cotton. Corn is grown extensively in Paktia and Nangarhar provinces, and rice mainly in Kunduz, Baghlān, and Laghman provinces. Wheat is common to several regions, and makes up 70% of all grain production. Aggregate wheat production in 2005 was estimated at 4 million tons, up from 1.6 million tons in 2001. Following wheat, the most important crops in 2004 were barley (400,000 tons), corn (250,000 tons), rice (145,000 tons), and cotton (18,507 tons). Nuts and fruit, including pistachios, almonds, grapes, melons, apricots, cherries, figs, mulberries, and pomegranates, are among Afghanistan's most important horticultural crops. By-products of orchard fruits, such as pomegranate rind and walnut husks, were traditionally used to dye carpets, as was the madder root, valued for the deep red hue it produces.

In some regions, agricultural production had all but ceased due to destruction caused by the war and the migration of Afghans out of those areas. The average farm size is 1–2 hectares (2.5–5 acres). Absentee landlords are common and sharecropping is expanding in most provinces. Opium and hashish are also widely grown for the drug trade. Opium is easy to cultivate and transport and offers a quick source of income for impoverished Afghans. Afghanistan was the world's largest producer of raw opium in 2003. In 2001, following the ban by the Taliban regime, an abrupt decline of poppy cultivation interrupted a 20-year increase. In 2003, there were 80,000 hectares (198,000 acres) of opium poppies under cultivation, with potential opium production amounting to 3,600 tons, the second-highest amount achieved in Afghanistan and accounting for over two-thirds of world production that year. Much of Afghanistan's opium production is refined into heroin and is either consumed by a growing South Asian addict population or exported, primarily to Europe. Replacing the poppy industry was a goal of the Karzai administration.

## 23 ANIMAL HUSBANDRY

The availability of land suitable for grazing has made animal husbandry an important part of the economy. There are two main types of animal husbandry: sedentary, practiced by farmers who

raise both animals and crops; and nomadic, practiced by animal herders known as Kuchis. Natural pastures cover some 3 million hectares (7.4 million acres) but are being overgrazed. The northern regions around Mazār-e Sharif and Maymanah were the home range for about six million karakul sheep in the late 1990s. Most flocks move to the highlands in the summer to pastures in the north. Oxen are the primary draft power and farmers often share animals for plowing. Poultry are traditionally kept in most households.

Much of Afghanistan's livestock was removed from the country by early waves of refugees who fled to Pakistan and Iran. In 2001, the livestock population in Afghanistan had declined by about 40% since 1998. In 2002, this figure was estimated to have declined further to 60%. An FAO survey done in the northern regions in spring 2002 showed that in four provinces (Balkh, Juzjan, Sar-e Pol, and Faryab), there was a loss of about 84% of cattle from 1997 to 2002 (1997: 224,296 head; 2002: 36,471 head) and around 80% of sheep and goats (1997: 1,721,021 head; 2002: 359,953 head).

## 24 FISHING

Some fishing takes place in the lakes and rivers, but fish does not constitute a significant part of the Afghan diet. Using explosives for fishing, called dynamite fishing, became popular in the 1980s and is common practice. The annual catch was about 900 tons in 2003.

## 25 FORESTRY

Afghanistan's timber has been greatly depleted, and since the mid-1980s, only about 3% of the land area has been forested, mainly in the east. Significant stands of trees have been destroyed by the ravages of the war. Exploitation has been hampered by lack of power and access roads. Moreover, the distribution of the forest is uneven, and most of the remaining woodland is presently found only in mountainous regions in the southeast and south. The natural forests in Afghanistan are mainly of two types: (1) dense forests of oak, walnut, and other species of nuts that grow in the southeast, and on the northern and northeastern slopes of the Sulaiman ranges; and (2) sparsely distributed short trees and shrubs on all other slopes of the Hindu Kush. The dense forests of the southeast cover only 2.7% of the country. Roundwood production in 2003 was 3,148,000 cu m, with 44% used for fuel. The destruction of the forests to create agricultural land, logging, forest fires, plant diseases, and insect pests are all causes of the reduction in forest coverage. Illegal logging and clear-cutting by timber smugglers have exacerbated this destructive process.

## 26 MINING

Afghanistan has valuable deposits of barite, beryl, chrome, coal, copper, iron, lapis lazuli, lead, mica, natural gas, petroleum, salt, silver, sulfur, and zinc. Reserves of high-grade iron ore, discovered years ago at the Hajigak hills in Bamyan Province, are estimated to total 2 billion tons.

On average, some 114,000 tons of coal were mined each year during 1978–84. It is estimated that the country has 73 million tons of coal reserves, most of which are located in the region between Herāt and Badakhshan in the northern part of the country. Production in 2003 amounted to 185,000 metric tons. In 2003, Afghani-

stan produced 13,000 metric tons of rock salt, 3,000 metric tons of gypsum, 5,000 metric tons of mined copper, and 120,000 metric tons of cement. Deposits of lapis lazuli in Badakhshan are mined in small quantities. Like other aspects of Afghanistan's economy, exploitation of natural resources has been disrupted by war. The remote and rugged terrain, and an inadequate transportation network usually have made mining these resources difficult.

## 27 ENERGY AND POWER

Two decades of warfare have left Afghanistan's power grid badly damaged. As of June 2004, less than 10% of the population had access to electricity. In 2002, electricity generation was 0.745 billion kWh, of which 25.5% came from fossil fuel, 74.5% from hydropower, and none from other sources. Imports of electricity totaled 0.150 kWh in 2002. In the same year, consumption of electricity totaled 0.843 billion kWh. Total electrical generating capacity in 2002 stood at 0.385 million kW. Three hydroelectric plants were opened between 1965 and 1970, at Jalālābād, Naghlu, and Mahipar, near Kabul; another, at Kajaki, in the upper Helmand River Valley, was opened in the mid-1970s. In addition to the Naghlu, Mahi Par, and Kajaki plants, other hydroelectric facilities that were operational as of 2002 included plants at Sarobi, west of Kabul; Pol-e Khomri; Darunta, in Nangarhar province; Dahla, in Qandahār province (restored to operation in 2001); and Mazār-e Sharif. In 1991, a new 72-collector solar installation was completed in Kabul at a cost of \$364 million. The installation heated 40,000 liters (10,400 gallons) of water to an average temperature of 60°C (140°F) around the clock. Construction of two more power stations, with a combined capacity of 600 kW, was planned in Charikar City.

The drought of 1998–2001 negatively affected Afghanistan's hydroelectric power production, which resulted in blackouts in Kabul and other cities. Another generating turbine is being added to the Kajaki Dam in Helmand province near Qandahār, with the assistance of the Chinese Dongfeng Agricultural Machinery Company. This will add 16.5 MW to its generating capacity when completed. Also in operation was the Breshna-Kot Dam in Nangarhar province, which had a generating capacity of 11.5 MW.

Natural gas was Afghanistan's only economically significant export in 1995, going mainly to Uzbekistan via pipeline. Natural gas reserves were once estimated at 140 billion cu m. Production started in 1967 with 342 million cu m but had risen to 2.6 billion cu m by 1995. In 1991, a new gas field was discovered in Chekhcha, Jowzjan province. Natural gas was also produced at Sheberghān and Sar-e Pol. As of 2002, other operational gas fields were located at Djarquduk, Khowaja Gogerdak, and Yatimtaq, all in Jowzjan province. In 2002, natural gas production was 1.77 billion cu ft.

In August 1996, a multinational consortium agreed to construct a 1,430 km (890 mi) pipeline through Afghanistan to carry natural gas from Turkmenistan to Pakistan, at a cost of about \$2 billion. However US air strikes led to cancellation of the project in 1998, and financing of such a project has remained an issue because of high political risk and security concerns. As of 2002 the leaders of the three countries had signed an agreement to build the pipeline, but as of 2006, construction had not begun.

A very small amount of crude oil is produced at the Angot field in the northern Sar-e Pol province. Another small oilfield at

Zomrad Sai near Sheberghān was reportedly undergoing repairs in mid-2001. Petroleum products such as diesel, gasoline, and jet fuel are imported, mainly from Pakistan and Turkmenistan. A small storage and distribution facility exists in Jalālābād on the highway between Kabul and Peshāwar, Pakistan. Afghanistan is also reported to have oil reserves totaling 95 million barrels and coal reserves totaling 73 million tons.

## 28 INDUSTRY

As with other sectors of the economy, Afghanistan's already-beleaguered industries have been devastated by civil strife and war that began in the 1970s and left most of the country's factories and even much of the cottage industry sector inoperative. Still in an early stage of growth before the outbreak of war, industry's development has been stunted since; those few industries that have continued production remain limited to processing of local materials. The principal modern industry is cotton textile production, with factories at Pol e Khomri, Golbahar, Begram, Balkh, and Jabbal as Saraj, just north of Charikar. Important industries in 2000 included textiles, soap, furniture, shoes, fertilizer, cement, hand-woven carpets, natural gas, coal, and copper.

Carpet-making is the most important handicraft industry, but it has suffered with the flight of rug makers during the civil war and since the 2001 US-led bombing campaign. Carpet-making is centered around the north and northwest regions of the country. Afghan carpets are made of pure wool and are hand-knotted, and women do much of the work. Production has fluctuated widely from year to year, increasing somewhat during the early 1990s with the establishment of selected "zones of tranquility" targeted for UN reconstruction assistance. Other handicrafts include felt-making and the weaving of cotton, woolen, and silk cloth. Wood and stone carving have been concentrated in the northeastern provinces, while jewelrymaking has been done in the Kabul area. The making of leather goods has also been a handicraft industry.

In 2004, industry was estimated to contribute 24.4% to the overall GDP (up from 20% in 1990) and to employ 10% of the working population; agriculture was considered to make up 37.2% of the GDP, and occupy 80% of the labor force; services provided work for 10% of the working population, and was represented with 38.3% in the GDP.

## 29 SCIENCE AND TECHNOLOGY

The Afghanistan Academy of Sciences, founded in 1979, is the principal scientific institution. As of 2002, it had about 180 members. Prospective members of the Academy must take a written exam, present samples of their work, and pass a proficiency exam in one of the official languages of the UN. Many Afghan scientists migrated to Europe, the United States, and Pakistan during 1970–2006. Under the Taliban, professors who did not teach Islamic studies were relieved of their duties.

The Department of Geology and Mineral Survey within the Ministry of Mines and Industries conducts geological and mineralogical research, mapping, prospecting and exploration.

The Institute of Public Health, founded in 1962, conducts public health training and research and study of indigenous diseases, has a Government reference laboratory, and compiles statistical data.

Kabul University, founded in 1932, has faculties of science, pharmacy, veterinary medicine, and geo-sciences. Its faculty numbers close to 200. The University of Balkh has about 100 faculty members. Bayazid Roshan University of Nangarhar, founded in 1962, has faculties of medicine and engineering, its faculty numbers close to 100. The Institute of Agriculture, founded in 1924, offers courses in veterinary medicine. Kabul Polytechnic College, founded in 1951, offers postgraduate engineering courses. Kabul Polytechnic was the site of the June 2002 Loya Jirga, and the international community spent over \$7 million to refurbish part of the campus for the assembly. Buildings on campus had suffered heavy bomb damage. During the 1990s, the campus was shelled and looted by *mujahedeen* groups, who fought amongst themselves for control of the capital. Boarding students studying under the rule of the Taliban lived in makeshift dormitories.

## 30 DOMESTIC TRADE

Kabul, Qandahār, Mazā-e-Sharif, and Herāt are the principal commercial cities of eastern, southern, northern, and western Afghanistan, respectively. The first two are the main distribution centers for imports arriving from the direction of Pakistan; the latter two, for materials arriving from Iran, Turkmenistan, Uzbekistan, and Tajikistan. Hours of business vary. The destruction of paved roads has severely constrained normal domestic trade in most rural parts of the country. Heavy fighting in Kabul completely destroyed the city's infrastructure.

## 31 FOREIGN TRADE

Although the Taliban had brought a repressive order to the 90% of the country under its rule, it was unable to gain international recognition nor did it attract foreign investment. Hyperinflation had increased the number of Afghani (the country's currency) needed to equal one US dollar, from 50 in the early 1990s to a virtually worthless 42,000 in 1999. On 7 October 2002, the first anniversary of the start of the US-led bombing campaign in Afghanistan, a new Afghan currency came into use. Also called the Afghani, the new notes were worth 1000 of the old notes, which

### Principal Trading Partners – Afghanistan (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	68.2	1,695.8	-1,627.6
Pakistan	45.6	35.3	10.3
Finland	7.1	...	7.1
Germany	5.7	7.2	-1.5
Saudi Arabia	4.3	14.4	-10.1
Belgium	2.1	0.5	1.6
Russian Federation	0.9	103.3	-102.4
United Arab Emirates	0.6	44.4	-43.8
India	0.5	25.4	-24.9
Yemen	0.5	...	0.5
Denmark	0.5	...	0.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

were phased out. The government will exchange the dostumi currency, which is used in northern Afghanistan and named after the region's warlord Abdul Rashid Dostum, into new Afghanis at half the value of old Afghanis. Around 1,800 tons of old Afghanis were due to be burned or recycled.

The value of exports, including fruits and nuts, carpets, wool, cotton, hides and pelts, and gems totaled an estimated \$471 million in 2005 (not including illegal exports). Imports, including food, petroleum products, and most commodity items totaled an estimated \$3.87 billion in 2005.

In 2004, exports (not including illicit exports or re-exports) amounted to \$446 million; by 2005, the number had increased slightly, to \$471 million. Imports almost tripled in the period 2001–05, to \$3.87 billion. Carpets (47.5%), dried fruits (40.6%), fresh fruit (5.6%), medicinal plants (2.6%), and animal skins (1.2%) represented the bulk of exports, and they mainly went to Pakistan (which received 24% of the total), India (21.3%), the United States (12.4%), and Germany (5.5%). Imports primarily came from Pakistan (25.5%), the United States (8.7%), India (8.5%), Germany (6.5%), Turkmenistan (5.3%), Kenya (4.7%), South Korea (4.2%), and Russia (4.2%). Imports were machinery and equipment; household requisites and medicine; fabrics, clothing and footwear; food; and, chemical materials.

### **3<sup>2</sup> BALANCE OF PAYMENTS**

Between 1951 and 1973, Afghanistan's year-end international reserves were never lower than \$38 million nor higher than \$65 million. Development of the natural gas industry and favorable prices for some of the country's agricultural exports led to increases in international reserves, to \$67.5 million in 1974 and to \$115.4 million as of 31 December 1975. Exploitation of natural gas also freed Afghanistan from extreme dependence on petroleum imports and from the rapid increases in import costs that most countries experienced in 1973 and 1974. Increased trade in the late 1970s and 1980s resulted in a reduction of foreign exchange earnings, since trade surpluses are counted as a credit against future imports. Foreign exchange reserves declined from \$411.1 million at the close of 1979 to \$262 million as of 30 May 1987. Foreign exchange reserves were estimated at \$1.3 billion in 2004, up from \$426 million in 2002, and \$815 million in 2003. The public foreign debt in 1997 stood at \$5.49 billion. Reliable statistics are not available for the ensuing years. However, the current account balance was estimated to have gone from -\$2.3 billion in 2003, to -\$2.7 billion in 2004.

### **3<sup>3</sup> BANKING AND SECURITIES**

The government central bank, the Bank of Afghanistan, was founded in 1939. In 1999, the UN Security Council passed a resolution placing the Bank of Afghanistan on a consolidated list of persons and entities whose funds and financial resources should be frozen, due to the fact that the bank was controlled by the Taliban regime. The Security Council agreed to remove the bank from the list upon a request from the Interim Administration of Afghanistan in January 2002.

All banks in Afghanistan were nationalized in 1975. In the early 1980s there were seven banks in the country, including the Agricultural Development Bank, the Export Promotion Bank, the In-

dustrial Development Bank, and the Mortgage and Construction Bank. There is no organized domestic securities market.

### **3<sup>4</sup> INSURANCE**

The fate of the Afghan National Insurance Co., which covered fire, transport, and accident insurance, is unknown as of 2006.

### **3<sup>5</sup> PUBLIC FINANCE**

The fiscal year ends 20 March. Budget breakdowns have not been available since 1979/80, when revenues totaled Af15,788 million and expenditures Af16,782 million. In 2002, the Interim and Transitional governing authorities were working with donor aid agencies to finance the rebuilding of Afghanistan's infrastructure and society. The Interim Administration was supported by the Asian Development Bank, the Islamic Development Bank, UNDP, and the World Bank. An Implementation Group was established to operate an Operational Costs Trust Fund for Afghanistan, to be effective when the UNDP Start-up Fund ceased, to cover expenditures normally financed by domestic revenue. The Operational Costs Trust Fund was scheduled to cease to operate when the situation in Afghanistan reached fiscal normality, when the government would be able to finance most or all of its own costs.

The US Central Intelligence Agency (CIA) estimated that in the fiscal year 2004/05 Afghanistan's central government took in revenues of approximately \$269 million and had expenditures of \$561 million. Revenues minus expenditures totaled approximately -\$292 million. Total external debt was \$8 billion.

### **3<sup>6</sup> TAXATION**

In the early 1980s, direct taxes accounted for about 15% of government revenues. The share provided by indirect taxes declined from 42% to 30%, as revenues from natural gas and state enterprises played an increasing role in government finance. Tax collection, never an effective source of revenue in rural areas, was essentially disabled by the disruption caused by fighting and mass flight. Under the Taliban, arbitrary taxes, including those on humanitarian goods, were imposed.

In 2005 the government introduced an income (or wage) tax. Employers with two or more employees were required to pay 10% on annual income over about \$3,500 and 20% on income over about \$27,000.

### **3<sup>7</sup> CUSTOMS AND DUTIES**

Before the turmoil of the late 1970s, customs duties, levied as a source of revenue rather than as a protective measure, constituted more than one-fourth of total government revenue. Both specific and ad valorem duties of 20–35% were levied on imports. Other costs included service and Red Crescent charges; monopoly and luxury taxes; authorization and privilege charges, and a commission-type duty.

After the fall of the Taliban, Afghanistan's warlords collected customs duties for themselves rather than transferring the funds to the Interim and Transitional authorities in Kabul. In May 2002, it was estimated that \$6–7 million in customs duties were paid each month at Afghanistan's borders with Pakistan, Iran, and Uzbekistan, very little of which went into the government treasury.

### 38 FOREIGN INVESTMENT

A 1967 law encouraged investment of private foreign capital in Afghanistan, but under the PDPA government, Western investment virtually ceased. Between 1979 and 1987, the USSR provided technical and financial assistance on more than 200 projects, including various industrial plants, irrigation dams, agricultural stations, and a new terminal at the Kabul airport. After 1990, reconstruction investments from Russia, Japan, and the United States were channeled through the United Nations. The Taliban called for Western support to help reconstruct Afghanistan, but Western donors—already reluctant to support UN programs in the country—did not respond. After the fall of the Taliban, head-of-state Hamid Karzai invited foreign direct investment (FDI) in Afghanistan, first to reach the people in the provinces who required salaries and owed taxes, and then to invest in businesses that would lead to industrial and technological development.

One of the main policies of the government as of 2006 was to create a business-friendly environment and to attract foreign, as well as domestic, investments. Both national and international observers realized that the economy of Afghanistan could not be sustained long-term on the benefits of donor-led reconstruction, and the trickle down effects of the opium economy. At the opening of the Hyatt Hotel in Kabul in April 2004, President Hamid Karzai declared that “Afghanistan is open for business.”

The Afghan ministry of commerce calculated that between November 2003 and November 2004, \$351 million in FDI made its way into the country. The investment amount was relatively small, but was a positive sign that the economy was orienting itself in the right direction. Most of the investments came from Pakistan, Iran, China, the UAE, EU countries, and the United States.

### 39 ECONOMIC DEVELOPMENT

As of 2002, the World Bank was managing an Afghan Reconstruction Trust Fund (ARTF) to assist the Interim Administration in funding physical reconstruction projects, including in the health sector, as well as managing expenses such as salaries for state employees. The ARTF began in May 2002, as a joint proposal of the World Bank, the UN Development Program (UNDP), the Asian Development Bank, and the Islamic Development Bank. It was set up to streamline international support to Afghanistan by organizing aid pledges within a single mechanism. Contributions to the ARTF totaled more than \$60 million in the first year and were expected to exceed \$380 million over the four subsequent years. As of November 2002, pledges of funding for Afghanistan reached more than \$4.5 billion for the first 30 months.

The main growth engines of the Afghan economy are donor-led reconstruction, the opium business, agriculture, and carpeting. The first two cannot sustain the economy long-term, and Afghan policymakers faced a challenge to develop a strategy to grow other sectors of the economy. As of 2006, the country remained poor, landlocked, and dependent on farming, foreign aid, and trade with neighboring countries. Much of the population continued to live in abject conditions (without access to housing, clean water, energy, or medical care), and the labor market was far from dynamic. Its attractive 28-million person market was offset by the lack of good infrastructure, and by security problems that

still loom outside Kabul. Policymakers were hopeful however, that political stability would enable the economy thrive and grow.

### 40 SOCIAL DEVELOPMENT

Social welfare in Afghanistan has traditionally relied on family and tribal organization. In the villages and small towns, a tax to benefit the poor is levied on each man. Social welfare centers in the provincial capitals exist to care for disabled people, but these are able to assist only a small number of those in need. Most other welfare activities are still unorganized and in private hands. In the early 1990s, a social insurance system provided old age, disability, and survivors' pensions; sickness and maternity benefits; and workers' compensation.

Traditionally, women had few rights in Afghanistan, with their role limited largely to the home and the fields. Advances in women's rights were made from 1920 onward, and by the 1970s, women were attending school in large numbers, were voting, and held government jobs—including posts as cabinet ministers, and were active in the professions. The victory of the extremely conservative Taliban in 1996 reversed this trend. Strict limits on the freedoms of women were put in place. Under the constitution of 2004, the government provided for freedom of speech, the press, assembly, association, religion, and movement; however, serious problems remained in the area of human rights. Although the rule of law applied throughout the country, in practice its recognition was limited.

Violence, including rape and kidnapping, and societal discrimination against women and minorities persisted. Terrorist attacks and extreme violence continued. Extrajudicial and unlawful killings by the government or its agents and police still occurred. Civilians were killed as rebel forces battled. Torture and excessive use of force were reported. Detention conditions were inadequate.

With the end of the Taliban, women and girls were permitted to attend schools and universities, and the enforced wearing of the burka was ended. Men were allowed to shave, music and television were permitted, and a host of Taliban-imposed restrictions on society ended. Many women continued to wear the burka, or chadri, out of tradition, but also due to fear of harassment or violence. Reports claimed that trafficking in women and children for forced labor, prostitution, and sexual exploitation was increasing. The country was both a source and transit point for trafficking. Trafficking victims faced societal discrimination, especially with regard to sexual exploitation. There are no child labor laws or other legislation to protect child abuse victims. The law criminalizes homosexual activity.

Women in urban areas regained some measure of rights to public life, however lack of education under Taliban rule restricted employment possibilities. On the other hand, in 2004 regulations changed to allow married women to attend high school classes. Certain other restrictions on women were lifted in 1998. Women were allowed to work as doctors and nurses (as long as they treated only women) and were able to attend medical schools. Yet, women were denied adequate medical care due to the societal barriers discouraging them from seeking care from male health workers. Widows with no means of support were allowed to seek employment.

## 41 HEALTH

Starvation, disease, death, war, and migration had devastating effects on Afghanistan's health infrastructure in the 1990s. According to the World Health Organization, medication was scarce. Even before the war disrupted medical services, health conditions in Afghanistan were inadequate by western standards.

In 2004, there were an estimated 18 physicians per 100,000 people. In addition, there were fewer than 3 pharmacists, 3 dentists, and 22 nurses per 100,000 population that year. Approximately only 29% of the population had access to health services. Few people had access to safe water and adequate sanitation.

In 2005, estimated life expectancy was 42.9 years—one of the lowest in the world—and infant mortality was estimated at 163.07 per 1,000 live births, which gives the country the world's second-highest mortality rate for infants. The maternal mortality rate in 2002 was one of the highest in Central Asia, with 1,600 maternal deaths per 100,000 live births. The death rate in 2002 was 17 per 1,000 people. In 2002, some 80,000 children a year were dying of diarrheal disease. From 1978 to 1991, there were over 1.5 million war-related deaths. It is estimated that 3,767 civilians died because of US bombs in Afghanistan in the period 7 October–7 December 2001. Approximately 300–400 civilians were killed in the period October 2001–July 2002.

As of 2002, Afghanistan had an average of four hospital beds for every 10,000 people. Most of the country's facilities are in Kabul, and those needing treatment must traverse the countryside to get there. Health care was being provided primarily by the international community. Some military field hospitals were set up as a result of the US-led coalition war. There are some medical facilities supported by the Red Cross operating in the country. In 24 of 31 provinces there are no hospitals or medical staff.

## 42 HOUSING

According to an official report, there were 200,000 dwellings in Kabul in the mid-1980s. The latest available figures for 1980–88 show a total housing stock of 3,500,000 with 4.4 people per dwelling. However, years of conflict have caused severe damage to the housing stock. In 2003, UN-Habitat reported that about 26% of all housing had been destroyed or seriously damaged. About 20–25% of the population did not have access to piped supplies of safe water and about 84% of the population had no sanitary toilets.

The UN High Commissioner for Refugees (UNHCR) has been the leader in providing homes and shelter for returning Afghan refugees, internally displaced persons, and the extremely poor. From 2002–04, over 100,000 rural homes were built through the collaboration of UNHCR and the Afghan Ministry of Refugees and Repatriation. Others funding housing development included the UN Development Program, the International Organization for Migration, and CARE International, while the agencies implementing the programs are the Ministry for Rural Rehabilitation and Development (MRRD) in Afghanistan, the United Nations Human Settlement Program (HABITAT), the International Rescue Committee (IRC), and an assortment of international and local nongovernmental organizations (NGOs).

Houses in farming communities are built largely of mud brick and frequently grouped within a fortified enclosure, to provide protection from marauders. The roofs are flat, with a coating of

mixed straw and mud rolled hard above a ceiling of horizontal poles, although in areas where timber is scarce, separate mud brick domes crown each room. Cement and other modern building materials are widely used in cities and towns. Every town has at least one wide thoroughfare, but other streets are narrow lanes between houses of mud brick, taller than those in the villages and featuring decorative wooden balconies.

## 43 EDUCATION

At the last estimates, the adult literacy rate was about 36% for the total population—51% for males and 21% for females. Education is free at all levels. The primary education program covers six years. The secondary education (middle school and high school) includes another six-year program. About 29% of school-aged children are enrolled at the primary level. About 14% of all appropriately aged children are enrolled in secondary programs. Vocational training is provided in secondary schools and senior high schools, and approximately 6% of students are enrolled in the vocational system. Theoretically, education is compulsory for six years. The new constitution proposed to change the standard to nine years of compulsory education.

Boys and girls are schooled separately. In 2003, the average pupil to teacher ratio for primary school was 61:1. Children are taught in their mother tongue, Dari (Persian) or Pashtu (Pashto), during the first three grades; the second official language is introduced in the fourth grade. Children are also taught Arabic so that they may be able to read the Koran (Quran). The school year extends from early March to November in the cold areas and from September to June in the warmer regions.

In addition to the secular public education system, the traditional Islamic madrassa school system is functioning. At the madrassas, children study the Koran, the Hadith (Sayings of the Prophet Muhammad), and popular religious texts.

All teachers have civil service status. The educational system is totally centralized by the state.

The University of Kabul, which is now coeducational, was founded in 1932. In 1962, a faculty of medicine was established at Jalālābād in Nangarhar Province; this faculty subsequently became the University of Nangarhar. In January 2006, there were at least eight universities and three other institutes of higher education. An estimated 1,000 women throughout Afghanistan participated in university entrance examinations in 2002.

## 44 LIBRARIES AND MUSEUMS

For centuries, manuscript collections were in the hands of the rulers, local feudal lords, and renowned religious families. Printing came fairly late to Afghanistan, but with the shift from the handwritten manuscript to the printed book, various collections were formed. Kabul Central Library is a public library (1920) with 60,000 volumes. The Khairkhona Library is the only other public library in Kabul. The library of the University of Kabul has about 250,000 volumes. There is a library at Kabul Polytechnic University with 6,000 volumes. A government library, at the ministry of education also in Kabul, houses 30,000 volumes. As of 2005, there were six provincial libraries, but in various stages of repair and reconstruction.

Prior to the devastating civil war, the Kabul Museum (founded in 1922) possessed an unrivaled collection of stone heads, bas-re-

liefs, ivory plaques and statuettes, bronzes, mural paintings, and Buddhist material from excavations at Hadda, Bamian, Bagram, and other sites. It also contained an extensive collection of coins and a unique collection of Islamic bronzes, marble reliefs, Kushan art, and ceramics from Ghaznī. During several decades of warfare, however, the museum was plundered by various armed bands, with much of its collection sold on the black market or systematically destroyed. In March 2001, the Taliban dynamited the Bamiyan Buddhas and sold the debris and the remains of the original sculpture. Small statues of the Buddhas in Foladi and Kakrak were destroyed. Most of the statues and other non-Islamic art works in the collections of the Kabul Museum were destroyed, including those stored for security reasons in the ministry of information and culture.

UNESCO has undertaken a plan to conserve the archaeological remains and the minaret at Jam, and to make it a World Heritage site. The minaret was built at the end of the 12th century and, at 65 m (215 ft) is the second-tallest in the world after the Qutub Minaret in New Delhi, India.

The National Archives of Afghanistan in Kabul was established in 1973. Holdings include government documents and ancient books, the most important being a 500-year-old Koran. Also in Kabul is the Kabul University Science Museum, with an extensive zoological collection and a museum of pathology. There are provincial museums at Bamiyan, Ghaznī, Herāt, Mazār-e Sharif, Maimana, and Qandahār. Major religious shrines have collections of valuable objects.

#### 45 MEDIA

Limited telephone service to principal cities and some smaller towns and villages is provided by the government. In 2003, there were an estimated 2 mainline telephones for every 1,000 people. The same year, there were approximately 10 mobile phones in use for every 1,000 people. In 2004, the CIA reported that there were 50,000 main phone lines and 600,000 cellular mobile phone lines in use (about 3 out of every 10 Afghans had a cellular phone). In 2005, four wireless telephone service providers were licensed.

The media in Afghanistan was severely restricted by the Taliban. Since the fall of that regime, freedom of expression has been provided for in the constitution. However, a 2002 press law contained an injunction against information that would be considered insulting to Islam and, while an independent media is beginning to grow, as of 2004, the state owned at least 35 publications and a majority of the electronic media.

The first television broadcast took place in 1978. There are at least 10 television stations, with the main central station in Kabul being operated by the government. In 2004, there were at least 40 radio broadcast stations (approximately equal numbers of AM and FM), with programming available in Pashtu, Afghan Persian (Dari), Urdu, and English. In 2003, there were an estimated 114 radios and 14 television sets for every 1,000 people. On 12 September 2004 the first independent radio station established entirely by private sector funds was inaugurated in Ghaznī province.

In 2004, there were approximately 300 publications in the country. Mazār-e Sharif alone had an estimated 50 publications. Major newspapers, all headquartered in Kabul, (with estimated 1999 circulations) are *Anis* (25,000), published in Dari and Pashto; *Hewad* (12,200), and *New Kabul Times* (5,000), in English. In January

2002, the independent newspaper *Kabul Weekly* began publishing again, after having disappeared during the period when the Taliban was in power. The first issue carried news in Dari, Pashto, English, and French.

News agencies include the state-operated Bakhtar News Agency and the privately owned Pajhwok Afghan News, Hindokosh, and Afghan Islamic Press.

In 2005, there were 25,000 people with Internet access.

#### 46 ORGANIZATIONS

Afghanistan has over 2,300 registered nongovernmental organizations and approximately 300 registered social organizations. Organizations to advance public aims and goals are of recent origin and most are sponsored and directed by the government.

The National Fatherland Front, consisting of tribal and political groups that support the government, was founded in June 1981 to bolster the People's Democratic Party of Afghanistan (PDPA) regime and to promote full and equal participation of Afghan nationals in state affairs. The Revolutionary Association of the Women of Afghanistan (RAWA), established in Kabul in 1977, is an independent political organization of Afghan women focusing on human rights and social justice.

With political changes in the country throughout the past decade, a number of new women's groups have developed. The Women's Welfare Society carries on educational enterprises, provides training in handicrafts, and dispenses charitable aid, while the Maristun, a social service center, looks after children, men, and women while teaching them crafts and trades. These include the Afghan Women Social and Cultural Organization (AWSCO, est. 1994), the Afghan Women's Educational Center (AWEC, est. 1991), the Afghan Women's Network (AWN, est. 1995), the Educational Training Center for Poor Women and Girls of Afghanistan (ECW, est. 1997), the New Afghanistan Women Association (est. 2002 as a merger of the Afghan Women Journalist Association and the Afghan Feminine Association), and the World Organization for Mutual Afghan Network (WOMAN, est. 2002).

The Union of Afghanistan Youth is a national nongovernment organization representing the concerns of the nation's youth and young adults in the midst of transition and reconstruction. The organization serves as a multiparty offshoot of the Democratic Youth Organization of Afghanistan (DYO), which has worked closely with the People's Democratic Party of Afghanistan. Though the Scouting Movement of Afghanistan was disbanded in 1978, the World Organization of the Scout Movement (WOSM) began conducting seminars in July 2003 to encourage and support the rebirth of scouting programs. There are a number of sports organizations throughout the country, including those for football (soccer), tennis, cricket, and track and field; many of these are linked to international organizations.

The Red Crescent, the equivalent of the Red Cross, is active in every province, with a national chapter of Red Crescent Youth also active. Afghanistan also hosts chapters of Habitat for Humanity and HOPE Worldwide.

An institute, the Pashto Tolanah, promotes knowledge of Pashto literature, and the Historical Society (Anjuman-i-Tarikh) amasses information on Afghan history. The Afghan Carpet Exporters' Guild, founded in 1987, promotes foreign trade of Afghan carpets and works for the improvement of the carpet industry.

## 47 TOURISM, TRAVEL, AND RECREATION

The tourism industry, developed with government help in the early 1970s, has been negligible since 1979 due to internal political instability. A passport and visa are required for entrance into Afghanistan. In 1999, the UN estimated the daily cost of staying in Kabul at \$70. Approximately 61% of these costs were estimated to be the price of a room in a guesthouse. Travel was highly restricted in the country due to the US-led campaign against the Taliban and al-Qaeda.

## 48 FAMOUS AFGHANS

The most renowned ruler of medieval Afghanistan, Mahmud of Ghazni (971?–1030), was the Turkish creator of an empire stretching from Ray and Isfahan in Iran to Lahore in India (now in Pakistan) and from the Amu Darya (Oxus) River to the Arabian Sea. Zahir ud-Din Babur (1483–1530), a Timurid prince of Ferghana (now in the former USSR), established his base at Kabul and from there waged campaigns leading to the expulsion of an Afghan ruling dynasty, the Lodis, from Delhi and the foundation of the Mughal Empire in India.

Many eminent figures of Arab and Persian intellectual history were born or spent their careers in what is now Afghanistan. Al-Biruni (973–1048), the great Arab encyclopedist, was born in Khiva but settled in Ghazni, where he died. Abdul Majid Majdud Sana'i (1070–1140), the first major Persian poet to employ verse for mystical and philosophical expression, was a native of Ghazni. Jalal ud-Din Rumi (1207–73), who stands at the summit of Persian poetry, was born in Balkh but migrated to Konya (Iconium) in Turkey. The last of the celebrated Persian classical poets, Abdur Rahman Jami (1414–92), was born in Khorasan but spent most of his life in Herat. So did Behzad (1450?–1520), the greatest master of Persian painting.

The founder of the state of Afghanistan was Ahmad Shah Abdali (1724–73), who changed his dynastic name to Durrani. He conquered Kashmir and Delhi and, with his capital at Qandahar, ruled over an empire that also stretched from the Amu Darya to the Arabian Sea. Dost Muhammad (1789–1863) was the founder of the Muhammadzai (Barakzai) dynasty. In a turbulent career, he both fought and made peace with the British in India, and unified the country. His grandson, Abdur Rahman Khan (1844–1901), established order after protracted civil strife. Amanullah Khan (1892–1960), who reigned from 1919 to 1929, tried social reforms aimed at Westernizing the country but was forced to abdicate. Muhammad Nadir Shah (d.1933), who was elected king

by a tribal assembly in 1929, continued Amanullah's Westernization program. His son, Muhammad Zahir Shah (b.1914), was king until he was deposed by a coup in July 1973. Lieut. Gen. Sardar Muhammad Daoud Khan (1909–78), cousin and brother-in-law of King Zahir, was the leader of the coup and the founder and first president of the Republic of Afghanistan. Leaders in the violent years after the 1978 "Saur Revolution" were Nur Muhammad Taraki (1917–79), founder of the People's Democratic Party of Afghanistan (PDPA); Hafizullah Amin (1929–79), Taraki's successor as president of the Revolutionary Council and secretary-general of the PDPA; Babrak Karmal (1929–96), leader of the pro-Soviet Parcham group of the PDPA and chief of state from December 1979 until May 1986; and Dr. Mohammad Najibullah (1947–96), former head of the Afghan secret police who was brutally executed by the Taliban militia after they seized control of Kabul. Ahmed Shah Massoud (1953?–2001) played a leading role in driving the Soviet Union out of Afghanistan; after the rise of the Taliban, he became the military leader of the Northern Alliance. Massoud was the victim of a suicide attack two days before the 11 September 2001 terrorist attacks on the United States; some speculate Osama bin Laden had a hand in his assassination, to ensure the protection and cooperation of the Taliban. Hamid Karzai (b.1957) is the first democratically elected president of Afghanistan. Karzai worked to overthrow the Taliban. After the regime's demise in 2001, Karzai became the chairman of the transnational administration and interim president until his election in the first direct election in the country, held in 2004.

## 49 DEPENDENCIES

Afghanistan has no territories or colonies.

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# AUSTRALIA

Commonwealth of Australia



**CAPITAL:** Canberra

**FLAG:** The flag has three main features: the red, white, and blue Union Jack in the upper left quarter, indicating Australia's membership in the Commonwealth of Nations; the white five-star Southern Cross in the right half; and the white seven-pointed federal star below the Union Jack. The flag has a blue ground. Of the five stars of the Southern Cross, four have seven points and one has five points.

**ANTHEM:** *God Save the Queen* is reserved for regal and state occasions and whenever singing is appropriate; the national tune is *Advance Australia Fair*.

**MONETARY UNIT:** The Australian dollar (A\$) is a paper currency of 100 cents. There are coins of 5, 10, 20, and 50 cents and 1 and 2 dollars, and notes of 5, 10, 20, 50 and 100 dollars. A\$1 = US\$0.76336 (US\$1 = A\$1.31) as of 2005.

**WEIGHTS AND MEASURES:** Metric weights and measures are used. The Australian proof gallon equals 1.37 US proof gallons.

**HOLIDAYS:** New Year's Day, 1 January; Australia Day, last Monday in January; Anzac Day, 25 April; Queen's Birthday, second Monday in June; Christmas, 25 December; Boxing Day, 26 December. Numerous state holidays also are observed. Movable religious holidays include Good Friday, Easter Saturday, and Easter Monday.

**TIME:** Western Australia, 8 PM = noon GMT; South Australia and Northern Territory, 9:30 PM; Victoria, New South Wales, Queensland, and Tasmania, 10 PM. Summer time is 1 hour later in all states except Western Australia, Queensland, and the Northern Territory.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Lying southeast of Asia, between the Pacific and Indian oceans, Australia, the world's smallest continent, is almost completely surrounded by ocean expanses. Australia is slightly smaller than the United States, with a total area of 7,686,850 sq km (2,967,909 sq mi). The five mainland states are New South Wales, 801,600 sq km (309,500 sq mi); Queensland, 1,727,200 sq km (666,900 sq mi); South Australia, 984,000 sq km (379,900 sq mi); Victoria, 227,600 sq km (87,900 sq mi); and Western Australia, 2,525,500 sq km (975,100 sq mi). The island state of Tasmania has an area of 67,800 sq km (26,200 sq mi); the Northern Territory, 1,346,200 sq km (519,800 sq mi); and the Australian Capital Territory, 2,400 sq km (900 sq mi). The country, including Tasmania, extends about 4,000 km (2,500 mi) E–W and 3,180 km (1,980 mi) N–S.

Australia is bounded on the N by the Timor and Arafura seas, on the NE by the Coral Sea, on the E by the Pacific Ocean, on the SE by the Tasman Sea, and on the S and W by the Indian Ocean, with a total coastline of 25,760 km (16,007 mi). Neighboring areas include Irian Jaya (part of Indonesia) and Papua New Guinea to the north, New Zealand to the southeast, and Indonesia to the northwest.

Australia's capital city, Canberra, is located in the southeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The continent of Australia is divided into four general topographic regions: (1) a low, sandy eastern coastal plain; (2) the eastern highlands, ranging from 300 to more than 2,100 m (1,000–7,000 ft) in altitude and extending from Cape York Pen-

insula in northern Queensland southward to Tasmania; (3) the central plains, consisting largely of a north-south series of drainage basins, including the Great Artesian Basin, which underlies about 1,751,480 sq km (676,250 sq mi) of territory and is the most extensive area of internal drainage in the world; and (4) the western plateau, covered with great deserts and "bigger plains" (regularly spaced sand ridges and rocky wastes), rising 300 to 600 m (1,000–2,000 ft) high and constituting most of the western half of the continent.

Australian mountains have eroded over recent geological periods, and only about 6% of the continent is above 600 m (2,000 ft); the average elevation is less than 300 m (1,000 ft). The highest point is Mt. Kosciuszko, 2,228 m (7,310 ft), in the Australian Alps of the southeastern corner of New South Wales; the lowest point is Lake Eyre in South Australia, 15 m (49 ft) below sea level. In 1983, grains of rock from Western Australia were dated at 4.1–4.2 billion years old, making them the oldest ever found on earth.

The most important river system, and the only one with a permanent, year-round flow, is formed by the Murray, Darling, and Murrumbidgee rivers in the southeast. The Murray River, Australia's largest, rises in the Australian Alps of New South Wales and flows some 2,600 km (1,600 mi) west and southwest to empty into the sea below Adelaide, South Australia. Several other rivers are important, but for the most part they carry great amounts of water in the wet season and are dry for the rest of the year. The largest lakes have no outlet and are usually dry. The coastline is smooth, with few bays or capes. The two largest sea inlets are the Gulf of Carpentaria in the north, between Arnhem Land and the Cape York Peninsula, and

the Great Australian Bight in the south. The Great Barrier Reef, the longest coral reef in the world, extends for about 2,000 km (1,243 mi) off the east coast of Queensland.

### **3 CLIMATE**

Although it has a wide diversity of climatic conditions, Australia is generally warm and dry, with no extreme cold and little frost, its temperatures ranging from comfortably mild in the south to hot in the central interior and north. July mean temperatures average 9°C (48°F) in Melbourne in the southeast and 25°C (77°F) in Darwin in the north. January mean temperatures average 20°C (68°F) in Melbourne and 30°C (86°F) in Darwin. Summer readings often reach 38°C (100°F) or more in almost any area of the continent and may exceed 46°C (115°F) in interior regions. Winds are light to moderate, except along the coasts, where severe cyclones have occurred. On 25 December 1974, a cyclone and flood devastated most of Darwin; at least 49 people were killed, and some 20,000 were left homeless.

The continent is subject to great variations in rainfall, but except for a few areas rainfall is insufficient, and the rate of evaporation is high. Mean annual rainfall is 42 cm (17 in), much less than the world mean of 66 cm (26 in). About 18% of the land area is desert. Only about 20% has more than 76 cm (30 in) of rain annually, but these areas suffer from a long dry season, while others have too much rain. Only Tasmania, Victoria, and parts of New South Wales have enough rainfall all year round. Droughts and floods occur irregularly but frequently over large areas. Drought conditions became very severe in the early 1980s, leading to dust storms, fires, and multibillion-dollar crop losses. Again in 1994–95, a severe drought devastated eastern agricultural regions.

### **4 FLORA AND FAUNA**

Many distinctive forms of plant and animal life are found, especially in the coastal and tropical areas. There are some 500 species of eucalyptus and 600 species of acacia (wattle). Other outstanding trees are the baobab, blackwood, red cedar, coachwood, jarrah, Queensland maple, silky oak, and walnut. Native trees shed bark instead of leaves. Numerous types of wild flowers grow in the bush country, including boronia, Christmas bush, desert pea, flanner flower, Geraldton wax plant, kangaroo paw, pomaderris, and waratah. There are 470 varieties of orchids. About 200 kinds of mammals, 200 kinds of lizards, and 350 kinds of birds are indigenous. Apart from marsupials (bandicoots, kangaroos, koalas, possums, Tasmanian devils, tree kangaroos, and wallabies), the most unusual animals are the dingo, echidna, flying fox (fruit bat), platypus, and wombat. Birds include the aninga, bellbird, bowerbird, cassowary, emu, galah, kookaburra (laughing jackass), lyrebird, fairy penguin, rosella, and many types of cockatoos, parrots, hawks, and eagles.

Many species of trees, plants, and domestic animals have been imported, often thriving at the expense of indigenous types. Herds of wild buffalo, camels, donkeys, horses, and pigs, descendants of stock that strayed from herds imported by pioneers, roam the sparsely settled areas. The proliferation of rabbits resulted in a menace to sheep, and in 1907, a thousand-mile-long fence was built to keep rabbits out of Western Australia. Subsequently, a similar fence was erected in the east to prevent the incursion of dingos.

### **5 ENVIRONMENT**

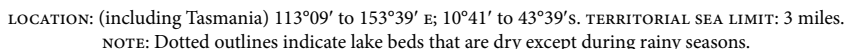
The principal government institutions responsible for environmental matters are the Department of Home Affairs and Environment, the Australian Environment Council, and the Council of Nature Conservation Ministers. A national conservation strategy, developed by the states, the Northern Territory, and the federal government, in cooperation with the International Union for the Conservation of Nature and Natural Resources, the World Wildlife Fund, and the UNEP, became national policy in 1980.

The Environment Protection (Impact of Proposals) Act of 1974 establishes procedures for ensuring that environmental impact is considered in governmental decision making. The Whale Protection Act of 1981 prohibits killing, capturing, injuring, or interfering with a whale, dolphin, or porpoise within Australia's 200 mi economic zone or, beyond the zone, by Australian vessels and aircraft and their crews. The Environment Protection (Nuclear Codes) Act of 1978 mandates the development of uniform safety standards for uranium mining and milling and for the transport of radioactive materials. The Protection of the Sea (Discharge of Oil from Ships) Act of 1981 and the Protection of the Sea (Prevention of Pollution from Ships) Act of 1983 prevent or limit pollution from oil or noxious substances.

Water being a scarce resource in Australia, problems of water quality and availability are a constant concern. As of 2001, the country had only 352 cu km of renewable water resources, although safe drinking water was available to all urban and rural dwellers. A cause for concern has been the increased salinity in the Murray Valley, caused by diverting water inland from the coast for irrigation, as well as the rise in saline water tables in Western Australia, due to excessive land clearing for dry-land farming. Another significant environmental problem is inland damage due to soil erosion. The quality of the soil is also affected by salinization. In the mid-1990s Australia was among the top 20 world producers of carbon dioxide emissions from industry, which totaled 267.9 million tons per year, or 15.24 tons per capita. In 2000, the country produced 344.8 million metric tons of carbon dioxide emissions.

As of 2000, about 20% of the total land area of Australia was forested. The country has the third most extensive mangrove area in the world, covering over one million ha. In 2003, about 13% of the total land area was protected, including 11 natural UNESCO World Heritage Sites and 64 Ramsar wetland sites.

In 2002, there were about 252 species of mammals, 497 species of birds, and over 15,500 species of higher plants. According to the 2004 IUCN Red List Report, the number of threatened species included 63 types of mammals, 60 species of birds, 38 types of reptiles, 47 species of amphibian, 74 species of fish, 176 types of mollusks, 107 other invertebrates, and 56 species of plants. Endangered species include the banded anteater, greater rabbit-eared bandicoot, Leadbeater's opossum, northern hairy-nosed wombat, woylie, bridled nail-tail wallaby, five species of turtle (western swamp, green sea, hawksbill, leatherback, and olive ridley), Tasmanian freshwater limpet, granulated Tasmanian snail, African wild ass, western ground parrot, paradise parakeet, helmeted honey eater, noisy scrub-bird, western rufous bristlebird, Lord Howe wood rail, Lord Howe currawong, small hemiphebia damselfly, Otway stonefly, giant torrent midge, and Tasmanian torrent midge. Lord Howe stick insect, Gray's marble toadlet, the dusky



The UN estimated that 91% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate

of 1.11%. The capital city, Canberra, had a population of 373,000 in that year.

The 2005 population totals of the six state capitals were estimated as follows: Sydney, New South Wales, 4,388,000; Melbourne, Victoria, 3,663,000; Brisbane, Queensland, 1,769,000; Perth, Western Australia, 1,484,000; Adelaide, South Australia, 1,137,000; and Hobart, Tasmania, 202,138. Four other large cities are Newcastle, New South Wales, 494,400; Gold Coast, Queensland, 469,214; Wollongong, New South Wales, 274,072; and Geelong, Victoria, 190,000.

One-third of Australia is virtually uninhabited; another third is sparsely populated. The total population is quite small compared to the large land mass. Most of the cities are located in the east and southeast, with many inhabitants living on the coast.

## **7 MIGRATION**

After World War II, the government promoted immigration of the maximum number of persons Australia could absorb without economic disequilibrium. In 1979, however, with the unemployment rate rising, the government tightened immigration requirements so that Australians would not lose jobs to the newcomers. Under the new system, assessments of applications are based on such factors as age, skills, and family ties, with priority given to reunion of families sponsored by Australian residents. In 2001, the Migration Program allowed 80,610 entry visas, most granted under the family and skill based categories.

Most of the 4.2 million immigrants to Australia between 1945 and 1985 were from the United Kingdom, Italy, and Greece. The government encouraged immigrants of working age to settle in rural areas, but many immigrants preferred to work in the cities. The record high for new settlers was 185,099, in 1969–70. The number of permanent settlers arriving in 1991 was 116,650, up from a postwar low of 52,748 in 1975–76. From World War II to 1991, over 460,000 refugees settled in Australia. These included more than 130,000 Indochinese. In 2003–2004 citizenship was granted to 788 onshore applications, the largest numbers granted to Iranians, Chinese, and Iranians, respectively. In 2003, the foreign labor force was 24.9% of the total labor force.

As of the end of 2004, Australia had 63,476 refugees and 5,022 asylum-seekers, primarily from Afghanistan, Iraq, China, and Serbia and Montenegro. The majority of illegal immigrants are those who entered the country legally but remained beyond the expiration of their visas. From mid-year 2003 to mid-year 2004 there were 50,900 overstayers. The government is undertaking more stringent measures to identify and remove illegal aliens. Australia has also set up programs to assist the integration of migrants and refugees by providing services and education.

As of 2005 the estimated net migration rate was 3.91 per thousand. The government views the migration levels as satisfactory.

## **8 ETHNIC GROUPS**

Most Australians are of British or Irish ancestry. In 2005, approximately 92% of the population was Caucasian. The Asian-born population tally stood at 7% while aboriginal and other groups comprised only 1% of the population.

After the coming of the Europeans, the aboriginal population declined drastically, from about 300,000–1,000,000 to some 60,000 by the early 1920s. By the 1950s, however, the decline was reversed.

In the 1991 census 265,492 people identified themselves as being of aboriginal or Torres Strait Islander origin, or 1.5% of the population. (Of these, the latter numbered 26,902.) Many of them live in tribal conditions on government reservations in the north and northwest; some 39,918 were in the Northern Territory in the 1991 census and 41,792 in Western Australia. Queensland had 70,130, and New South Wales, 70,020. Their social organization is among the most complex known to anthropologists. They do not cultivate the soil but are nomadic hunters and food gatherers, without settled communities. Anthropologists believe the aboriginals, also known as Australoids, are relatively homogeneous, although they display a wide range of physical types. Their serological, or blood-group, pattern is unique, except for a faint affinity with the Paniyan of southern India and the Veddas of Sri Lanka. The aboriginals probably originated from a small isolated group subject to chance mutation but not to hybridization. There seems to be a sprinkling of Australoid groups in India, Sri Lanka, Sumatra, Timor, and New Guinea. In 1963, aboriginals were given full citizenship rights, although as a group they continued to suffer from discrimination and a lower living standard than European Australians generally.

Beginning in the 1960s, the government abandoned its previous policy of “assimilation” of the aboriginals, recognizing the uniqueness of aboriginal culture and the right of the aboriginals to determine their own patterns of development. From the passage of the Aboriginal Land Rights (Northern Territory) Act in 1976 to mid-1990, aboriginals in the Northern Territory were given ownership of about 34% of territorial lands (461,486 sq km or 178,180 sq mi). The South Australia state government and its aboriginals also signed a land-rights agreement, and similar legislation was developed in other states during the 1980s. In all, aboriginals held 647,772 sq km (250,104 sq mi) of land under freehold in mid-1989 and another 181,800 sq km (70,193 sq mi) under leasehold. A reservation in Western Australia consisted of 202,223 sq km (78,078 sq mi). By the mid-1990s, however, more than two-thirds of the aboriginals had left rural lands to settle in urban areas.

## **9 LANGUAGES**

According to a 2001 census, about 79% of the population speaks English. Chinese is spoken by about 2% of the population and Italian is spoken by another 2%. About 11% listed other languages and nearly 6% of respondents were unspecified.

Many languages or dialects are spoken by the aboriginal tribes, but phonetically they are markedly uniform. There is no written aboriginal language, but the markings on “letter sticks,” sometimes carried by messengers from one tribe to another, are readily understood by tribal headmen. Aboriginal languages are in use in certain schools in the Northern Territories and, to a lesser extent, in schools of other states.

## **10 RELIGIONS**

According to the 2001 census, 67% of citizens were nominally Christians, including 26% Roman Catholic and 20% Anglican. About 15% of Australians consider themselves to have no religion, an increase of over 35% from 1991. About 2% of the population were Buddhist, 1.5% Muslim, and less than 1% were Hindu and Jewish. A 1996 census indicated that almost 72% of Aborigines

practiced some form of Christianity with indigenous beliefs. The 2001 census did not provide comparable updated information.

Constitutionally, there can be no state religion or state aid to any religion; the exercise of any religion cannot be prohibited, and a religious test as qualification for public office is forbidden. However, in a 1998 report on freedom of religion in Australia by the federally funded but independent Human Rights and Equal Opportunity Commission (HREOC), the Commission reported that many Australians have complained that the dominance of Christianity has marginalized large numbers of citizens in public life. Since then the HREOC and a Parliamentary Committee have been working on antidiscrimination measures and legislation. Though the HREOC recommended that the government enact a specific federal religious freedom act, the government refused to do so in 2002.

Organizations promoting tolerance and mutual understanding between faiths include the Columbian Center for Christian-Muslim Relations, the National Council of Churches in Australia, and the Australian Council of Christians and Jews.

## <sup>11</sup>TRANSPORTATION

As of 2004, Australia's total railway trackage (both government and private) totaled 54,439 km (33,861 mi) of which 33,819 km (21,015 mi) was government owned as of 2002. Private railways are primarily used by the iron ore industry in Western Australia. Australia's railway systems do not interconnect well because the system is made up of three track gauges: standard (1.435-m); broad (1.600-m); and narrow (1.067-m). Of the three, the majority is standard gauge with 34,110 km (21,216 mi) of track, followed by narrow gauge track at 14,895 km (9,265 mi), and by broad gauge at 5,434 km (3,380 mi). As a result, rail travel between principal cities can involve changing trains. Modern equipment is gradually replacing older stock. As of August 1991, all interstate freight movements by rail were brought under the control of the National Rail Corporation (NRC).

Inland water transport is limited to about 2,000 km (1,241 mi) of navigable waterways, mainly on the Murray and Murray-Darling river systems, and is mostly used for recreational purposes. However, ocean shipping is important for domestic and overseas transport. Most overseas trade is carried in non-Australian ships, while most coastwise vessels are of Australian registry. Although the fine natural harbors of Sydney and Hobart can readily accommodate ships of 11 m (36 ft) draft, many other harbors have been artificially developed. Other international shipping ports include Adelaide, Brisbane, Cairns, Darwin, Devonport, Fremantle, Geelong, Launceston, Mackay, Melbourne, and Townsville. All main ports have ample wharfage, modern cargo-handling equipment, and storage facilities. There are some 70 commercially significant ports. The nation's merchant marine in 2005 included 55 vessels of 1,000 GRT or over, with a combined GRT of 1,531,461. Highways provide access to many districts not served by railroads. As of 2002, there were 811,601 km (504,816 mi) of roads, of which some 316,524 km (196,877 mi) were paved. Motor vehicles in 2003 totaled about 12,305,000, including 10,100,000 passenger cars and 2,205,000 commercial vehicles.

In 2004, Australia had an estimated 448 airports. As of 2005, a total of 308 had paved runways, and there was also a single heli-

port. Principal airports include Adelaide, Brisbane, Cairns, Darwin, Melbourne International at Melbourne, Perth International at Perth, and Kingsford International at Sydney. In 1997, the government began privatizing many of the country's airports. The first round of such sales early in 1997 included the Melbourne, Brisbane, and Perth airports, which raised A\$3.34 billion (US\$2.5 billion)—far exceeding government projections. The main Sydney airport was explicitly excluded from the privatization plan. Domestic air services are operated primarily by the privately owned Ansett Airlines. The Australian overseas airline, Qantas, carries more than three million passengers per year to and from Australia, nearly 40% of the total carried by all airlines serving Australia. The Commonwealth government owned the airline until it was privatized in 1995. In 2003 Australian air carriers had 41.386 million passengers and carried 1.355 million freight ton km.

## <sup>12</sup>HISTORY

Stone objects that were found in 1978 but are still only tentatively dated suggest that human beings may have inhabited what is now Australia as long as 100,000 years ago. The Aboriginals migrated to Australia from Southeast Asia at least 40,000 years before the first Europeans arrived on the island continent. In 1999, scientists estimated a male skeleton found at Mungo Lake in 1974 to be between 56,000 and 68,000 years old. Covered in red ochre, this skeleton presents the first known use of pigments for religious or artistic purposes. Living as hunters and gatherers, roaming in separate family groups or bands, the Aboriginals developed a rich, complex culture, with many languages. They numbered approximately 300,000 by the 18th century; however, with the onset of European settlement, conflict and disease reduced their numbers.

Although maps of the 16th century indicate European awareness of the location of Australia, the first recorded explorations of the continent by Europeans took place early in the 17th century, when Dutch, Portuguese, and Spanish explorers sailed along the coast and discovered what is now Tasmania. None took formal possession of the land, and not until 1770, when Capt. James Cook charted the east coast and claimed possession in the name of Great Britain, was any major exploration undertaken. Up to the early 19th century, the area was known as New Holland, New South Wales, or Botany Bay.

The first settlement—a British penal colony at Port Jackson (now Sydney) in 1788—was soon enlarged by additional shipments of prisoners, which continued through the mid-1800s, until approximately 161,000 convicts had been transported. With the increase of free settlers, the country developed, the interior was penetrated, and six colonies were created: New South Wales in 1786, Van Diemen's Land in 1825 (renamed Tasmania in 1856), Western Australia in 1829, South Australia in 1834, Victoria in 1851, and Queensland in 1859.

Sheep raising and wheat growing were introduced and soon became the backbone of the economy. The wool industry made rapid progress during the period of squatting migration, which began on a large scale about 1820. The grazers followed in the wake of explorers, reaching new pastures, or "runs," where they squatted and built their homes. Exports of wool increased from 111 kg (245 lb) in 1807 to 1.1 million kg (2.4 million lb) in 1831. With the increased flow of immigrants following the Ripon Land Regula-

tions of 1831, the population grew from about 34,000 in 1820 to some 405,000 in 1850. The discovery of gold in Victoria (1851) attracted thousands, and in a few years the population had quadrupled. Under the stimulus of gold production, the first railway line—Melbourne to Port Melbourne—was completed in 1854. Representative government spread throughout the continent, and the colonies acquired their own parliaments.

Until the end of the 19th century, Australia's six self-governing colonies remained separate. However, the obvious advantages of common defense and irrigation led to the federation of the states into the Commonwealth of Australia in 1901. (The British Parliament had approved a constitution in the previous year.) The Northern Territory, which belonged to South Australia, became a separate part of the Commonwealth in 1911. In the same year, territory was acquired from New South Wales for a new capital at Canberra, and in 1927, the Australian Parliament began meeting there. Liberal legislation provided for free and compulsory education, industrial conciliation and arbitration, the secret ballot, female suffrage, old age pensions, invalid pensions, and maternity allowances (all before World War I). Child subsidies and unemployment and disability benefits were introduced during World War II.

Australian forces fought along with the British in Europe during World War I. In World War II, the Australian forces supported the UK in the Middle East between 1940 and 1942, and played a major role in the Pacific theater after the Japanese attack on Pearl Harbor. After the war, a period of intense immigration began. The Labour government was voted out of office in 1949, beginning 23 years of continuous rule by a Liberal-Country Party (now known as the National Party) coalition. During that period, Australian foreign policy stressed collective security and support for the US presence in Asia. Australian troops served in Vietnam between 1965 and 1971.

When Labour returned to power in December 1972, it began the process of disassociating Australia from US and UK policies and strengthening ties with non-Communist Asian nations; in addition, it established diplomatic relations with the People's Republic of China. In 1975 a constitutional crisis resulted when Senate opposition successfully blocked the Labour Party's budgetary measures, thereby threatening the government with bankruptcy. The governor-general dismissed the Labour prime minister, Gough Whitlam, and called for new elections. The Liberal-National Party coalition swept back into power, where it remained until 1983. The Australian Labour Party (ALP) returned to power in 1983, following a campaign in which such economic issues as unemployment and inflation predominated.

In 1993, the Mabo Ruling on Native Title recognized the land rights of the indigenous people (Aborigines) inhabiting Australia prior to the arrival of the Europeans. The Mabo Ruling did not void existing leases, but could allow the Aborigines to reclaim land when the leases granted by the national or state governments expired. The Mabo Ruling applied only to non-pastoral leases, but the Wik Judgment of 1996 extended the land rights of indigenous people to include their use of pastoral land for religious purposes.

In the March 1996 elections, the ALP was unseated by a coalition of the Liberal Party and the National Party, who chose Liberal MP John Howard to be prime minister. The newcomer Howard pledged to change the government, to make it more "rational." To that end, he cut ministries and cabinet posts, made budget cuts af-

fecting higher education, Aborigine affairs, and jobs, and instituted an A\$15 billion privatization program. Many government employees opposed these changes; violent demonstrations took place when the budget was made public. While the revised budget was less radical, social unrest continued through 1997–1998, and the October 1998 election found Howard's coalition party's majority greatly reduced, while the ALP gained in influence, winning 18 more seats than it did in the 1996 election.

In July 1998, after twice being rejected by the Senate, the government passed amendments to the 1993 Native Title Act. The amendments removed the time limit for lodging native claims, but weakened the right of Aboriginal groups to negotiate with non-Aboriginal leaseholders concerning land use. In 1999 the government issued an official expression of regret for past mistreatment of Aborigines, but has opposed issuing the formal national apology sought by Aborigine leaders, fearing that would encourage claims for compensation.

In September 1999, Australian troops led the United Nations-sanctioned peacekeeping forces into East Timor, to protect civilians and control the militia violence following East Timor's referendum decision to seek full independence from Indonesia. Australian civilian and military personnel form part of the United Nations Mission of Support in East Timor (UNMISET), which was established to ensure the security and stability of East Timor after it became an independent nation-state on 20 May 2002. After 2002, unresolved maritime boundary disputes between Australia and East Timor, over unexploited petroleum resources in the Timor Sea, hampered revised maritime boundary disputes with Indonesia. Regional concerns were incorporated into these disputes when Australia declared a 1,000-nautical mile-wide maritime identification zone, and asserted land and maritime claims to Antarctica in 2004.

Parliamentary elections held on 10 November 2001 saw Howard's coalition increase its strength by over 3%. The ALP recorded its lowest primary vote since 1934. The Australian Greens recorded a substantial increase in strength. Two events stood out in the election campaign that swung the vote to the Liberal Party-National Party coalition. The first was the controversy over refugees and asylum-seekers. In August 2001, a Norwegian freighter that had rescued a boatload of asylum-seekers was denied permission to land the human cargo in Australia. The Howard government also tightened its border protection laws since then, making it nearly impossible for any asylum-seeker landing in the remote island outposts of Australia to claim refugee status. Instead, the would-be refugees are either turned back to Indonesian waters or transported to detention centers on Pacific nations such as Nauru or Papua New Guinea. John Howard declared, "We will decide who comes to this country and under what circumstances." The ALP criticized the government for this policy, which remained a major campaign issue. The terrorist attacks on the United States on 11 September 2001, and the subsequent US-led bombing campaign on the Taliban and al-Qaeda forces in Afghanistan, also were issues that dominated the Australian election campaign.

Asylum and detention issues continued to make headlines, as in December 2002 a Sydney center had an attempted mass breakout and riot, another had an armed standoff, and fires burned at two other centers. In November 2003, an Indonesian fishing boat, the *Minasa Bone*, with 14 Kurds aboard sought asylum on Melville Is-

land, but was forced to return to Indonesia. However, between July and October 2003, in "Operation Helpem Fren" an Australian-led peacekeeping force headed on a mission to restore law and order in the Solomon Island.

In August 2002, Australia instituted a regional alliance with Malaysia to work together to fight suspected Islamic militants. On 12 October 2002, two popular nightclubs in Kuta on the Indonesian island of Bali were bombed, killing 202 people, 88 of them Australians. The bombings have been linked to the terrorist organization Jamaah Islamiah. They have been referred to as "Australia's September 11th." Australia added four more Islamic groups to its list of banned "terrorist" organizations, groups that would be targeted by police and security forces. In November 2002, in this same climate of terror some 1,000 Australian protesters demonstrated against globalization and a possible war with Iraq. By January 2003, Australia deployed troops to the Gulf ahead of a possible war. Public protest was immediate and in the first-ever vote of no-confidence against a serving leader, the Senate passed the motion against Prime Minister John Howard over his handling of Iraq crisis. In early 2003, possible involvement in the war with Iraq spawned massive protests. Some were unprecedented, like the protest of 750 women in Byron Bay who formed a heart around the words "No War." A senior intelligence analyst resigned in protest over the government's uncompromising policy on Iraq. Although claiming respect for the views of the protesters, Howard said his government would commit 2,000 military personnel to any US-led strike aimed at disarming Iraq. In October 2003, US president George W. Bush was heckled at his appearance in Australia's Parliament. Anti-Iraq war protests continued in 2004. However, in an online message in July 2004, a group representing itself as al-Qaeda's European branch threatened to turn Australia into "pools of blood" if troops were not withdrawn from Iraq. In September 2004, a car bomb exploded outside the gates of the Australian Embassy in Jakarta, Indonesia, killing 8 people and wounding more than 160. Australia continued to bolster its security with a US cruise missile program that provided the "most lethal" air combat capacity in the region.

In October 2004, Prime Minister John Howard achieved a strong victory in Australia's federal election, winning a historic fourth term. Results of the Senate elections of 9 October 2004 were: Liberal Party-National Party coalition, 39; Australian Labor Party, 28; Democrats, 4; Australian Greens, 4; and Family First Party, 1. The next Senate elections were scheduled for no later than June 2008. Results of the House of Representatives election held 9 October 2004 were: Liberal Party-National Party coalition, 87; Australian Labor Party, 60; and independents, 3. The next House of Representatives election was scheduled for no later than November 2007.

In January 2005, Australia's free-trade agreement with the United States that had been in the making for over a year became effective. In February 2005, Howard continued the government's support of the war in Iraq promising 450 extra troops to help reinforce Iraq's transition to democracy. By July 2005, 150 special forces troops were sent back into Afghanistan to resist rebel attacks. In 2005 Australia further bolstered regional security with a NATO agreement to cooperate in the fight against international terrorism, weapons proliferation and other global military threats, and with a security pact with Indonesia.

In the mid-2000s various natural disasters struck Australia. In 2003, after a 10-year drought in New South Wales, the lower reaches of the Great Anabranch of the Darling River ran dry. Between 2002 and 2005, brush fires devastated acreage, destroyed more than 380 homes, and killed 13 people. In 2004, locusts devastated crops as they swarmed through the Outback. In 2004, an earthquake measuring 8.1 on the Richter scale struck off the coast of the island state of Tasmania. This, the world's biggest earthquake in almost four years, caused no injury or damage. In 2005, tropical cyclone Ingrid ruined a tourist resort built to show off the beauty of northern Australia. Also between 2002 and 2005, massive accidental and purposeful animal kills occurred. About 60 beached, false killer whales died or were euthanized. The Australian military killed nearly 15,000 kangaroos to prevent overgrazing of an army base. To reduce their numbers, thousands of wild camels in the Outback were shot from helicopters. In 2002, Matilda, Australia's first cloned sheep died unexpectedly of unknown causes.

In 2004, Australia's Great Barrier Reef became the most protected reef on earth when Parliament passed a law putting a new zoning plan, banning commercial and recreational fishing, into effect. Increasing protection of the reef system, from 4.6 % to 33 % of the existing Marine Park and World Heritage area, adding more than 109,000 sq km (42,000 sq mi) to the current setting, the park became the world's largest marine protected area.

Australian authorities seized several major drug shipments. In 2003, an Australian navy vessel captured a us\$48 million heroin shipment transported on a North Korean ship. In 2005, authorities made a world-record haul of the party drug, ecstasy, with the seizure of 5 million tablets worth us\$14 million. In that same year a shipment of heroin packed in containers of plastic chairs from China was seized worth us\$46 million and weighing 253 pounds.

In 2003-04 gay and lesbian issues were politicized. In May 2003, the resignation of Governor-General Peter Hollingworth followed his revelation that, as an Anglican archbishop in the 1990s, he permitted a known pedophile to remain a priest. In July of that same year, a congregation protested an Australian Christian church vote to allow homosexuals to become priests. In May 2004, the government introduced legislation to prohibit same-sex marriages and sought immigration rules to prevent gays and lesbians from adopting foreign children. The government also announced that same-sex partners would be recognized for the first time by federal authorities as dependents.

### 13 GOVERNMENT

The Commonwealth of Australia, an independent, self-governing nation within the Commonwealth of Nations, has a federal parliamentary government. The federation was formed on 1 January 1901 from six former British colonies, which thereupon became states. The constitution combines the traditions of British parliamentary practice with important elements of the US federal system. Powers of the federal government are enumerated and limited.

The government consists of the British sovereign, represented by a governor-general, and the Australian Parliament. Major General (Retired) Michael Jeffery became the new governor-general in August 2003, succeeding The Reverend Dr. Peter John Hollingworth, who had held the post since 2001. Nominally, executive power is vested in the governor-general and an executive council, which gives legal form to cabinet decisions; in practice, however,

it is normally exercised by a cabinet chosen and presided over by a prime minister, representing the political party or coalition with a majority in the House of Representatives. The number of cabinet ministers is variable.

Legislative power is vested in the Parliament, which is composed of a 76-member Senate, representing the states and territories, and a 150-member House of Representatives, representing electoral districts. Members must be Australian citizens of full age, possess electoral qualification, and have resided for three years in Australia. Twelve senators are elected by proportional representation from each state voting as a single electorate, and two senators each from the Northern Territory and Capital Territory. They are elected for six years, with half the members retiring at the end of every third year. House membership is not quite double that of the Senate, with a minimum of five representatives for each state. House members are elected according to population by preferential voting in specific electoral districts; they serve for three years, unless the House is dissolved sooner. There are two members each from the Australian Capital Territory and the Northern Territory; they have been able to vote on all questions since 1968. Parliament must meet at least once a year. Taxation and appropriation measures must be introduced in the lower house; the Senate has the power to propose amendments, except to money bills, and to defeat any measure it may choose.

The parties in the House elect their leaders in caucus. The party or coalition with a majority of seats forms the government. The leader of the majority party becomes prime minister and selects his cabinet from members of his party who are members of Parliament, while the leader of the principal minority party becomes leader of the official opposition. The party in power holds office as long as it retains its majority or until the governor-general decides that new elections are necessary; he exercised this inherent constitutional power during the 1975 crisis when he dismissed Prime Minister Whitlam and called for new elections.

In the 1990s, the Labour Government, under the leadership of Prime Minister Paul Keating, proposed a referendum to change Australia to a republican form of government. The idea gained wide support. After the 1996 federal elections, the coalition majority decided to host a constitutional convention to decide the issue. The constitutional convention met in February 1998, and voted in favor of replacing the British monarch as the head of Australia's government (73 voted in favor, 57 against), and Australia becoming a republic by the year 2001 (89 voted in favor, 52 against). But in November 1999's popular referendum, the proposal to convert Australia to a republic failed to carry even a single state.

Suffrage is universal for all persons 18 years of age and older, subject to citizenship and certain residence requirements. Voting is compulsory in national and state parliamentary elections.

## **14 POLITICAL PARTIES**

Since most Australians have been shaped by the same language and by a similar cultural and religious heritage, their internal differences are largely based on economic issues. Attachments to the United Kingdom are compounded of sentiment, tradition, and economic advantage. Australian nationalism has been associated more closely with the Australian Labour Party (ALP) than with its rivals, who tend to regard Australian interests as almost identical with those of the United Kingdom. Because of Australia's geo-

graphical position as a "European people on an Asian limb," the economic element in its nationalism has been mixed with the fear of external conquest or domination.

Except in 1929–31, when a Labour government was in office, interwar governments were dominated by non-Labour groupings. When war seemed certain in 1939, the government was resolutely imperial, considering Australia to be at war automatically when the UK went to war. The Laborites challenged this view. While they did not oppose a declaration of war on Germany, they wanted the step to be taken so as to show Australia's independence.

Labour was in office from 1941 to 1949. The Liberal and Country Parties were in office as a coalition for a long period afterward, from 1949 to 1972, and again beginning in December 1975 (by that time, the Country Party had become the National Country Party, and it later became the National Party).

In the general elections of 13 December 1975, a caretaker government, formed the preceding month by the Liberal-National Country Party coalition after the dismissal of the Labour government of Prime Minister Gough Whitlam, obtained large majorities in both houses of the legislature. Although its majorities were eroded in the elections of December 1977 and October 1980, the coalition remained in power until March 1983, when Labour won 75 out of 147 seats in the House of Representatives. Robert Hawke, leader of the Labour Party, took office as prime minister; he was reelected in 1984, 1987, and 1990. Paul Keating replaced Hawke as Labour's leader, and as prime minister, in December 1991. This was the first time an Australian prime minister had been ousted by his own party. Keating led the ALP to an unprecedented fifth consecutive election victory in the 1993 general election, increasing both its percentage share of the vote and its number of seats in the legislature. In 1996, a Liberal-National Party coalition headed by John Howard ousted the ALP from the majority, with the Liberal-National coalition winning 94 seats compared to the ALP's 49 seats. John Howard was reelected prime minister in 1998, 2001, and 2004.

A direct descendant of the governments of the 1920s and 1930s, the Liberal-National coalition is principally linked with business (Liberal) and farming (National) and is officially anti-socialist. In economic and foreign affairs, its outlook is still involved with the Commonwealth of Nations, but it supports the United Nations, as well as the alliance with the United States in the ANZUS pact. It is sympathetic toward the new Asian countries and values the link with these countries afforded by the Colombo Plan. The Labour Party is a trade-union party, officially socialist in policy and outlook. It initially maintained an isolationist posture, but since the early 1940s, its policy has been a mixture of nationalism and internationalism.

Smaller parties include the Democratic Labour Party, the Communist Party, the Australian Democrats Party, the Green Party, and the One Nation Party. Since its formation in 1997, the One Nation Party's platform has featured racial issues. In the 1998 Queensland state elections, it won 11 of 89 seats. In the federal elections of that same year, the One Nation Party called for an end to Asian immigration and a restriction to Aboriginal welfare programs, but failed to win any seats. The Green Party increased its strength by 2.3% in the 2001 elections, while the One Nation Party lost 4.1% of its strength.

## **15 LOCAL GOVERNMENT**

Powers not specifically granted to the federal government in the constitution are reserved to the states, although some powers (such as health, labor, and social services) are held concurrently. Each state has an appointed governor who serves as the representative of the sovereign. Except for Queensland, which has a unicameral legislature, the parliament in each state is composed of two houses. The lower houses—the dominant legislative bodies—are popularly elected; the upper houses are elected by franchise limited to property holders and to those with certain academic or professional qualifications. The state prime minister achieves office and selects his cabinet in the same fashion as does the Commonwealth prime minister. The Australian Capital Territory and the Northern Territory have unicameral legislative assemblies.

Local communities (variously designated as boroughs, cities, district councils, municipalities, road districts, shires, and towns) have limited powers of government, but they are responsible for some health, sanitation, light, gas, and highway undertakings. Even the largest cities do not provide their own police protection, nor do they conduct or support education; these are state functions. Local aldermen or councilors ordinarily are elected on a property franchise, and mayors are elected annually or biennially by the aldermen from among their own number or by taxpayers. State departments of local government regulate the organization of local government. State governments directly control some large interior areas.

## **16 JUDICIAL SYSTEM**

The constitution vests federal jurisdiction in a High Court of Australia which consists of a chief justice and six associate justices appointed by the governor general. The High Court has the authority to conduct constitutional review of state and federal legislation and is the supreme authority on constitutional interpretation. The High Court also has original jurisdiction over interstate and international matters.

Until 1985, in certain cases involving state law, appeals from courts below the High Court could be taken to the Privy Council in the United Kingdom, the final court of the Commonwealth of Nations. Special cases may be referred to a 25-member federal court that deals with commercial law, copyright law, taxation, and trade practices. There is also a family court.

States and territories have their own court systems. Cases in the first instance are tried in local or circuit courts of general and petty sessions, magistrates' courts, children's courts, or higher state courts. Capital crimes are tried before state supreme courts.

The state and federal courts are fully independent. The High Court ruled that indigent defendants have a right to counsel at state expense. Criminal defendants are presumed innocent, and a plethora of due process rights include the right to confront witnesses and the right to appeal. In 2002 the High Court ruled on various Aboriginal cases. Aborigines were denied rights to oil or minerals found under tribal land now being used by mining companies. Two long running land claim cases were settled: in the northwest a remote area slightly larger than Greece was granted to an Aboriginal tribe; however, a claim in eastern Australia in the Murray River area, land now occupied by farmers, was denied.

The law provides for the right to a fair trial. In local courts, the magistrates sit alone. In the higher courts, trials are usually conducted by judge and jury. The law prohibits arbitrary interference with privacy, family, home, or correspondence.

## **17 ARMED FORCES**

The Australian armed forces numbered 52,872 active personnel in 2005. The Army consisted of 26,035 active members, whose weaponry included 101 main battle tanks (30 are in storage), 619 armored personnel carriers, 566 artillery pieces, and 22 attack helicopters. The Navy had 13,167 active personnel, including 990 naval aviation personnel. Major naval units included six tactical submarines, 10 frigates, 15 patrol/coastal vessels, two amphibious land ships (with a helicopter landing platform), and 27 amphibious landing craft of various types. The Navy's aviation arm operated 23 anti-submarine warfare helicopters. The Air Force in 2005 had 13,670 active personnel. The service operated 140 combat capable aircraft, that included 22 bombers and 104 fighter ground attack aircraft. Reserve forces numbered 20,800 for all three services. Australia contributed to peacekeeping missions in East Timor, Ethiopia/Eritrea, Egypt, and the Middle East.

Australia's defense budget in 2005 was us\$13.2 billion.

## **18 INTERNATIONAL COOPERATION**

Australia is a charter member of the United Nations, to which it gained admission on 1 November 1945. It belongs to ESCAP and all the nonregional UN specialized agencies, such as the FAO, IFC, ILO, UNESCO, WHO, and the World Bank. Australia became a member of the WTO on 1 January 1995. The country participates in the Commonwealth of Nations and ANZUS (Australia, New Zealand, United States Treaty). Other regional memberships include the Asian Development Bank, the European Bank for Reconstruction and Development, APEC, the ASEAN Regional Forum, Colombo Plan, OECD, South Pacific Commission, the Pacific Community, the South Pacific Regional Trade and Economic Cooperation Agreement, the Pacific Island Forum, and the Paris Club (G-10). Australia also has a position on the Permanent Court of Arbitration.

The country belongs to the Australia Group, the Nuclear Energy Agency (of the OECD), the Nuclear Suppliers Group (London Group), the Zangger Committee, and the Organization for the Prohibition of Chemical Weapons. Australia sent troops as part of the coalition forces in the Persian Gulf War (1991), in Afghanistan (2002), and in Iraq (2003). The country has also supported UN efforts in Ethiopia and Eritrea (est. 2000) and East Timor (est. 2002).

In environmental cooperation, Australia is part of the Antarctic Treaty; the Basel Convention; conventions on Biological Diversity, Whaling, and Marine Life Conservation; Ramsar; CITES; the London Convention; the International Tropical Timber Agreement; the Kyoto Protocol; the Montréal Protocol; MARPOL; the Nuclear Test Ban Treaty; and UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **19 ECONOMY**

Australia has a prosperous Western-style capitalist economy with a high per capita gross domestic product (GDP), on par with the four dominant Western European nations of Germany, France, the United Kingdom, and Italy. Economic activity is

focused on the country's eastern seaboard, where most of the population lives. New South Wales generates about 35% of Australia's GDP, while Victoria generates 26% and Queensland 17%. There is a clear divide in economic performance between the states: typically, growth in South Australia and Tasmania is considerably below the overall national rate, and Western Australia is heavily dependent upon the volatile mining industry.

Since the late 1980s, the government has been engaged in a program to transform the economy's orientation from import substitution industrialization (ISI) to export-driven, high-tech globalization. This helped introduce an economic expansion from 1991 that as of 2005 had continued uninterrupted—the longest economic expansion in Australia since 1945—despite slowdowns occasioned by the 1997 Asian financial crisis, the 2001–02 global economic downturn, and one of Australia's worst-ever droughts in 2003. Strong consumption growth provided the momentum for Australia to withstand the Asian financial crisis, as the buoyant domestic economy offset the deterioration in regional demand for Australian exports. Together with a large increase in spending on private housing, consumption growth also served to cushion the economy against the effects of the 2001–02 economic downturn and the 2003 drought.

As in most developed countries, the service sector accounts for the largest portion of GDP, at nearly 70% in 2004. The largest service industry is finance, property, and business services. Other major service industries include retail and wholesale trade, transportation and communications, and construction. The most rapidly growing service industry from 2000–05 was communications (with an average annual growth rate of 6.4%), while the construction sector showed great volatility. The largest segment of the manufacturing sector is production of machinery and equipment. Mining and agriculture account for most exports.

Australia's flexible exchange rate regime has helped the economy rapidly adjust to the vicissitudes of international commodity markets. It is the world's largest wool-producing country. The country is one of the great wheat exporters, and also exports large quantities of dairy and meat products. In minerals, Australia is a major world supplier of iron ore, bauxite, lead, zinc, and copper; coal, beach sand minerals, and nickel have become major industries as well. Since the 1960s manufactured goods have provided an ever-increasing share of the country's exports, with elaborately transformed manufactures (ETMs), like automobiles, high-speed ferries, and telecommunications equipment, making up a significant percentage of exports (approximately 20%).

Australia's last economic recession was in 1990, from which it began to recover in mid-1991. Economic growth, supported by rising consumption and higher export demand, reached 4% in the fourth quarter of 1993. However, the unemployment rate of about 11% was near a postwar record. From this high point, unemployment has been on a steady decline in Australia—to 8.5% unemployment in 1995, 7.5% in 1999, and 6.3% in 2000, albeit with an increase in 2001 to 6.7%. The unemployment rate fell, from 6.3% in 2002 and 5.9% in 2003, to an estimated 5.1% in 2004. Real GDP growth fell to 3.7% in 1997, but recovered in 1998 and 1999 to an average of 5%, helped by reforms that included currency depreciation and a redirection of exports to non-Asian countries. Real GDP growth fell to 3.1% in 2000 and 2.6% in 2001. It climbed to 3.6% in 2002, before falling to 2.7%

in 2003. GDP was expected to increase by a healthy 3.8% in 2005 and by 3.6% in 2006. The inflation estimate for 2005 was 2.8%—up from 2.3% in 2004—which reflected the increased price of petroleum that year. Inflation was forecast to average 2.7% in 2006 and 2.6% in 2007.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Australia's gross domestic product (GDP) was estimated at us\$642.7 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at us\$32,000. It was estimated that agriculture accounted for 4% of GDP, industry 26.4%, and services 69.6%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled us\$2.259 billion or about us\$114 per capita and accounted for approximately 0.4% of GDP.

The World Bank reports that in 2003 household consumption in Australia totaled us\$245.91 billion or about us\$12,357 per capita based on a GDP of us\$522.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.6%.

## 21 LABOR

As of 2005, the Australian workforce numbered an estimated 10.42 million people. In 2004, the occupational pattern was estimated as follows: services 70%, industry 26.4%, and agriculture 3.7%. The unemployment rate stood at an estimated 5.2% in 2005.

As in many other highly developed industrial nations, union membership has declined significantly: from around 53% of the workforce in 1980 to 22.7% as of 2005. The drop has resulted in a consolidation of labor unions: there were 300 unions in 1989, but only 188 in 1993. The traditionally de facto right to strike was legalized in 1994. The Federal Workplace Relations Act (WRA) puts limits on strikes and unfair dismissal.

Although there is a standard minimum wage (us\$362.35 per week as of 2005), 80% of workers have their pay determined by minimums that apply to their particular industry or profession. All of these wages are sufficient to support a family. The standard workweek is under 40 hours, generally from Monday through Friday. Nearly all Australian workers receive four weeks of annual vacation, many at rates of pay 17.5% above regular pay. There is no nationally mandated minimum age for employment, but state-imposed compulsory education effectively precludes children under 16 years old from full-time work.

## 22 AGRICULTURE

Australia is an important producer and exporter of agricultural products and a major world supplier of cereals, sugar, and fruit. Arable land in 2002 comprised about 48.6 million ha (120 million acres), representing about 6.3% of total land area. However, approximately 90% of the utilized land area is in its natural state or capable of only limited improvement and is used largely for

rough grazing. Droughts, fires, and floods are common hazards. The area actively cultivated for crops is 6.9% of all land area. Lack of water is the principal limiting factor, but unsuitable soil and topography are also important determinants. As of 2002, some 4.9% of cropland was irrigated. Agriculture has declined from 20% of GDP in the 1950s to about 4% in 2002. Agricultural exports, which accounted for 60% of Australia's exports in the 1960s, now account for 25%. Gross farm product in 2003 was A\$32.9 billion. New South Wales and Queensland account for half of the total crop value.

Grain crops have been cultivated since the first year of European settlement. In November 1790, plantings around Sydney of wheat, barley, and corn totaled 34 ha (84 acres). Today, winter cereals are cultivated in all states. Three cereals are often grown on one farm for grain, green fodder, and hay for livestock. Most wheat, barley and about half the oats are grown for grain. The estimated wheat area sown for grain increased from 11,135,000 ha (27,515,000 acres) in 1986/87 to 13,800,000 ha (34,000,000 acres) in 2004/05. Production of wheat in 2004/05 was an estimated 22.6 million tons. Western Australia and New South Wales are the chief wheat-producing states. In 2004/05, Australia produced 7.7 million tons of barley, 1.3 million tons of oats, and 2.2 million tons of sorghum. In 2003, 1.2 million tons of potatoes were produced.

Sugarcane is grown along a 2,000 km (1,200 mi) stretch of coastal land in New South Wales and Queensland. About 95% of sugar production comes from Queensland. A normal crushing season is from June to December. The estimated 2005 harvest from 441,000 ha (1,090,000 acres) yielded about 38.6 million tons of sugar cane. The industry faces problems of excessive supply and price elasticity; sugar is sold primarily to Japan, the United States, Canada, South Korea, Malaysia, China, and Singapore. In 2005, some 1,350 ha (3,340 acres) were planted with canola (rapeseed), and about 1,500 tons were produced.

Cotton has been grown in the coastal river valleys of Queensland for more than a century but on a limited scale, and it has provided only a small percentage of Australia's lint requirements. In the 1980s, however, successful development of cotton-growing areas in New South Wales and Western Australia resulted in spectacular production increases. In 1985/86, 685,000 tons of cotton were produced (almost triple the amount in 1979/80); in 2004, production amounted to 490,000 tons.

Australia's wide climate differences permit the cultivation of a range of fruits, from pineapples in the tropical zone to berry fruits in the cooler areas of temperate zones. Orchard fruit trees included orange, 7.1 million; apple, 8.4 million; pear, 1.3 million; and mango, 1.0 million. About 11 million ha (27 million acres) are cultivated for bananas. Production of fruit in 2004 included (in thousands of tons): oranges, 407; bananas, 265; pineapples, 105; pears, 150; peaches, 115; tangerines, 97; lemons and limes, 31; apricots, 20; grapefruit, 13; mangoes, 39; and plums, 30. Australia's wine industry is also growing; viticulture engaged 143,000 ha (353,400 acres) and produced 1,497,000 tons of grapes for winemaking, drying, and other uses in 2003.

## 23 ANIMAL HUSBANDRY

About 52% of Australia's land is used in stock raising. Animal husbandry is concentrated in the eastern highlands, but it spreads across the wide interior spaces and even to low-rainfall areas, in

which up to 12 ha (30 acres) are required to support one sheep and from which cattle must be taken overland hundreds of miles to coastal meat-packing plants.

Sheep raising has been a mainstay of the economy since the 1820s, when mechanization of the British textile industry created a huge demand for wool. In 1800, there were 6,124 sheep in Australia; by 1850 there were 17.5 million; by 1894, some 100 million; and in 1970, a record high of some 180 million. Sheep numbers fell to 120 million in 1994/95 (the lowest since 1953/54) due to severe drought. Australia's flocks, some 102.7 million in 2005, now constitute approximately 10% of the world's sheep but produce about 25% of the world's wool supply. That year, New South Wales and Western Australia accounted for 35% and 25% of the nation's sheep, respectively. Wool production, the largest in the world, was an estimated 528,000 tons in 2004. About 95% is exported (mostly to China); nevertheless, wool, which represented 50% of Australia's merchandise exports (by value) in 1957/58, constituted only 6% by the mid-1990s. Since 1990, wool production has fallen by 35%, due in part to declining world demand. Australia accounts for 75% of the world's exports of wool apparel. During periods of great drought, such as the early 1980s, the number of sheep has diminished by 40 million or more. (A drop of 60 million occurred in the droughts of 1993/94.) In the better lands, however, animal husbandry ranks high on a world scale. Large, scientifically managed stations have produced some of the world's finest stock. Sheep of the Merino breed, noted for its heavy wool yield, make up about three-quarters of Australian flocks.

In 2005 there were an estimated 2.5 million hogs and 24.7 million head of beef cattle and 3 million head of milk cattle. In 2004, meat production totaled an estimated 3,750,000 tons. Of these, beef and veal constituted 2,033,000 tons; poultry, 681,000 tons; mutton and lamb, 561,000 tons; and ham, pork, and bacon, 406,000 tons. Butter production in 2004 (in factories) amounted to an estimated 130,000 tons; whole milk was estimated 10.4 million tons; and cheese (factory production) was about 364,000 tons. In 2000, the government implemented a dairy deregulation plan removing price supports. Egg production is around 155,000 tons per year, predominantly for domestic consumption. Australia produces some 25,000 to 30,000 tons of honey per year, half of which is exported. Beef exports in 2003 were A\$3.9 billion. Nearly 60% of total beef production is exported annually, most of it going to the United States, South Korea, and Taiwan.

## 24 FISHING

Fishing is relatively unimportant, even though the Australian Fishing Zone is the third-largest in the world. Even with a low per capita fish consumption, Australia must import about half its normal requirements. Pearl and other shell fishing are relatively significant. The 2003 catch of fish, crustaceans, and mollusks totaled 258,032 tons, 99% from marine waters. Exports of fishery products in 2003 were valued at US\$894.6 million.

## 25 FORESTRY

Forests and woodlands cover 162.7 million ha (402 million acres), or about 21% of the total land area; most timberland is neither exploited nor potentially exploitable. Native forests cover 50.2 million ha (124 million acres), 31% of the forested area, of which 23% is privately owned and 77% is state forest, crown land, and

permanent national parks or reserves. National parks and wildlife preserves occupy about 3.8 million ha (9.4 million acres), or 9% of the total forestlands. About 60% of the state forest areas are available for sustainable logging; crown lands are mostly leased for cattle grazing with limited timber production. Native forests consist principally of hardwood and other fine cabinet and veneer timbers; eucalyptus dominates about 35 million ha (86.5 million acres). Limited softwood resources had become seriously depleted, but new plantations were established in the 1980s at a rate of 33,000 ha (81,500 acres) annually. Plantation forests cover 1,666,000 ha (4,117,000 acres), of which 59% is softwood. Softwood plantations supply more than half the timber harvested annually. Since 1990, plantings have shifted from primarily softwood to mostly hardwood. About 90% of the standing hardwood plantations have been planted since 1990. Although Australia is a net importer of forest products, the forest and wood products industries contribute 2% to GDP.

Roundwood production in 2003 totaled about 29.9 million cu m (1.06 billion cu ft), with exports of 1,374,000 cu m (48.5 million cu ft). Softwood log production in 2004/05 was estimated at 16.5 million cu m (582 million cu ft). Softwood log production grew over 5% during 1995–2005, as a response to historically high levels of building activity driven by strong economic growth and low interest rates. Australia's leading forest products are softwood logs and chips. Whereas all of the softwood log production is consumed at home, all commercial woodchip production is exported.

## 26 MINING

Australia is one of the world's leading producers of minerals, ranking among the world's top nations in terms of economic demonstrated resources (EDR) for lead, mineral sands, nickel, silver, tantalum, uranium, and zinc. In addition, its EDR ranked the country among the top six for bauxite, black coal, brown coal, cobalt, copper, gem and near-gem diamonds, gold, iron ore, lithium, manganese ore, and rare-earth oxides. The country is virtually self-sufficient in mineral commodities, commercially producing more than 60 minerals and metals. In 2003, Australia was the world's leading exporter of alumina, bauxite, coal, diamond, ilmenite, iron ore (the country's fourth-largest minerals earner), refined lead, rutile, and zircon.

Gold production in 2003 was 282,000 kg, down from 296,410 kg in 2000. Western Australia was the largest gold producer. Australia has around 8% of the world's gold resources, and in terms of output ranks third in the world, behind the Republic of South Africa and the United States, respectively.

In 2002, Australia produced 16,382,000 tons of alumina and 54,135,000 tons of bauxite (for the 30th consecutive year). Bauxite deposits in northern Queensland were among the world's largest; those in the Northern Territory were also in production.

Australia also ranked second in iron ore (with 15% of world production), mined cobalt, and mined zinc; ranked third in mined gold (with 10% of the world's output) and mined nickel; and was fourth in mined copper. Australia produced 2,077 metric tons of mined silver in 2002.

In 2002, Australia produced 15,136,000 carats of gem diamond (14,656,000 carats in 1998), and 18,500,000 carats of industrial diamond (11,992,000 carats in 1998). Reserves were estimated at

82.4 million carats of gem and near-gem diamond, and 85.5 million of industrial diamond. Argyle's principal diamond ore body, the AK-1 lamproite pipe, near Kununurra, Western Australia, produced nearly twice the amount of diamond as any other in the world, able to supply 42 million carats a year, including some of the highest diamond grades—about 5% was of gem quality, including a small number of very rare pink diamonds; 40% was of near gem quality; and 55% was of industrial quality.

The value of opal produced in 2002 was A\$62 million. Lightning Ridge, in New South Wales, was the world's major source of black opal. Australia also produced 30% of the world's rough sapphire, valued at A\$1 million in 2002; commercial production came from alluvial deposits. Jade was discovered in the form of nephrite, at the world's largest identified resource, in the Eyre Peninsula. Australia produced most of the world's chrysoprase, known as Australian jade. Other gemstones produced in the country include agate, amethyst, chialtolite, emerald (aquamarine), garnet (25,000 metric tons annually, from 1999 through 2002), rhodonite, topaz, tourmaline, turquoise, and zircon.

Iron ore production in 2002 was 187,219,000 tons, 97% percent of iron ore came from the Pilbara region. Reserves were estimated to be 15,500 million tons.

The country produced 883,000 tons of contained copper in 2002, up from 560,000 in 1997. Reserves were estimated to be 22.2 million tons. WMC's Olympic Dam underground mine, in South Australia, was the country's largest copper mine, and a US\$1.1 billion expansion program was expected to increase production from 200,000 tons per year to 245,000 tons. Production of gold and silver at the mine in 1999 was 2,426 kg and 26,438 kg, respectively.

Zinc output in 2002 was 1,469,000 tons, 16% of world output, with reserves of 32 million tons. The McArthur River base-metal mine, in the Northern Territory, had record-setting tonnages of bulk concentrate.

In 2002, the country produced 2,187,000 tons of manganese ore (48% manganese content), with reserves of 134 million tons. Groote Eylandt Mining Co. mined about 10% of the world's manganese at its 2.4-million-ton capacity Eylandt open cut operations, in the Gulf of Carpentaria. Lead output, 683,000 tons (reserves of 14.6 million tons); nickel, 208,000 tons, all from Western Australia, with reserves of 10.6 million tons; and tin, 6,268,000 tons, all by Australia's only producer, Renison Bell Mine, in Tasmania, with reserves of 100,900 tons.

Australia had a substantial portion of the world's mineral sand resources—about 29% for ilmenite, 31% for rutile, and 46% for zircon—and in 2002 produced 28% of the world's ilmenite (1,917,000 tons, with reserves of 180.9 million), 55% of the world's rutile (218,000 tons, with reserves of 19.8 million), and 42% of the world's zircon, with reserves of 26.3 million tons. The dominant producer of zircon was Iluka Resources, with a capacity of 300 tons per year. Australia was also one of the world's leading producers of titanium and zirconium (373,000 tons in 2000). Gwalia Consolidated was the world's largest producer of lithium minerals (spodumene) and of tantalum in the form of concentrates, supplying a quarter of the world's annual tantalum requirements. Reserves were estimated at 156,000 tons lithium and 24,700 tons of tantalum. In 2000, the Greenbushes Mine, south of Perth, was the world's largest and highest-grade resource for spodumene,

64,983 tons of which was produced in the country, down from 117,094 in 1996. Gwalia controlled the world's largest stock of tantalum resources and produced 415 tons from two operations in Western Australia.

Other industrial minerals produced in Australia in 2002 included clays, diatomite, gypsum (3.8 million tons), limestone (20 million tons), magnesite (484,314 metric tons, with reserves of 246 million tons), phosphate rock (2,024,580,000 tons), salt, sand and gravel, silica (4.5 million tons), and dimension stone (120,000 tons).

## 27 ENERGY AND POWER

Between 1982/83 and 1993/94, energy consumption increased 36% for industrial, commercial, and residential use, according to the Australian Bureau of Statistics. Because of its relatively scant hydroelectric resources and only recently discovered oil, Australia has had to rely on coal-burning steam plants for about three-quarters of its public power requirements. The remainder has been supplied by hydroelectricity, gas turbines, and internal combustion generators. In 2002, electricity generation totaled 209.616 billion kWh, of which 91.2% came from fossil fuels, almost 7.1% from hydropower, none from nuclear energy, and 1.2% from other sources. In the same year, consumption of electricity totaled 194.943 million kWh. Total capacity in 2002 was 45.267 million kW.

Major electric power undertakings, originally privately owned and operated, were by 1952 under the control of state organizations. In the early 1990s however, many of the Australian state governments began privatizing sections of their energy utilities. Manufacturing has been developed most extensively in or near coal areas, and distribution of electricity to principal users is therefore relatively simple. All major cities except Perth use 240-volt, 50-cycle, three-phase alternating current; Perth has 250-volt, 40-cycle, single-phase alternating current.

The Snowy Mountains hydroelectric scheme in southeast New South Wales, Australia's most ambitious public works project, comprises 7 power stations, a pumping station, 16 large and many smaller dams, and 145 km (90 mi) of tunnels and 80 km (50 mi) of aqueducts. It provides electricity to the Australian Capital Territory, New South Wales, and Victoria. The project took 25 years to complete and has a generating capacity of 3,740 MW (about 10% of Australia's total generating capacity). The Snowy Mountains scheme and other large power projects in New South Wales, Victoria, and Tasmania have greatly increased the nation's aggregate installed capacity. The only state with water resources sufficient for continuous operation of large hydroelectric power stations is Tasmania, which possesses about 50% of Australia's hydroelectric energy potential. Production and use of such power is on the increase throughout the country, however.

As of 2002 Australia was the world's fourth-largest coal producer. Since 1986, it has been the world's largest exporter of coal. In that time exports have doubled, reaching 162 million tons by 1997. Exports of black coal alone totaled about 85 million tons in 2001. In that year exports account for more than half of total coal production. The major market is Japan, which imports about 50% of Australia's coal exports. At home, coal supplied 44% of the country's energy as of 2002. Production in 2002 amounted to 376.8 million tons; around 80% of Australia's coal was bituminous and 20% was lignite. New South Wales and Queensland account for more than

95% of Australia's black coal production and virtually all its exports. Australia has over 55 billion tons of recoverable reserves of bituminous coal, an amount that could satisfy production levels for about 260 years at current levels of demand.

In early 1983, Alcoa Australia signed a contract with the Western Australian State Energy Commission, at an estimated cost of A\$11.2 billion, to supply natural gas from the Northwest Shelf (the North West Gas Shelf Project—NWGSP). In 1985, eight Japanese companies agreed to buy 5.84 million tons of liquefied natural gas (LNG) a year from 1989 to 2009. Capacity has continued to increase thanks to completion of additional offshore platforms and onshore facilities. The A\$4 billion expansion of the North West Shelf LNG Project added seven million tons to LNG production when it began operation in 2003. Proven natural gas reserves totaled 2.46 trillion cu m (86.9 trillion cu ft) as of end 2004. In early 1992, petroleum exploration began in the Timor Sea; the area had been off limits for over a decade in order to establish a zone of co-operation with Indonesia. In 2001 Australia, Phillips Petroleum, and the newly independent state of East Timor renegotiated arrangements for development of the Bayu Undan oil field in the Timor Sea, with 90% of the royalties going to East Timor.

Oil production, which began in 1964, totaled 541,000 barrels per day in 2004; proven reserves at the end of 2004 totaled 4 billion barrels. Commercially exploitable uranium reserves are estimated at 474,000 tons. Rapid increases in demand for oil have outpaced supply, leaving Australia with a growing oil deficit. It is estimated that self-sufficiency in oil could plummet to only 40%.

## 28 INDUSTRY

In proportion to its total population, Australia is one of the world's most highly industrialized countries. The manufacturing sector has undergone significant expansion in recent years and turns out goods ranging from traditional textiles and processed foodstuffs to automobiles, chemicals, specialty steels and plastics, to elaborately transformed manufactures (ETMs), such as high speed ferries, telecommunications equipment and motor vehicles. The leading manufacturing industries are food and beverage processing; machinery and equipment manufacturing; metal product manufacturing; and petroleum, coal, chemical and associated product manufacturing. In 1995, manufacturing accounted for us\$48.8 billion, or about 15% of GDP. By 2000, the value of manufactures had fallen in absolute and relative terms, to us\$45.5 billion, or about 13% of GDP, continuing 20 years of post-industrial transformation to a services-dominated economy. In 2000, however, manufacturing grew by 4%, above the overall economy's rate of 3.2%. In 2004, industry accounted for 26.4% of GDP, and the industrial growth rate was 1.9%.

Australia is self-sufficient in beverages, most foods, building materials, many common chemicals, some domestic electrical appliances, radios, plastics, textiles, and clothing; in addition, most of its needed communications equipment, farm machinery (except tractors), furniture, leather goods, and metal manufactures are domestically produced. Recent years have seen the rapid growth of high-tech industries including aircraft, communications and other electronic equipment, electrical appliances and machinery, pharmaceuticals, and scientific equipment, and the government has supported the growth of these new sectors. High-tech

industry contributes a substantial amount to the economy, with an annual growth rate of 20% expected until 2010. Many manufacturing companies are closely connected—financially and technically—with manufacturers in the European Union, the United States, or Asia.

## 29 SCIENCE AND TECHNOLOGY

Two organizations support most of Australian government research and development. The Commonwealth Scientific and Industrial Research Organization (CSIRO), headquartered in Melbourne and founded in 1926, is an independent government agency that supports research and development in all fields of the physical and biological sciences except defense science, nuclear energy, and clinical medicine. The Defense Science and Technology Organization (DSTO), headquartered in Canberra, supports military research and development by providing scientific and technological assistance to the Australian Defence Force and Department of Defence.

Several issues dominate current Australian science and technology policy: the concentration of research and development (R&D) in national research centers; tensions among and between university researchers over allocation of R&D funding resources; effective communication between industry, government, and university researchers; the growing role which industry is playing in support of national R&D development; and the role which Australia is playing in international science and technology collaboration. High-technology exports totaled us\$2.945 billion in 2002 or 16% of manufactured exports.

In 2000, R&D spending totaled us\$7,759.748 million, or 1.55% of GDP, of which the government funded 45.7% of all R&D and industry about 46.3%. Higher education accounted for 4.8%, with 3.3% coming from foreign sources. In 1996, there were 73 agricultural, medical, scientific, and technical professional associations and societies, the foremost of which is the Australian Academy of Science, founded in 1954 by royal charter. The Australian Academy of Technological Sciences and Engineering was founded in 1976. The Australian Science and Technology Council (ASTEC) provides an independent source of counsel for the Australian Prime Minister; its role was augmented in 1986 by the creation of a post for a Minister Assisting the Prime Minister with portfolio for science and technology.

In 1996, Australia had 36 universities offering courses in basic and applied science. In 1987–97, science and engineering students accounted for 24% of college and university enrollments. In 2001, 23.1% of all bachelor's degrees awarded were in science (natural sciences, mathematics and computers, and engineering). The Powerhouse Museum in Sydney, the largest museum complex in Australia, has 25 exhibitions in the areas of science, technology, social history, and decorative arts.

## 30 DOMESTIC TRADE

There are many small specialty shops, but in the larger cities department stores sell all kinds of items. Supermarkets have been widely established and telephone shopping and delivery services are becoming popular. The number of franchise companies is growing. Reports indicate that in 1988, there were 184 business-format franchised companies in the country. By 2004, there were about 850 business franchise systems, a 21% increase over 2002.

In 2004, there were approximately 54,000 franchise units, 14% more than in 2002. Ninety-two percent of franchisee systems are of Australian origin. These franchised businesses are about 2.5 times more successful than non-franchised businesses. Installment selling, called hire purchase, is used in the sale of many products. In the past few years, direct marketing has grown at an annual rate of about 7%. Reliable commercial credit agencies cover all the main cities and many smaller towns.

The usual business hours are from 9 AM to 5 PM, Monday–Friday, with some businesses also open from 9 AM to noon on Saturday. Retail shops generally stay open later, usually with evening hours at least one day a week. Restaurants and convenience stores are open to later hours. Many retail establishments are open on Saturday and Sunday. Banks are generally open from 9 AM to 4 PM, Monday to Friday. Travelers checks and credit cards are widely accepted. A 10% goods and services tax (GST) replaced wholesale and state sales taxes as of 1 July 2000. The GST applies to most goods and services with a few exceptions, including basic foods, education, and health care.

Most advertising is done through the press, radio, and television. Principal advertising agencies are in Sydney and Melbourne.

## 31 FOREIGN TRADE

Measured by foreign trade volume per capita, Australia is one of the great trading nations, and it continues to show a steady rise in trade volume. Throughout the 1970s, exports regularly exceeded imports. In the early 1980s, however, there was a trade deficit, which continued into the 1990s and 2000s.

Australia is mainly an exporter of primary products and an importer of manufactured and semi-finished goods, although the export of manufactured goods increased by 10% per year during the 1990s. Transport or re-export trade is negligible. In recent years, Australia's foreign trade has tended to shift from European markets to developing Asian nations, which now account for nearly 60% of Australia's exports, compared with about 10% in 1975.

### Principal Trading Partners – Australia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	70,246.0	84,492.2	-14,246.2
Japan	12,807.6	10,583.1	2,224.5
United States	6,154.6	13,561.6	-7,407.0
China	5,914.7	9,298.7	-3,384.0
New Zealand	5,308.2	3,265.2	2,043.0
Korea, Republic of	5,267.1	3,089.9	2,177.2
United Kingdom	4,821.6	3,558.3	1,263.3
Other Asia nes	2,421.7	2,169.9	251.8
Singapore	2,283.4	2,901.5	-618.1
India	2,170.4	637.8	1,532.6
China, Hong Kong SAR	1,870.0	749.4	1,120.6

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Although mining and agriculture are small in terms of GDP (under 5% each), they account for a large share of exports. Rural and mineral exports (including processed goods) account for about two-thirds of total merchandise exports. Australia's commodity exports are dominated by fossil, mineral, and plant fuels, including coal, lignite, and peat (11%). Wool may only amount to a small percentage (2.5%) of Australia's exports, but Australia supplies the world with almost half of its imported wool. Food products such as wheat, sugar, and meat exports tie with fuel exports as one of the top commodities leaving the country.

In percentage terms, Australia's main exports in 2004 were: metal ores, minerals, and metals (20%); coal, coke, and petroleum (19%); machinery (12%); and gold (6%). Its major imports in 2004 were machinery (23%); consumer goods (23%); transportation equipment (20%); and fuels and lubricants (8%). Australia's leading markets in 2004 were Japan (18.9% of total exports); ASEAN (11.7%); the European Union (EU) (11.2%); China (9.3%); and the United States (8.1%). Leading suppliers in 2004 were the EU (23.7% of all imports); ASEAN (16.4%); the United States (14.5%); China (12.6%); and Japan (11.8%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

In 2004, merchandise exports rose to us\$87.1 billion (balance-of-payments basis), but imports of goods grew much faster, to us\$105.3 billion, widening the trade deficit to us\$18.2 billion, from us\$15.3 billion in 2003. This led to an increase in the current account deficit from us\$30.4 billion (6% of GDP) in 2003 to us\$40 billion (6.5% of GDP) in 2004. The current account balance over the period 2001–05 averaged –5% of GDP. The current account deficit was expected to narrow to around 5.4% of GDP by 2007, from 6.5% of GDP in 2004.

Australia's exports in the early 2000s reflected the increasingly value-added direction of Australian industry. From 1993 to 2000,

manufactured exports grew at an average rate of around 8% per year. Primary products remain the dominant export sector in value terms, however. Nearly half of services credits are accounted for by tourism, while services debits are dominated by transportation services and outbound tourism.

### 3<sup>3</sup> BANKING AND SECURITIES

The Reserve Bank of Australia, the central bank reconstituted in 1960, functions as a banker's bank and financial agent of the federal and some state governments, issuing notes, controlling interest and discount rates, mobilizing Australia's international reserves, and administering exchange controls and government loans. It was formerly connected with the Commonwealth Trading Bank—a general bank, the Commonwealth Savings Bank, and the Commonwealth Development Bank. The banking system has undergone progressive privatization and foreign investment since the deregulation of financial markets in the 1980s under the Wallis Inquiry into the Australian financial system of 1981. In 1996, the government privatized the Commonwealth Banks in the Reserve Bank Act, separating the Commonwealth Banks from the Reserve Bank. Rural credits, mortgage banking, and industrial financing are now administered wholly by private-owned banks. Fifty banks operate in Australia, 35 of which are foreign-owned; the largest banks include National Australia Bank, ANZ, Commonwealth Bank, and Westpac. The Australian Prudential Regulation Authority (APRA) regulates the banks and other financial institutions.

The Australian currency has floated freely since 1983, and was allowed to fall dramatically from 1984 to 1987. The Reserve Bank pointed to an expected upturn in economic activity in 1997 and anticipated a continuation of low inflation. It also indicated that firming economic growth, together with the uncertainties surrounding wage outcomes, made changes to monetary policy settings unlikely. Interest rate cuts were not on the bank's policy agenda, as it waited to see the impact of reductions made in late 1996. From 1996 to 2000, the Australian dollar fell by almost 30% against the US dollar, losing 12% in the first half of 2000 alone. The Reserve Bank increased interest rates a number of times in order to stave off inflation, but the introduction of the 10% GST in July threatened to raise inflation despite monetary policies. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to us\$85.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was us\$258.7 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.06%.

The Australian stock market is where equity (shares), units in listed trusts, options, government bonds, and other fixed-interest securities are traded. It is operated on a national basis by the Australian Stock Exchange (ASX), which is responsible for the day-to-day running and surveillance of stock market trading. The ASX was established on 1 April 1987, with the passage of the Australian National Guarantee Fund Act through the Commonwealth Parliament. This Act converted the six former capital city Stock Exchanges into state subsidiaries of the ASX. As of 2004 there were 1,515 companies listed on the ASX. Market capitalization as of December 2004 stood at us\$776.403 billion, with the ASX up 22.8% from the previous year at 4,050.6.

#### Balance of Payments – Australia (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-30,205.0</b>
Balance on goods	-15,256.0	
Imports	-85,852.0	
Exports	70,596.0	
Balance on services	-319.0	
Balance on income	-14,552.0	
Current transfers	-78.0	
<b>Capital Account</b>		<b>767.0</b>
<b>Financial Account</b>		<b>36,719.0</b>
Direct investment abroad	-14,707.0	
Direct investment in Australia	7,240.0	
Portfolio investment assets	-8,455.0	
Portfolio investment liabilities	48,755.0	
Financial derivatives	738.0	
Other investment assets	-6,343.0	
Other investment liabilities	9,491.0	
<b>Net Errors and Omissions</b>		<b>-404.0</b>
<b>Reserves and Related Items</b>		<b>-6,877.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

### 3<sup>4</sup> INSURANCE

Australia has one of the most competitive insurance markets in the world, with a large number of insurers competing for business from a small population base. Established in 1987, the Insurance and Superannuation Commission (ISC) was the ultimate regulatory authority for the insurance industry in Australia. It was replaced by the Australian Prudential Regulation Authority. Life insurance firms, through premiums on policies and interest earned on accumulated funds, account for substantial annual savings. The companies invest in government securities, in company securities (including shares and fixed-interest obligations), and in mortgage loans and loans against policies in force. Most loans (to individuals and building societies) are for housing.

Motor-vehicle third-party liability, workers' compensation, professional indemnity for certain professions, and Medicare coverage are compulsory. As of 2003, the value of direct premiums written totaled us\$40.385 billion, with life premiums accounting for the largest portion at us\$22.341 billion. The country's top non-life insurer that same year was QBE Group, with earned premium income from domestic business, including reinsurance (excluding public sector insurers) of us\$3.919 billion, while the top life insurer that year was AMP, with gross life written premiums of us\$4,908.7 million.

### 3<sup>5</sup> PUBLIC FINANCE

The fiscal year begins 1 July and ends 30 June. After World War II, the Commonwealth government assumed greater responsibility for maintaining full employment and a balanced economy, as well as for providing a wide range of social services. Social security and welfare payments are the largest category of government expenditure. The central government has financed almost all its defense and capital works programs from revenue and has made available to the states money raised by public loans for public works pro-

grams. Deficits are common. In the latter half of the 1980s, however, five consecutive years of significant surpluses occurred as a result of expenditure restraints. The late 1990s also saw consistent surpluses. In 2000, the government implemented a 10% goods and services tax (GST) on all items, while income tax and corporate tax rates were cut.

The US Central Intelligence Agency (CIA) estimated that in 2005 Australia's central government took in revenues of approximately us\$249.8 billion and had expenditures of us\$240.2 billion. Revenues minus expenditures totaled approximately us\$9.6 billion. Public debt in 2005 amounted to 16.2% of GDP. Total external debt was us\$509.6 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in millions of Australian dollars were A\$213,386 and expenditures were A\$206,858. The value of revenues in millions of US dollars was us\$32,733 and expenditures us\$31,656, based on a market exchange rate for 2003 of 6.519 as reported by the IMF. Government outlays by function were as follows: general public services, 26.6%; defense, 6.5%; public order and safety, 0.9%; economic affairs, 6.2%; environmental protection, 0.2%; housing and community amenities, 0.7%; health, 14.2%; recreation, culture, and religion, 0.9%; education, 9.3%; and social protection, 34.5%.

### 3<sup>6</sup> TAXATION

The main taxes (personal and corporate income, payroll, and goods and services tax (GST) are levied by the federal government, but the states and municipalities impose other levies. Federal rates are determined in legislation that is foreshadowed in the budget, presented each August; rates apply to the fiscal year beginning in July, except for company tax rates, which apply to the previous year's income.

In July 2000, the Australian government implemented a complete tax system overhaul with the introduction of a 10% GST on most goods and services, with the exception of basic foods, education, health and some other sectors. The GST replaced most sales taxes and was followed in 2001 by a cut in the corporate tax rate to 30% for both public and private firms. Undistributed profits of private firms are taxed at a higher rate. Nonresident companies pay an additional tax of 5%. Both the federal government and states can levy land taxes, and states levy both stamp duties on various documents and payroll taxes. Excise taxes are levied on alcoholic beverages, tobacco products, luxury cars, coal, kerosene, liquefied petroleum gas, and indigenous crude oil.

As part of the new tax system, federal, state, and territorial governments agreed to fund a First Home Owners Scheme (FHOS) to offset the impact of the new GST on first-time home buyers. A grant of A\$7000 was made available for first-time purchases of new and existing housing. On 9 March 2001 the grant was extended to contracts entered into before 1 January 2002. In December 2001 the additional grant was extended to June 2002 but reduced to A\$3000, but in July 2002, the grant reverted to its original amount of A\$7000 as it was again extended.

Personal taxation is levied by the Commonwealth on a sharply progressive basis. The pay-as-you-earn system (called PAYE) is used. As of 2000, individual tax rates ranged from zero on income up to A\$6,000 to 47% on income over A\$60,001. Social security taxes are included as part of income taxes. Deductions are allowed

#### Public Finance – Australia (2003)

(In millions of Australian dollars, central government figures)

<b>Revenue and Grants</b>	<b>213,386</b>	<b>100.0%</b>
Tax revenue	194,313	91.1%
Social contributions	...	0.0%
Grants	201	0.1%
Other revenue	18,872	8.8%
<b>Expenditures</b>	<b>206,858</b>	<b>100.0%</b>
General public services	55,023	26.6%
Defense	13,448	6.5%
Public order and safety	1,939	0.9%
Economic affairs	12,776	6.2%
Environmental protection	495	0.2%
Housing and community amenities	1,413	0.7%
Health	29,425	14.2%
Recreational, culture, and religion	1,859	0.9%
Education	19,211	9.3%
Social protection	71,269	34.5%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

for dependents, donations, medical expenses, and children's educational expenses, and for payment of life insurance or pension premiums. There is also a pensioner rebate that varies depending on income. There is also a 1.5% levy on residents to fund the nation's healthcare program, plus a 1% surcharge for those in high income brackets.

In early 1990, the Australian Taxation Office and the US Internal Revenue Service (IRS) formalized a simultaneous audits agreement to investigate suspected noncompliance with tax laws in both countries.

### **37 CUSTOMS AND DUTIES**

Before the 1980s, federal policy was to use the tariff to protect local industries (especially the automobile industry), but a three-decade long program of tariff reduction led to tariff rates of 5% or below in 2000. Textiles and clothes (25%), shoes (15%), and automobile products (15%) had higher duties, but those were reduced to 17.5%, 10%, and 10%, respectively, in 2005. The GST of 10% applies for most imports and exports in addition to the duty. Tariffs on industrial machinery and capital equipment ordinarily are low where they do not compete with Australian enterprise and machinery and equipment required by new industries may be imported duty-free or at concessional rates under the Project-By-Law Scheme (PBS).

As a contracting party to GATT, Australia consented to a number of tariff reductions after 1947. Under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), which went into effect on 1 January 1981, Australia and New Zealand offered the other South Pacific Forum members duty-free or concessional access to their markets. The Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, abbreviated to CER) opened bilateral trade between the two countries in 1983. Australia is also a member of the Asia Pacific Economic Cooperation (APEC) forum.

The only free-trade zone is the Darwin Trade Development Zone (TDZ), located in the Northern Territory. In 1997, the government introduced a Manufacturing-in-Bond (MIB) zone, allowing firms to import goods duty-free to a warehouse for further manufacturing and ultimate export. The first MIB site approved was the Steel River Facility in Newcastle.

### **38 FOREIGN INVESTMENT**

The United States accounts for the biggest share of total foreign investment; in 2004, total US investment in Australia (direct and portfolio) amounted to us\$227 billion, which accounted for nearly 30% of total investment in Australia that year. The United Kingdom is second, followed by Japan, the Netherlands, Germany, and Canada. Other substantial foreign investors include France, Switzerland, Singapore, and New Zealand. In 2003, the level of foreign direct investment (FDI) in Australia was us\$158.8 billion, or 31% of GDP. Over the period 2001–05, FDI inflows averaged 3.5% of GDP. In 2003, the level of Australian investment abroad was us\$110.5 billion. Most Australian investment abroad goes to the United States, New Zealand, the United Kingdom, Singapore, Canada, Germany, and Switzerland.

Almost half of total foreign investment, has been in finance and insurance, with investments in manufacturing, other industries, and mining making up another third. The most recent focus of for-

eign investment has been the booming tourist industry, and commercial and residential property development. Hotels and resorts on the north New South Wales and Queensland coasts are attracting capital from abroad, as are large office block and hotel projects in the capital cities.

Australia prefers the inflow of long-term development capital to that of short-term speculative capital. It also welcomes the technical competence usually accompanying foreign investment. Investment incentives include tariff protection, and bounties for the manufacture of certain products. Total foreign ownership is permitted, but ownership in certain sectors is subject to restrictions. The Federal Department of the Treasury regulates foreign investment with the assistance of the Foreign Investment Review Board (FIRB), which screens for conformity with Australian law and policy. The major legislation governing foreign investment is the Foreign Acquisitions and Takeovers Act of 1975, as amended in 1989, and administered according to regulations issued in 1991, as the country was embarking on its program of economic liberalization.

### **39 ECONOMIC DEVELOPMENT**

Commonwealth and state governments devoted special attention to the production and marketing of main primary products, and after 1920, legislation provided subsidies or other marketing aids to certain commodities. Federal and state aid was given to industries established in approved fields of manufacture during the 1970s. The Export Market Development Grant Acts of 1974 provided government assistance in the development of export markets. Recipients were eligible for up to 50% reimbursement for expenses incurred establishing foreign markets for domestic goods. In 1975, the government set up the Export Finance and Insurance Corp. (replacing the Export Payments Insurance Corp.) to provide Australian exporters with insurance and other financial services not readily available commercially, to provide insurance against political risk.

The government endeavors to prevent undue fluctuation in the economy. Price controls were in effect during World War II and part of the postwar period and are now imposed on a few essential household items. As an alternative to price controls, the Commonwealth government, in mid-1975, introduced a policy of wage indexing, allowing wages to rise as fast as, but no faster than, consumer prices. Major labor unions, however, opposed this restraint, which was ended in 1981, in the wake of the second oil shock and the on-set of global recession. Monetary policy supported recovery from the recession of the early 1980s by holding to a low inflation rate. From the mid-1980s, Australia's government embarked on a basic re-orientation of the economy from inward-looking import substitution industrialization (ISI) to outward-looking export-led growth and liberalization. Key reforms have been unilateral reduction of high tariffs and other protective barriers; letting the Australian dollar float; deregulating the financial services sector; rationalizing and reducing the number of trade unions; privatizing many government-owned services and public utilities, including establishing a fully competitive electricity market, one of only two (with the United Kingdom) among economically developed countries. The transformation and opening of the economy is credited with helping produce, as of 2006, 15 years of uninterrupted expansion exceeding in duration the expansions of the 1960s, 1970s, and 1980s. After August 1993, the

focus of fiscal policy shifted towards deficit reduction. During this period, the national debt declined from a peak of 19% of GDP in 1995–96, to less than 7% of GDP in 2000–01. However, by 2004, the public debt was estimated at 17.4% of GDP.

The government has been particularly aggressive in promoting Australia as an “information economy.” It is second in the world after the United States in PC use. Australia has been ranked as second (only to the United States) among 60 countries surveyed in terms of providing an environment conducive to the development of e-business opportunities. In 2000, the new tax system aimed at increasing the government budget while stimulating economic growth in such sectors as tourism/services and high technology.

Although the Australian economy as of 2006 enjoyed healthy growth, low inflation, the lowest unemployment rate it had had for almost 30 years, negligible government debt, and regular budget surpluses, improvements to the economy may still be made. They include: more labor-market reform, tax reform, investment in people and infrastructure, and better relations between the federal government and Australia's six states and two territories. A growing current account deficit must be managed. Reform of the public health, higher-education, and welfare systems, and funded pension programs are also assuming greater importance.

#### **40 SOCIAL DEVELOPMENT**

Social Security measures have been in effect since 1908 and cover all residents. Old age pensions are payable to men 65 years of age and over, and to women 62.5 years of age and over, who have lived in Australia continuously for at least 10 years at some stage in their lives. The continuous-residence requirement may be waived for those who have been residents for numerous shorter periods. Disability pensions are payable to persons 16 years of age and older who have lived at least five years in Australia and have become totally incapacitated or permanently blind. The family allowance legislation provides for weekly payments to children under 16 years of age. Widows' pensions are also provided. Employed persons are covered by workers' compensation, and unemployment assistance is provided for those aged 21 to 65. Youths aged between 16 and 20 are eligible for the youth training allowance, administered by the Department of Employment, Education and Training. Work-related sickness and maternity benefits are provided, as well as medical benefits for all residents. There are numerous programs in place for families of limited means, including child care and rent assistance.

The Sex Discrimination Act bars discrimination on the basis of sex, marital status or pregnancy. The Office for Women was created to monitor the position of women in society. Sexual harassment is specifically prohibited by law, and is aggressively addressed by the government. Sex discrimination complaints were down in 2004 by seven percent. Domestic violence remains a problem, particularly in Aboriginal communities. The government has a strong commitment to the welfare of children.

Discrimination on the basis of race, color, descent or national or ethnic origin was prohibited in the Racial Discrimination Act of 1975. Despite these measures, aboriginal Australians have poorer standards of living, are imprisoned more often, and die younger than white Australians.

#### **41 HEALTH**

Australia is one of the healthiest countries in the world. The common cold and other respiratory infections are the most prevalent forms of illness; arteriosclerosis is the most common cause of death. Water in most cities is good and safe for household purposes and garbage and trash are collected in cities and towns.

All levels of government are concerned with public health, with the municipalities functioning largely as agents for the administration of state policies. State health departments are responsible for infant welfare, school medical and dental services (provided free of charge), treatment and eradication of infectious and contagious diseases and tuberculosis, industrial hygiene programs, maintenance of food and drug standards, public and mental hospitals, and the regulation of private hospitals. The Commonwealth government makes grants for medical research, coordinates state health programs, and maintains specialist medical research institutions and laboratories.

Public sector funding accounts for over two-thirds of health care expenditure in Australia; some is allocated via the central government and some via local authorities. Since the introduction of Medicare (the national health insurance program) in 1984, the share of funding provided by the federal government has risen. Under the Medicare system, all Australians have access to free care at public hospitals. The plan also meets three-fourths of the bill for private hospital treatment, while patients pay the remainder (and can take out private health insurance to cover this, although comprehensive private medical insurance was abolished in the 1984 act). Total health care expenditure was estimated at 8.6% of GDP as of 1999.

Since 1950, certain drugs have been provided free of charge when prescribed by a medical practitioner. All patients other than pensioners must pay a set amount for every prescription supplied under the scheme; the remainder is met by the government. For those not eligible for free public health care and who have basic medical insurance, the government pays 30% of the scheduled benefit fee for each medical service. Such insurance, including the government contribution, covers 85% of scheduled fees. The federal government provides grants to the states and aboriginal organizations for the development of special health services for aboriginals. As of 1992, aboriginals and Torres Strait Islanders had unacceptably low levels of health. Though, they have access to the same health care system as any other Australian, they are often reluctant to take full advantage of it. Unemployed persons, recent immigrants and refugees, and certain low-income persons are entitled to health care cards that entitle the bearer and dependents to free medical and hospital treatment.

Health services are efficient. Hospitals are generally modern and well equipped, but space often is at a premium. In 1998, there were more than 1,015 acute-care hospitals, of which 734 were public hospitals. As of 1999, there were an estimated 8.5 hospital beds per 1,000 people. Most private hospitals tend to be fairly small and there are a large number of private hospitals run by religious groups. Hospital facilities are concentrated in the states of New South Wales and Queensland, which together account for about half the country's hospitals and hospital beds.

As of 2004, there were an estimated 249 physicians per 100,000 people in Australia. Additionally, there were approximately 42 dentists, 60 midwives, and 775 nurses per 100,000 people. Com-

petent general physicians and specialists are available in most cities and the Royal Flying Doctor Service provides medical care and treatment to people living in remote areas.

Infant mortality in 2005 was 4.69 per 1,000 live births, one of the lowest in the world. The under-five mortality rate has steadily decreased from 24 in 1960 to 7 in 2000. Approximately 67% of married women (ages 15–49) used contraception. The 1999 birth rate was 13.2 per 1,000 inhabitants, and the fertility rate in 2000 was 1.8 per woman. The estimated life expectancy in 2005 was 80.39 years, the eighth-highest in the world. Estimated immunization of one-year-old children was as follows: diphtheria, pertussis, and tetanus, 88%; and measles, 89%. In 1999, the incidence of tuberculosis was 6.2 per 1,000 people.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 14,000 people living with HIV/AIDS in the country. There were an estimated 100 deaths from AIDS in 2003.

## 42 HOUSING

According to 2001 national census figures, there were about 7,072,200 dwellings in the nation, representing over 7.3 million households. In Tasmania, there were about 208,704 dwellings. Nationwide, about 78% of all dwellings are separate, single-family houses (about 5.3 million houses). About 22% are classified as higher density housing, including row or terrace housing, townhouses, and apartment buildings. About 70% of all units are owner occupied. Central heating, formerly available only in the most modern and expensive homes and apartments, is now generally available in the coldest areas of the country. Most apartments and houses are equipped with hot-water service, refrigeration, and indoor bath and toilet facilities.

## 43 EDUCATION

Education is compulsory for children from the age of 6 to 15 (16 in Tasmania). Most children attend pre-school or kindergarten programs. Primary education generally begins at six years of age and lasts for six or seven years, depending on the state. Secondary schools have programs of four to six years. Free education is provided in municipal kindergartens and in state primary, secondary, and technical schools. There are also state-regulated private schools, which are attended by approximately one-third of Australian children. Correspondence courses and educational broadcasts are given for children living in the remote “outback” areas and unable to attend school because of distance or physical handicap. One-teacher schools also satisfy these needs. Although most aboriginal and Torres Strait Islander students use the regular school system, there are special programs to help them continue on to higher education.

Primary school enrollment in 2003 was estimated at about 97% of age-eligible students; 96% for boys and 97% for girls. The same year, secondary school enrollment was about 88% of age-eligible students; 87% for boys and 89% for girls. The pupil to teacher ratio for primary school was at about 18:1 in 2003. Also in 2003, private schools accounted for about 28% of primary school enrollment and 30.5% of secondary enrollment.

Although each state controls its own system, education is fairly uniform throughout Australia. As of 2003, public expenditure on

education was estimated at 4.9% of GDP. Education is the joint responsibility of the federal government and each state government and territory. The federal government directly controls schools in the Northern Territory and in the Australian Capital Territory.

Australia has approximately 20 universities in addition to more than 200 technical institutes. There is a state university in each capital city and each provincial area; a national postgraduate research institute in Canberra and a university of technology in Sydney with a branch at Newcastle. There are also a number of privately funded higher-education institutions including theological and teacher training colleges. Adult education includes both vocational and non-vocational courses. Most universities offer education programs for interested persons. In 2003, it was estimated that about 74% of the tertiary age population were enrolled in higher education programs; 67% men and 82% women.

## 44 LIBRARIES AND MUSEUMS

The National Library of Australia traces its origins back to 1902, but it was not until 1961 that it was legislatively separated from the Commonwealth Parliamentary Library and made a distinct entity. The National Library is now housed in modern facilities in Canberra and has over 4.7 million volumes. Three other libraries in Australia of comparable size are the library of the University of Sydney (over three million volumes), founded in 1852; the State Library of New South Wales (over 1.9 million volumes), founded in 1826; the State Library of Victoria (over 1.5 million), founded in 1854, and the Library Information Service of Western Australia (2.7 million). The Australian Capital Territory (ACT) Library Service oversees nine public library branches and the ACT Government and Assembly Library. The state capital cities have large noncirculating reference libraries, as well as municipal public circulating libraries. The university libraries of Adelaide, Brisbane, Canberra, Melbourne, Monash, New South Wales, and Queensland all have sizable collections. Recent years have seen programs with increased cooperation between libraries, which has resulted in increased service. The Australian Institute of Aboriginal Studies in Acton has a specialized collection of 15,000 volumes, and dozens of museums and cultural centers house other specialized collections.

There are about 2,000 museums in Australia, of which over 200 are art museums. A national art collection has been assembled in the Australian National Gallery at Canberra, which was opened to the public in October 1982. The National Museum of Australia, founded 1980 in Canberra, exhibits Australian history and social history. In 2001 the museum opened new facilities in a stunning architectural structure on the shores of Lake Burley Griffin. There are eight other major museums, two each in Sydney and Melbourne and one in each of the other state capitals. Of note in Melbourne are a Performing Arts Museum (1978); the Ancient Times House (1954); and the Jewish Museum of Australia. The Melbourne Museum, completed in 2000, became the largest museum in the southern hemisphere. Sydney houses the Australian National Maritime Museum (1985), the Museum of Contemporary Art (1979) and the Nicholson Museum of Antiquities (1860). Some of the smaller cities also have museums. The National Gallery of Victoria in Melbourne has a fine collection of paintings and other artworks, and the South Australian Museum in Adelaide has excellent collections relating to Australian ento-

mology, zoology, and ethnology. Botanical gardens are found in every capital city.

#### 45 MEDIA

Responsibility for the nation's postal service is vested in the Australian Postal Commission and with the Australian Telecommunications Commission. Local and long-distance telephone services are rated highly. In 2003, there were an estimated 542 mainline telephones for every 1,000 people. The same year, there were approximately 719 mobile phones in use for every 1,000 people.

The government administers and supervises broadcasting through the Australian Broadcasting Commission, which operates a nationwide noncommercial radio and television service; the Australian Broadcasting Tribunal, which licenses and regulates commercial broadcasters; and the Special Broadcasting Service, which prepares and broadcasts multilingual radio and television programs. Federal government stations are financed from budget revenues, and the private commercial stations derive their income from business advertising. The primary news services are the Australian Associated Press and ABC NewsOnline. As of 1999 there were 262 AM and 345 FM radio stations and 104 television stations. In 2003, there were an estimated 1,996 radios and 722 television sets for every 1,000 people. About 76 of every 1,000 people were cable subscribers. Also in 2003, there were 565.1 personal computers for every 1,000 people and 567 of every 1,000 people had access to the Internet. In 2004, there were 8,224 secure servers in the country.

In general, news is presented straightforwardly, and political criticism is considered fair and responsible. The *Australian*, one of only two national newspapers, was established in 1964 and is published in all state capitals. It is independent and had an estimated daily circulation in 1999 of 153,000. The other national daily, the *Australian Financial Review*, had a Monday–Friday average circulation of 78,000 in the same year. The *Age* is published in Melbourne with a daily circulation of 197,000 in 2004. The *Sydney Morning Herald*, a conservative daily, had a daily circulation of 225,861 in 2004. Major Sunday newspapers include the *Sun-Herald* (613,000) and the *Sunday Telegraph* in Sydney, and the *Sunday Mail* in Brisbane (598,070). The major news agency is the Australian Associated Press, founded in 1935; it has been associated with Reuters since 1946. Many international news services have bureaus in Sydney.

Though the Australian constitution does not have specific guarantees of freedom of expression, the High Court has, in two decisions, declared that freedom of political discourse is implied. The government is said to respect all such rights in practice.

#### 46 ORGANIZATIONS

Chambers of commerce and chambers of manufacture are active throughout Australia, especially in the state capital cities; the Australian Chamber of Commerce (1091) coordinates their activities. The Australian Consumers' Association is active. There are also trade unions and business associations in a wide variety of fields. Agricultural producers and industry workers are represented through the Australian Dairy Corporation, the Aus-Meat, the

Australian Food and Grocery Council, and the Australian Chamber of Fruit and Vegetable Industries, to name a few.

There are professional associations or scholarly societies in the fields of architecture, art, international affairs, economics, political and social science, engineering, geography, history, law, literature, medicine, philosophy, and the natural sciences. Many publish scholarly journals. Notable societies include the Australian Academy of Science,

The Australia Council (founded in 1943) encourages amateur activities in the arts and sponsors traveling exhibitions of ballet, music, and drama. Theatrical, musical, and dance organizations are present in the larger cities and towns. Other notable art and cultural groups are the Australia Council for the Arts, the Australian Academy of the Humanities, the Australian Film Institute, and the National Trust of Australia.

Health and welfare organizations include the National Health and Medical Research Council, the Australian Council on Healthcare Standards, the Australian Dental Association, the Australian Medical Association, and the Australian Medical Council, among others. There are numerous associations for specialized fields of medicine and science.

Several sports organizations are present. Skiing and tobogganing clubs function in the mountainous areas. Sydney, Melbourne, Hobart, and several other cities have large yacht clubs. Every state capital city has swimming and surfing clubs.

There are numerous youth organizations. One of the most prominent is the National Union of Students of Australia (NUSA), which was founded in 1987 by uniting the existing student unions in the Australian states. It now represents the concerns and interests of over 250,000 students. The President of NUSA has a position on the Higher Education Council, which advises the Australian Minister for Employment, Education, and Training. Other youth groups include the Australian Youth Hostel Association, Student Services of Australia, Tertiary Catholic Federation of Australia, the YMCA and YWCA, Young Liberal Movement, Young National Party, and Young Socialist League. Scouting organizations are also active throughout the country.

There are national chapters of the Red Cross Society, Caritas, Habitat for Humanity, the Christian Children's Fund, Doctor's Without Borders, World Vision, Amnesty International, and UNICEF.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Australia's natural tourist attractions are the Great Barrier Reef, a mecca for scuba divers; the varied and unusual flora and fauna; and the sparsely inhabited outback regions, which in some areas may be toured by camel. Other attractions include Ballarat and other historic gold-rush towns near Melbourne; wineries, particularly in the Barossa Valley, 55 km (34 mi) northeast of Adelaide; Old Sydney Town, a recreation of the Sydney Cove Settlement north of Sydney as it was in the early 19th century; and the arts festivals held in Perth every year and in Adelaide every two years, featuring foreign as well as Australian artists.

The sports that lure tourists are surfing, sailing, fishing, golf, tennis, cricket, and rugby. Melbourne is famous for its horse racing (Australia's most celebrated race is the Melbourne Cup) and for its 120,000-capacity cricket ground, reputedly the biggest in the world.

Except for nationals of New Zealand, visitors must have a valid visa. Immunizations are required only of tourists coming from an infected area.

The government actively promotes tourism. In 2003, Australia attracted 4,745,855 foreign visitors. Typically, most visitors come from East Asia and the Pacific region. That year there were 204,461 hotel rooms with 580,252 beds and an occupancy rate of 60%. The average length of stay was two nights. Tourist receipts totaled over us\$15 billion.

In 2005, the US Department of State estimated the daily cost of staying in Melbourne at us\$288 and in Sydney, at us\$248.

## 48 FAMOUS AUSTRALIANS

The most highly regarded contemporary Australian writer is Patrick White (1912–90), author of *The Eye of the Storm* and other works of fiction and winner of the 1973 Nobel Prize for literature. Other well-known novelists are Henry Handel Richardson (Henrietta Richardson Robertson, 1870–1946), Miles Franklin (1879–1954), Christina Stead (1902–83), and Thomas Michael Kenally (b.1935). Henry Lawson (1867–1922) was a leading short-story writer and creator of popular ballads. Germaine Greer (b.1939) is a writer on feminism. A prominent Australian-born publisher of newspapers and magazines, in the United Kingdom and the United States as well as Australia, is Keith Rupert Murdoch (b.1931).

Three renowned scholars of Australian origin are Sir Gilbert Murray, O.M. (1866–1957), classicist and translator of ancient Greek plays; Samuel Alexander, O.M. (1859–1938), influential scientific philosopher; and Eric Partridge (1894–1979), authority on English slang. Sir Howard Walter Florey (1898–1968) shared the 1945 Nobel Prize in physiology or medicine for the discovery of penicillin. An outstanding bacteriologist was Sir Frank Macfarlane Burnet, O.M. (1899–1985), director of the Melbourne Hospital and co-winner of the 1960 Nobel Prize for medicine. Elizabeth Kenny (1886–1952) made important contributions to the care and treatment of infantile paralysis victims. Sir John Carew Eccles (1903–1997) shared the 1963 Nobel Prize for medicine for his work on ionic mechanisms of the nerve cell membrane. John Warcup Cornforth (b.1917) shared the 1975 Nobel Prize for chemistry for his work on organic molecules. Peter C. Doherty (b.1940) shared the 1994 Nobel Prize in physiology or medicine for his work in immunology. Barry J. Marshall (b.1951) and J. Robin Warren (b.1937), both Australians, shared the 2005 Nobel Prize in physiology or medicine for their discovery of the *Helicobacter pylori* bacterium, which causes stomach ulcers and gastritis.

Among Australia's most prominent film directors are Fred Schepisi (b.1939), Bruce Beresford (b.1940), George Miller (b.1943), Peter Weir (b.1944), and Gillian Armstrong (b.1950); film stars have included Australian-born Errol Flynn (1909–59), Paul Hogan (b.1940), and US-born Mel Gibson (b.1956). Leading Australian-born figures of the theater include the actors Dame Judith Anderson (1898–1992) and Cyril Ritchard (1898–1977) and the ballet dancer, choreographer, and stage actor and director Sir Robert Murray Helpmann (1909–86). Musicians of Australian birth include the operatic singers Dame Nellie Melba (1861–1931), John Brownlee (1901–69), Marjorie Lawrence (1907–79), and Dame Joan Sutherland (b.1926) and the composers Percy Grainger (1882–1961), Arthur Benjamin (1893–1960),

Peggy Glanville-Hicks (1912–1990), and Peter Joshua Sculthorpe (b.1929). Popular singers include Helen Reddy (b.1941) and Olivia Newton-John (b.UK, 1948). Alfred Hill (1870–1960) is regarded as the founder of the art of musical composition in Australia. Albert Namatjira (1902–59), an Aranda aboriginal, achieved renown as a painter, as did Sir Sidney Robert Nolan (1917–92) and Arthur Boyd (1920–99), who was a sculptor as well as a painter. The aviator Sir Charles Edward Kingsford-Smith (1897–1935) pioneered flights across the Pacific Ocean. A popular figure of folklore was the outlaw Ned (Edward) Kelly (1855?–80).

From about 1970 to 1990, the tennis world was dominated by such Australian players as Frank Sedgman (b.1927), Lewis Hoad (1934–94), Kenneth Rosewall (b.1934), Rod (George) Laver (b.1938), John David Newcombe (b.1944), and Evonne Goolagong Cawley (b.1951). Sir Donald George Bradman (1908–2001) was one of the outstanding cricket players of modern times. Record-breaking long-distance runners include John Landy (b.1930) and Herb Elliott (b.1938). Jon Konrads (b.1942) and his sister Ilsa (b.1944) have held many world swimming records, as did Dawn Fraser (b.1937), the first woman to swim 100 meters in less than a minute, and Murray Rose (b.1939).

A notable modern Australian statesman is Sir Robert Gordon Menzies (1894–1978), who served as prime minister from 1939 to 1941 and again from 1949 to 1966. Subsequent prime ministers have included Edward Gough Whitlam (b.1916), who held office from 1972 to 1975; John Malcolm Fraser (b.1930), who succeeded Whitlam late in 1975; Robert James Lee Hawke (b.1929), who served from 1983–91, Paul John Keating (b.1944), who succeeded Bob Hawke in 1991; and John Winston Howard (b.1939), who began his term as Australia's 25th prime minister in 1996; he has been the most electorally successful prime minister since Menzies.

## 49 DEPENDENCIES

Since 1936, Australia has claimed all territory in Antarctica (other than Adélie Land) situated south of 60°s and between 45° and 160°e, an area of some 6.1 million sq km (2.4 million sq mi), or nearly 40% of the continent. Three scientific and exploratory bases are now in operation: Mawson (established February 1954), Davis (established January 1957), and Casey (established February 1969).

### Ashmore and Cartier Islands

The uninhabited, reef-surrounded Ashmore Islands, three in number, and Cartier Island, situated in the Indian Ocean about 480 km (300 mi) north of Broome, Western Australia, have been under Australian authority since May 1934. In July 1938, they were annexed as part of the Northern Territory. Cartier Island is now a marine reserve.

### Christmas Island

Situated at 10°30's and 105°40'e in the Indian Ocean, directly south of the western tip of Java, Christmas Island is 2,623 km (1,630 mi) northwest of Perth and has an area of about 135 sq km (52 sq mi). Until its annexation by the UK in 1888, following the discovery of phosphate rock, the island was uninhabited. The total estimated population in 2002 was 474, of whom 70% were Chinese and 10% were Malay. The only industry was phosphate extraction. The governments of Australia and New Zealand decided to close the mine in December 1987. Christmas Island was

transferred from the UK to Australia on 1 October 1958. Abbott's booby is an endangered species on the island.

#### Cocos (Keeling) Islands

The Territory of Cocos (Keeling) Islands is a group of coral atolls consisting of 27 islands with a total land area of 14 sq km (5 sq mi) in the Indian Ocean, at 12°5's and 96°53'E, about 2,770 km (1,720 mi) northwest of Perth. The estimated population of the two inhabited islands was 632 in 2002. A British possession since 1857, the islands were transferred to Australia in 1955 and are administered by the minister for territories. In 1978, the Australian government bought out the remaining interests (except for personal residences) of the Clunies-Ross heirs on the islands. The climate is pleasant, with moderate rainfall. Principal crops are copra, coconut oil, and coconuts. The airport is a link in a fortnightly service between Australia and South Africa.

#### Coral Sea Islands

The Coral Sea Islands were declared a territory of Australia in legislation enacted during 1969 and amended slightly in 1973. Spread over a wide ocean area between 10° and 23°30's and 154° and 158°E, the tiny islands are administered by the minister for the Capital Territory and have no permanent inhabitants—although there is a manned meteorology station on Willis Island.

#### Territory of Heard and McDonald Islands

Heard Island, at 53°6's and 72°31' E, about 480 km (300 mi) southeast of the Kerguelen Islands and about 4,000 km (2,500 mi) southwest of Perth, is about 910 sq km (350 sq mi) in size. Bleak and mountainous, it is dominated by a dormant volcano, Big Ben, about 2,740 m (8,990 ft) high. There was a station at Atlas Cove from 1947 to 1955, but the island is now uninhabited and is visited occasionally by scientists. Just north is Shag Island, and 42 km (26 mi) to the west are the small, rocky McDonald Islands. The largest island of the group was visited for the first time, it is believed, on 27 January 1971, by members of the Australian National Antarctic Expedition. The territory was transferred from the UK to Australia at the end of 1947.

#### Macquarie Island

Macquarie Island, at 54°30's and 158°40'E, is about 1,600 km (1,000 mi) southeast of Hobart. The rocky, glacial island, 34 km (21 mi) long and about 3 to 5 km (2 to 3 mi) wide, is uninhabited except for a base maintained at the northern end since February 1948. Macquarie Island has been a dependency of Tasmania since the early 19th century. At the most southerly point, the island has what is believed to be the biggest penguin rookery in the world. Two small island groupings are off Macquarie Island: Bishop and Clerk, and Judge and Clerk.

#### Norfolk Island

Norfolk Island, with an area of 36 sq km (14 sq mi), is situated at 29°3's and 167°57'E, 1,676 km (1,041 mi) east-northeast of Sydney. Discovered in 1774 by Capt. James Cook, it was the site of a British penal colony during 1788–1814 and 1825–55. In 1856, it was settled by descendants of the *Bounty* mutineers. As of 2002, the estimated permanent population was 1,866. Transport is almost exclusively by motor vehicle. The soil is fertile and the climate conducive to the growing of fruits and bean seed, as well as the famed Norfolk Island pine. Tourism is also important. As of 2003, endangered species on Norfolk Island included the gray-headed blackbird, Norfolk Island parakeet, the white-breasted silver-eye, the green parrot, the Morepork (Boobook owl), and the Bird of Providence (Providence Petrel). In 1996, Phillip Island was added to the Norfolk Island National Park.

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# AZERBAIJAN

Azerbaijan Republic  
*Azarbaichan Respublikasy*



**CAPITAL:** Baku

**FLAG:** Three equal horizontal bands of blue (top), red, and green; a crescent and eight-pointed star in white are centered in the red band.

**ANTHEM:** *Azerbaijan National Anthem*, composed by Uzeyir Hajibeyov.

**MONETARY UNIT:** The manat, consisting of 100 gopik, was introduced in 1992 and remains tied to the Russian ruble with widely fluctuating exchange rates. 1 manat = \$0.00021 (or \$1 = 4,794.15 manat) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; International Women's Day, 8 March; Novruz Bayrom (Holiday of Spring), 22 March; Day of the Republic, 28 May; Day of Armed Forces, 9 October; Day of State Sovereignty, 18 October; Day of National Revival, 17 November; Universal Azeri Solidarity Day, 31 December.

**TIME:** 4 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Azerbaijan is located in southeastern Europe/southwestern Asia between Armenia and the Caspian Sea. Comparatively, Azerbaijan is slightly smaller than the state of Maine with a total area of 86,600 sq km (33,436 sq mi). This area includes the Nakhichevan Autonomous Republic and the Nagorno-Karabakh Autonomous Oblast. Azerbaijan shares boundaries with Russia on the n, the Caspian Sea on the e, Iran on the s, Armenia on the w, and Georgia on the nw. Azerbaijan's boundary length totals 2,013 km (1,251 mi). Azerbaijan's capital city, Baku, is located on the Apsheron Peninsula that juts into the Caspian Sea.

## <sup>2</sup> TOPOGRAPHY

The topography of Azerbaijan features the large, flat Kura-Aras Lowland (much of it below sea level) surrounded on three sides by mountains. The Great Caucasus Mountains are to the north, the Lesser Caucasus Mountains are to the southwest, and the Talish Mountains are in the south along the border with Iran. The Karabakh Upland lies in the west. About 19% of Azerbaijan's land is arable with approximately 16% under irrigation.

The Nakhichevan exclave lies to the west, separated from the rest of Azerbaijan by Armenia. Nakhichevan also shares borders with Turkey and Iran.

## <sup>3</sup> CLIMATE

The country's climate is subtropical in the eastern and central parts. In the mountainous regions the climate is alpine-like. The southeastern section of the country has a humid subtropical climate. The average temperature in the capital, Baku, in July is 25°C (77°F). In January the average temperature is 4°C (39°F). Rainfall varies according to climate zones. The average rainfall for most of the country is only about 15 to 25 cm (6 to 10 in). However, at the

highest elevations of the Caucasus and in the Lankaran lowlands, annual rainfall can exceed 100 cm (39 in).

## <sup>4</sup> FLORA AND FAUNA

The country's flora and fauna is rich and varied. There are 16 nature reserves and more than 28 forest reserves and hunting farms.

## <sup>5</sup> ENVIRONMENT

Azerbaijan's current environmental problems result in part from the effects of the economic priorities and practices of the former Soviet Union. General mismanagement of the country's resources has resulted in a serious threat to several areas of the environment. UN agencies have reported severe air and water pollution in Azerbaijan, which ranks among the 50 nations with the world's highest level of carbon dioxide emissions. The combination of industrial, agricultural, and oil-drilling pollution has created an environmental crisis in the Caspian Sea. These sources of pollution have contaminated 100% of the coastal waters in some areas and 45.3% of Azerbaijan's rivers. In 2001, only 78% of the total population had access to safe drinking water. The pollution of the land through the indiscriminate use of agricultural chemicals such as the pesticide DDT is also a serious problem.

Azerbaijan's war with Armenia has hampered the government's ability to improve the situation. Due to the severity of pollution on all levels, the country's wildlife and vegetation are also seriously affected. From the mid-1980s to mid-1990s, the amount of forest and woodland declined by 12.5%. As of 2000, about 13% of the total land area was forested. In 2003, about 6.1% of the total land area was protected, including two Ramsar wetland sites: Agh-Ghol and Ghizil-Agaj.

As of 2002, there were at least 99 species of mammals, 229 species of birds, and 4,300 species of higher plants. According to a

2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 11 types of mammals, 11 species of birds, 5 types of reptiles, 5 species of fish, and 6 other invertebrates. Endangered species include the Barbel sturgeon, beluga, the Azov-Black Sea sturgeon, the Apollo butterfly, and the Armenian birch mouse.

## **6<sup>POPULATION</sup>**

The population of Azerbaijan in 2005 was estimated by the United Nations (UN) at 8,388,000, which placed it at number 90 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 26% of the population under 15 years of age. There were 94 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.0%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 9,700,000. The population density was 97 per sq km (251 per sq mi).

The UN estimated that 51% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.15%. The capital city, Baku, had a population of 1,816,000 in that year. Other urban centers include Gyanja (formerly Kirovabad) with a population of about 300,000 people, and Sumgait with about 289,700. There has been an additional influx of foreign refugees to the urban centers in recent years.

## **7<sup>MIGRATION</sup>**

As a result of the war with Armenia, which started in 1988, more than one million people were forced to leave the region. The Law on Citizenship allows for the automatic acquisition of Azerbaijani citizenship by refugees from Armenia. Also, there are some 48,000 Meshketians, also known as Meskhis, who were forcibly resettled from Central Asia after bloody Soviet pogroms in 1989. The Meshketians, descendants of rural Muslim populations, were originally deported from Georgia to Central Asia under the Stalin era. Most Azerbaijani were displaced between 1993 and 1994. Since May 1994, when the cease-fire was enacted, only 60,000 persons were able to return to their homes along the front line. According to United Nations High Commissioner for Refugees (UNHCR) data, as of the end of 2004 there were 578,545 (around 7% of the total population) internally displaced persons (IDP) in Azerbaijan.

Between 1989 and 1995, there was an emigration of Slavic peoples from Azerbaijan. These included 169,000 Russians, 15,000 Ukrainians, and 3,000 Belarusians as they emigrated back to their homelands. By the end of 2004, several thousand Azerbaijan citizens sought asylum in Western Europe, mainly in Sweden and Germany.

As of 2001 there were 148,000 migrants living in Azerbaijan, with less than 1% of these being refugees. However, as of 2004, Azerbaijan hosted 40,267 other refugees and asylum seekers. Most are Azeri refugees from Armenia.

In 2005 the net migration rate was estimated as -4.64 migrants per 1000. The government views this migration level as satisfactory.

## **8<sup>ETHNIC GROUPS</sup>**

At the 1999 census, 90.6% of the population was Azeri; about 2.2% were Dagestani, 1.8% were Russian, another 1.5% were Armenian, and 3.9% were of other ethnic origins. Almost all Armenians live in the separatist Nagorno-Karabakh region.

## **9<sup>LANGUAGES</sup>**

Azerbaijani (or Azeri) is a language related to Turkish and is also spoken in northwestern Iran. It is traditionally written in Arabic script. In 1995, an estimated 89% of the population spoke Azeri; 3% spoke Russian; 2% spoke Armenian; and 6% other. In 1939, the Soviets introduced a Cyrillic alphabet, with eight special characters.

## **10<sup>RELIGIONS</sup>**

For most of the 20th century, from 1920–1991, the Azerbaijan Soviet Socialist Republic observed the restrictions in religious belief and practice common throughout the former Soviet Union. According to official figures available in 2004, the population was 96% Muslim (70% of whom were Shias, and 30% were Sunnis). However, the percentage of those who are active practitioners of the faith is believed to be much lower. Religious identity within the country tends to be primarily based on culture and ethnicity. Because of the Persian influence on Azerbaijan, most Azerbaijanis are Shiites, even though all of the other Turkic groups of the former Soviet Union are Sunni Muslims.

Islam (both Shia and Sunni), Russian Orthodox, and Judaism are considered to be traditional religions of the country. A majority of Christians live in the Baku and Sumgait urban areas. There are two main groups of Jews: the Mountain Jews, who are believed to be descendants of those who first came to the northern part of the country over 2,000 years ago, and the Ashkenazi Jews, who are the descendant of European immigrants. There are small communities of Evangelical Lutherans, Roman Catholics, Baptists, Molokans (an older branch of Russian Orthodox), Seventh-Day Adventists, Baha'is, Wahhabist Muslims, Jehovah's Witnesses, and Hare Krishnas.

The constitution specifically provides that persons of all faiths may choose and practice their religion without restrictions. There are legal provisions which allow the government to regulate religious groups. All religious groups must be registered with the government through the State Committee for Work with Religious Associations, a department of the Ministry of Justice. Proselytizing by foreigners is against the law. Muslims who convert to non-Muslim faiths often face social discrimination, and even hostilities.

## **11<sup>TRANSPORTATION</sup>**

Azerbaijan's railway system, as of 2004, was made up of 2,957 km (1,839 mi) of broad gauge (1.520-m) track, with Baku as the hub. Of that total, 1,278 km (795 mi) was electrified. In 2003, the highway system totaled 27,016 km (16,803 mi), of which 12,698 km (7,898 mi) were paved. In that same year, there were 128 km (80 mi) of expressways. As of 2003, there were 350,559 passenger cars and 124,482 commercial vehicles registered. Azerbaijan's major port is at Baku. In 2005 the merchant marine had 81 ships (1,000

GRT or over), totaling 253,004 GRT. Ships from the Caspian fleet have called at some 125 ports in over 30 countries. In 2004 there were an estimated 50 airports. As of 2005, a total of 27 had paved runways, and there were also two heliports. There are flights from Baku's Bina Airport to more than 70 cities of the former Soviet Union. In 2003, a total of 684,000 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The territory of present-day Azerbaijan has been continuously inhabited since the Paleolithic era. The first evidence of tribal alliances date to the first millennium BC, when such peoples as the Mannaans, the Medes, the Cadusiis, the Albanoi, and the Caspians appeared. In the 7th century BC, the state of Media appeared in what now is southern Azerbaijan, growing to cover large portions of the Near East. The Medians were displaced by the Persian dynasty of Achaemenids, who in turn were defeated by Alexander the Great. In the 4th century BC, another state arose which Greek sources called Atropatena, or "Land of the Fire Keepers"; it is this name, reflecting the predominance of Zoroastrianism, which may have given the present state its name. Around the beginning of the common era Atropatena was succeeded by a state called Albania, which the Romans attempted to conquer.

In the 3rd and 4th centuries AD, Azerbaijan existed with fluid boundaries between the Sassanid state in Persia and the Romans, whose battles inflicted great damage, leaving Azerbaijan open to raids by Turkic nomadic tribes from the north, including Khazars and Huns. Outside influence reappeared in the 7th and 8th centuries, when Arabs conquered much of Transcaucasia. As their influence receded, a number of small local states were established, the best known of which was the Shirvanshahs.

In the 11th century Azerbaijan was invaded by Oguz Turks, of the Seljuk dynasty. By the 13th century the gradual displacement of pre-Turkic local languages was complete, although many traces of non-Turkic predecessors remain in the Azerbaijani language. Persian, however, remained the language of art, science, and education.

In the 1230s Azerbaijan was conquered by Genghiz Khan, whose power remained in the Il-Khanid state, which at the end of the 14th century was displaced by the armies of Tamerlane. In the 16th century, the Safawid state emerged, coming to control most of the land between the Syr Darya and the Euphrates, and reestablishing agriculture and commerce destroyed under the Mongols. In the 17th century, the Safawids became Persianized, which made present-day Azerbaijan decline in importance.

In the 18th century Azerbaijan became the intersection of the Turkish, Persian, and Russian empires, as well as the focus of British and French attempts to block Russian expansion. The northern part of the territory was incorporated into Russia in the first third of the 19th century, but the area did not become important until the 1880s, when the area's abundant oil gained commercial importance. The southern portion of what was originally Azerbaijan has remained in Iran, except for the period 1941–46, when it was occupied by Soviet troops.

When the 1917 Russian revolution came, Ottoman Turkish troops moved into Azerbaijan, and later British forces controlled the capital, Baku. The Azerbaijani Musavat, or Equality Party, es-



LOCATION: 40°30' N; 47°0' E BOUNDARY LENGTHS: Total boundary lengths, 2,013 kilometers (1,251 miles); Armenia (west), 566 kilometers (352 miles); Armenia (south), 221 kilometers (137 miles); Georgia, 322 kilometers (200 miles); Iran (south), 432 kilometers (268 miles); Iran (southeast), 179 kilometers (111 miles); Russia, 284 kilometers (177 miles); Turkey, 9 kilometers (6 miles).

tablished a government, declared Azerbaijan's independence, and received diplomatic recognition from several states. Azerbaijan was invaded by the Russian Bolsheviks' Red Army in April 1920, and Azerbaijan was declared a Soviet state. In 1922 it was made part of the Transcaucasian Federated Socialist Republic, along with Georgia and Armenia. That was dissolved in 1936, when the three states were each made into separate Soviet Socialist Republics.

In 1988, calls by ethnic Armenians living in Azerbaijan's Nagorno-Karabakh (NK) region to be incorporated into the Armenian republic led to open conflict, which lasted until 1994. This predominantly Armenian area had been unsuccessfully claimed by the Armenians in the 1920s, at the time of the creation of Soviet Azerbaijan. Inability to solve the NK conflict was one of the problems that ultimately brought down Mikhail Gorbachev and broke apart the USSR. Ethnic and civil violence in January 1990 prompted the occupation of Baku by Soviet armed forces and Moscow's replacement of Abdulrahman Vezirov with Ayaz Mutalibov as

republic head. During this period of martial law, the legislature elected Mutalibov as president in May 1990. Independence was declared on 30 August 1991, and Mutalibov was reaffirmed as president in a popular, uncontested election in September 1991.

In December 1991, NK's Armenians held a referendum (boycotted by local Azerbaijanis) that approved NK's independence and elected a Supreme Soviet, which on 6 January 1992, declared NK's independence and futilely appealed for world recognition. Following a late February 1992 massacre of Azerbaijani civilians in the town of Khojaly in NK, Mutalibov was accused of failing to protect Azeri citizens and forced by the nationalist oppositionist Azerbaijani Popular Front (APF) and others to resign as president. His replacement, legislative head Yakub Mamedov, was also forced to resign in May 1992, in the face of further Azerbaijani military defeats in NK. Mutalibov was then reinstated by loyalists in the Supreme Soviet, but he had to flee two days later, when the APF seized power. Former Soviet dissident and APF leader Abulfaz Elchibey, was elected president in a popular contest in June 1992.

The nationalist government took several moves to cut its ties to Russia, including demanding the withdrawal of Russian troops, refusing to participate as a member of the Commonwealth of Independent States, negotiating with Western firms to develop its oil resources, and improving relations with Turkey. However, military losses in NK increased. In 1993, Heydar Aliyev, who had been the Communist Party leader of the republic from 1971–85 but then was ousted and disgraced by Soviet leader Mikhail Gorbachev, began to press for Elchibey's dismissal.

An abortive attempt by the Elchibey government in June 1993 to disarm paramilitary forces in the town of Ganja precipitated the fall of the government and provided the opportunity for Aliyev to regain power. These forces were led by Suret Huseynov, formerly in charge of troops in NK, who had been fired by Elchibey. Huseynov's forces, supplied with Russian equipment, defeated an Azerbaijani Army attack and began to march on Baku. His government in chaos, Elchibey invited Aliyev to come to Baku, and on 15 June, he endorsed Aliyev's election by the legislature as its new speaker. Elchibey fled to the Nakhchiveni Autonomous Republic (NAR) on 17 June. On 24 June 1993, a bare quorum of legislators met and formally stripped Elchibey of presidential powers, transferring them to Aliyev. Huseynov demanded and was given the post of prime minister.

On 3 October 1993, Aliyev was elected president with 98.8% of the vote. The referendum and election were viewed as not "free and fair" by many international observers because of suppression of APF and other opposition participation. In late September 1994, police and others in Baku launched a purported coup attempt. Aliyev darkly hinted at Russian involvement. After defeating the coup attempt, Aliyev also accused Prime Minister Huseynov of major involvement, and Huseynov fled the country. Other coup attempts were reported in 1995 and 1999. All of the alleged coup attempts triggered mass arrests of Aliyev's opponents.

On 11 October 1998, incumbent President Aliyev defeated five other candidates and was elected to a second five-year term, receiving over 76% of 4.3 million votes cast. The major "constructive opposition" candidate running was Etibar Mamedov of the National Independence Party (NIP), who received 11.6% of the vote. Most international observers judged the vote not "free and fair,"

citing myriad irregularities, though also noting that the election marked some improvement in political pluralism.

The conflict with Armenian separatists over its Nagorno-Karabakh region continues to plague Azerbaijan. Azerbaijan asserts that NK forces occupy over 20% of Azerbaijan's territory both in and around NK. The conflict has resulted in about 30,000 casualties on both sides and over 840,000 Azerbaijani refugees and displaced persons (and over 300,000 Armenians). The Organization for Security and Cooperation in Europe (OSCE) began the "Minsk Group" peace talks in June 1992. A Russian-mediated cease-fire was agreed to in May 1994 and was formalized by an armistice signed by the ministers of defense of Armenia and Azerbaijan and the commander of the NK army on 27 July 1994 (and reaffirmed a month later). Moscow talks were held by the sides, with token representation by the OSCE, along with Minsk Group talks. With strong US backing, the OSCE at its Budapest meeting agreed in December 1994 to send OSCE peacekeepers to the region under UN aegis if a political settlement could be reached. Russia and the OSCE assented to merge their mediation efforts. France was nominated as a cochair in 1996. This elicited criticism from Azerbaijan that the French had appeared pro-Armenian, leading to the seating of US, French, and Russian cochairs. (Many Azerbaijanis also have voiced reservations about Russia's objectivity as a mediator, citing its defense ties to Armenia.) Direct Armenian-Azerbaijani contacts by the presidents and advisors have also occurred.

Prospects for a negotiated settlement remain elusive because the sides remain far apart on most substantive issues such as the placement and composition of a peacekeeping force and NK's ultimate political status. Personal meetings by the two presidents raised hopes that a statement of intention could be issued at the November 1999 OSCE Summit, but events such as resignations of some Azerbaijani officials apparently opposed to NK proposals, Aliyev's infirmity, and October 1999 assassinations in Armenia appeared to set back progress.

Peace talks between Armenia and Azerbaijan were held in Paris and Florida in 2001, but by December 2002, Lieutenant General Seyran Ohanian, commander-in-chief of the armed forces of NK, warned Azerbaijan that the enclave's army was "better prepared than ever before" and "ready to repulse the enemy" and carry out a successful counteroffensive should conflict begin. President Aliyev in September 2002 told representatives of the Minsk Group that "the people's mood is changing. They are starting to lose hope in a peaceful solution and are coming to the view that we have to recover our land ourselves by whatever means necessary...It has been...nearly ten years since the Minsk Group was created. How much longer can we go on talking about a peace settlement?"

In 2001, the United States lifted a ban on aid imposed during the NK conflict after Azerbaijan provided airspace and intelligence to the United States following the 11 September 2001 terrorist attacks.

In September 2002, construction began on a multibillion-dollar pipeline to carry Caspian oil from Azerbaijan to Turkey via Georgia (the Baku-Tbilisi-Ceyhan pipeline, otherwise known as the BTC).

The government held a referendum on 24 August 2002 to approve 39 changes to the constitution. Some of the major articles at issue were the abolishment of the proportional system of election of deputies to the national parliament; making the prime minister,

not the speaker of the parliament, a caretaker president in case the president is not able to carry out his duties; and giving lower level courts the right to ban political parties. Opposition leaders argued that abolishment of the proportional system would damage the multiparty system in the country and further strengthen the ruling elite. In addition to this, the opposition claimed that President Aliyev intended to appoint his son Ilham prime minister and then retire, thus paving the way for his son to become the next president. President Aliyev also approved adding a provision to the Law on State Secrets, which would make editors and journalists of local mass media accountable for disseminating state secrets. The government claimed that there was nearly 100% support for the constitutional changes with 88% voter turnout, while opposition groups stated turnout was closer to 15%, which would render the vote invalid. Demonstrators called for the resignation of President Aliyev and for holding free and fair elections. Supporters of more than 30 opposition parties, including the major parties Musavat, the Popular Front, the Azerbaijan Democratic Party, and the Azerbaijan National Independence Party, held marches on 14 September 2002 urging the authorities to cancel the results of the referendum. On 27 October and again on 24 November of that year, the opposition parties marched again under the banner of the United Opposition Movement, claiming that over 50,000 people participated in the marches.

In August 2003, Aliyev appointed his son Ilham prime minister. In October, Ilham Aliyev won a presidential vote by a landslide in a poll outside observers declared not meeting international standards, which sparked opposition protests. These were met by police violence; hundreds were arrested. In December, Heydar Aliyev died in a hospital in Cleveland, Ohio, in the United States; he had been suffering from heart and kidney problems.

In March 2005, outspoken opposition journalist Elmar Huseynov was shot and killed in Baku; thousands of Azerbaijanis mourned his death. After months of preelection tension and the suppression of riots, voters cast their ballots for parliament on 6 November 2005. The ruling Yeni Azerbaijan Party declared victory, while leaders of Azadliq ("Freedom"), a three-party opposition bloc, said the official results were a sham, and the races were tainted by fraud, falsification, and police action. During the campaign, beatings of demonstrators, arrests of opposition figures, and the continued use of government resources for its candidates took place. After the elections, thousands of opposition members protested the fraudulent elections, and the Azeri government was forced—in part by intense diplomatic pressure—to undo some of the most obviously falsified results, by firing two regional governors for interfering with vote counts, annulling the results for five parliamentary seats, and dismissing several election officials and opening criminal cases against them, in addition to carrying out investigations of complaints. The official results showed the Yeni Azerbaijan Party winning 58 parliamentary seats and the Azadliq bloc only 11. The rest were scattered among small parties and independents. Tens of thousands of citizens staged peaceful protests on 26 November 2005, calling on President Ilham Aliyev to resign, and chanting "freedom"; the protests were broken up by the police, who beat many of the participants.

### 13 GOVERNMENT

Azerbaijan is a republic with a presidential form of government. Heydar Aliyev assumed presidential powers after the overthrow of his popularly elected predecessor and was elected president in 1993. Aliyev and his supporters from his home region of Nakhichevan and elsewhere dominated the government and the legislature. Aliyev's son Ilham was elected president in October 2003; Heydar Aliyev died in December 2003.

The Azerbaijani constitution was approved by 91.9% of voters in a referendum held in November 1995. It establishes a strong presidency, sets up a new 125-member legislature (the Milli Mejlis), declares Azerbaijani the state language, proclaims freedom of religion and a secular state, stipulates ownership over part of the Caspian Sea, and gives Nakhchiveni Autonomous Republic (NAR) quasi-federal rights. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. It is extremely difficult for the Milli Mejlis to impeach the president. The transition to democracy has been impeded by government efforts to hinder the opposition. In NK, political turmoil and war damage have slowed development, and ethnic Azerbaijanis are prevented from returning to the region and surrounding areas by the lack of a peace settlement.

In June 2002, the Constitutional Court ruled that changes to the constitution proposed by President Heydar Aliyev did not conflict with the principles of Azerbaijan's basic law. One major change in the constitution concerned what happens if the president retires or becomes incapacitated. Prior to the 24 August 2002 referendum, under the constitution's Article 105, the speaker of parliament assumed the president's duties. Under the new rule, the prime minister, who is appointed by the president and is responsible to him, not the legislature, assumes presidential powers. An amendment to Article 101 changed the threshold for a candidate to be elected president in the first round of voting, from two-thirds to a simple majority. Members of the Milli Mejlis were previously elected on the basis of majority and proportional election systems under Article 83 of the constitution. Under the new provisions, proportional party lists were eliminated and deputies are elected only through winning majorities in districts. Changes to Article 3 forbid holding a referendum on issues that fall under the scope of executive institutions, such as taxes, the state budget, amnesties, elections and appointments to executive positions.

In the November 1995 election, 25 of the seats were allocated through a proportional party list vote and 100 through single-member district balloting. Eight parties were allowed to take part in the party list voting in the legislative elections, but only the Azerbaijani Popular Front (APF) was clearly an anti-Aliyev party. These were the Yeni (New) Azerbaijan (YAP), APF, Azerbaijan Democratic Independence (ADIP), National Independence (NIP), Azerbaijan Democratic Proprietors (ADPP), Motherland, Azerbaijan National Statehood (NSPA), and Alliance for Azerbaijan parties. Aliyev's YAP won most seats in the legislative races. The elections were marred by the harassment and exclusion of most opposition parties and candidates from participation and by rampant irregularities such as the open stuffing of ballot boxes, according to international observers. Some observers stressed that the elections marked some progress in holding a multiparty vote.

Heydar Aliyev's YAP candidates ran unopposed in many electoral districts because of the exclusion of opposition candidates. Campaign advertising by most parties was severely restricted on state-owned television, while Heydar Aliyev received extensive positive coverage. Legislative elections held in November 2000 saw the NAP and its allies win 108 out of 125 seats in the Milli Mejlis in elections that were criticized by international observers. The APF took the next highest number of seats with 6.

The next legislative elections were held in November 2005. Due to the 2002 changes in the constitution approved by referendum, all 125 members of parliament were elected from single mandate constituencies. Amid accusations of fraud and public demonstrations, the government's official results showed the YAP winning 58 seats; the Azadliq ("Freedom") bloc won only 11 seats, and the rest were awarded to independents and split among the smaller parties.

#### **14 POLITICAL PARTIES**

Some three dozen parties are registered, but some opposition parties have been arbitrarily refused registration. Some parties that are deemed explicitly ethnic or religiously based also have been refused registration. Under election legislation passed after Heydar Aliyev's accession, a party must have at least 1,000 members to be legally registered. Party membership is forbidden to government officials in agencies of the judiciary, law enforcement, security, border defense, customs, taxation, finance, and the state-run media. Six pro-Aliyev parties participated in the 1995 legislative party list vote, including Yeni Azerbaijan (YAP; formed in November 1992), Azerbaijan Democratic Independence (ADIP; broke off from NIP in late 1993), Motherland (formed in 1990), and the Democratic Entrepreneurs' Party (formed in 1994). Only the YAP gained enough votes to win seats in the party list vote (though these other parties won seats in constituency balloting). Two centrist or opposition parties participated and won seats in the party-list voting: the Azerbaijan Popular Front (APF—formed in 1988) and National Independence Party (NIP; broke off from APF in early 1992). Opposition parties excluded from the party list ballot included Musavat (formed in 1912). All parties are small; YAP is the largest. YAP, formed by Aliyev, encompasses many of his former Azerbaijani Communist Party (ACP) supporters. The APF was at the forefront of the nationalist and anticommunist movement and its chair, Abulfaz Elchibey, was elected president in 1992. With Heydar Aliyev's return to power, APF members and officials were arrested and harassed. NIP views itself as a moderate nationalist party in "constructive opposition" to Aliyev. Musavat has supported close ties with Turkey and has cooperated on some issues with the APF. The pro-Iranian Islamic Party was stripped of its registration in 1995. Preparing for the 1998 presidential race, in March 1998, 46 pro-government political parties and groups formed the Center for Democratic Elections (CDE). Five prominent opposition political leaders and others formed the Movement for Democratic Elections and Electoral Reform (MDEER) in May 1998: Elchibey (the AFP), Isa Gambar (Musavat), Lala Shovkat Hijyeva (Azerbaijan Liberal Party or ALP), former speaker Rasul Guliyev, and Ilyas Ismayilov (Democratic Party of Azerbaijan). The Dem-

ocratic Party finally achieved registration in early 2000, but co-leader Guliyev remained in forced exile.

Other political parties include the Civil Solidarity Party (CSP), Civic Union Party, Compatriot Party, Justice Party, Liberal Party of Azerbaijan, and the Social Democratic Party of Azerbaijan (SDP). Opposition parties regularly factionalize and form new parties. The opposition bloc that fielded candidates in the November 2005 parliamentary election was called Azadliq ("Freedom").

Heydar Aliyev died in December 2003. Prior to his death he had appointed his son Ilham prime minister. In October 2003 Ilham Aliyev was elected president to succeed his father.

#### **15 LOCAL GOVERNMENT**

Soviet-era Azerbaijan was subdivided administratively into one autonomous republic, Nakhichevan, an area separated from the rest of Azerbaijan by a thin strip of Armenian territory, which had its own parliament of 110 members; and an autonomous region, Nagorno-Karabakh (NK). Azerbaijan dissolved NK's status as an autonomous region in November 1991 in an attempt to reassert central control. NK has claimed an independent existence since December 1991, and a swath of territory around it has been occupied by NK Armenian forces. Azerbaijan has 59 districts (*rayons*) and 11 cities, whose executive heads or mayors are appointed and dismissed by the president. Although the constitution called for the local election of legislative assemblies (councils) by the end of 1997, these elections did not take place until December 1999 (with runoffs in some municipalities in March 2000). In these races, nearly 2,700 municipal and district assemblies were formed. Some 36,000 candidates contested for 22,087 seats in these assemblies. Of these candidates, 18,000 were sponsored by 26 political parties, while others run as independents. The election was not viewed by many international monitors as "free and fair" because of government interference in the electoral process, including the stacking of territorial and precinct electoral commissions with members of the ruling party and other local government supporters, the harassment or disqualification of opposition candidates, and ballot box stuffing. Many of the local assemblies found it difficult to begin work because their roles were somewhat unclear and local executive heads, appointed by Heydar Aliyev, proved somewhat reluctant to share power.

Local elections were held once again in December 2004. In all, 38,041 candidates competed to contest 21,622 seats on 2,731 municipal councils. More than 22,000 of the candidates were registered Yeni Azerbaijan Party (YAP) members. Thirty other parties registered only 2,347 candidates. The major opposition parties, with the exception of the NIP, boycotted the vote. Voting irregularities were reported by outside observers. The YAP maintained its political monopoly in the municipal councils.

#### **16 JUDICIAL SYSTEM**

The old Soviet court system has been essentially retained, consisting of district courts and municipal courts of first instance and a Supreme Court which usually performs the function of appellate review. However, the Supreme Court also performs the function of court of first instance for some serious cases. District courts consist of one judge and two lay assessors and hear criminal, civil, and juvenile cases. Criminal defendants have the right to an at-

torney and to appointed counsel, the right to be present at trial, to confront witnesses, and to a public trial.

The 1995 constitution provides for public trials in most cases, the presumption of innocence in criminal cases, and a defendant's right to legal counsel. Both defendants and prosecutors have the right of appeal. In practice, however, the courts are politically oriented, seeming to overlook the government's human rights violations. In July 1993, Heydar Aliyev ousted the Supreme Court chief justice because of alleged political loyalties to the opposition. The president directly appoints lower level judges. The president also appoints the Constitutional Court and Supreme Court judges with confirmation by the legislature.

Prosecutors (procurators) are appointed by the president with confirmation by the legislature. The minister of justice organizes prosecutors into offices at the district, municipal, and republic levels. The constitution provides equal status for prosecutors and defense attorneys before the courts, but in practice the arrest and investigatory powers of the prosecutors have dominant influence before the courts. Judges will often remand a case for further prosecutory investigation rather than render an innocent verdict. Investigations often rely on obtaining confessions rather than on gathering evidence.

The Azerbaijan government's human rights record is poor, although some public policy debate is allowed and human rights organizations operate. The government restricts freedom of assembly, religion, and association. Numerous cases of arbitrary arrest, beatings (some resulting in deaths), unwarranted searches and seizures, and other human rights abuses are reported. Political oppositionists are harassed and arrested, and there are dozens of political prisoners in Azerbaijan. The conflict between NK Armenians and Azerbaijanis contributed to widespread human rights violations by both sides. Some opposition newspapers are allowed to exist. Ethnic Lezgins and Talysh have complained of human rights abuses such as restricted educational opportunities in their native languages.

## 17 ARMED FORCES

Azerbaijan had 66,490 active personnel in its armed forces in 2005. Reserves included 300,000 members who had been in the military within the past 15 years. The Navy numbered 1,750 active personnel, which operated 6 patrol/coastal craft, 5 mine warfare vessels, 4 amphibious landing craft, and 2 logistics/support vessels. The Army consisted of 56,840 personnel with equipment that included 220 main battle tanks, 127 armored infantry fighting vehicles, 468 armored personnel carriers, and 270 artillery pieces. The Air Force and Air Defense services had a combined 7,900 active personnel with 47 combat capable aircraft, including 37 fighters, 15 fighter ground attack aircraft, and 15 attack helicopters.

Azerbaijan also had an estimated 15,000 people serving in two separate paramilitary units: a 10,000 plus militia; and a border guard with an estimated strength of 5,000. The defense budget for 2005 was \$310 million.

## 18 INTERNATIONAL COOPERATION

Azerbaijan was admitted to the UN on 2 March 1992 and serves on several specialized agencies, such as the FAO, IAEA, IFC, ILO, IMF, UNESCO, and the World Bank. The country is also a mem-

ber of the Black Sea Cooperation Group (BSEC), the Asian Development Bank, Council of Europe, OSCE (1992), EBRD, Economic Cooperation Organization (Turkey, Iran, Pakistan, Russia, the Central Asian states, and Afghanistan), the Islamic Development Bank, the Organization of the Islamic Conference, and the European-Atlantic Partnership Council. The country is also a member of the CIS and has observer status in the WTO. Azerbaijan is part of the group known as GUUAM (Georgia, Uzbekistan, Ukraine, Azerbaijan, Moldova). The group was formed in 2001; Uzbekistan withdrew in 2005.

The OSCE continues to mediate in the struggle between the Azerbaijani government and the ethnic Armenians of the Nagorno-Karabakh region. While Azerbaijan claims sovereignty over the region, the predominantly ethnic Armenian inhabitants are fighting for secession into Armenia.

In environmental cooperation, Azerbaijan is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, and the Montréal Protocol.

## 19 ECONOMY

Azerbaijan is one of the oldest oil-producing regions of the world. Here in ancient times the Zoroastrians, for whom fire was a sacred symbol, built temples around the "eternal fires" of burning gas vents. At the beginning of the 20th century, as international competition increased in the first great era of economic globalization, Azerbaijan was supplying almost half of the world's oil. As a constituent republic of the USSR it was a leading supplier to the rest of the Union until the focus of Soviet oil development efforts shifted to the Ural mountains and western Siberia during the 1970s and 1980s. Remaining oil reserves are estimated in the BP statistical review of world energy for 2002 to be about 7 billion barrels. For oil, its reserve to production ratio (R/P ratio) of 64.3 is topped only by Saudi Arabia and Iran. Proven reserves of natural gas are estimated at 440 billion cu m (15.5 trillion cu ft). In addition, the country is endowed with ample deposits of iron, aluminum, zinc, copper, arsenic, molybdenum, marble, and fire clay.

Azerbaijan boasts a diversified industrial sector that accounts for approximately a third of GDP (2000 est.) up from less than a fifth in 1998, and 15% of employment (including construction), a figure that has remained unchanged. Agriculture, which employs about 40% of the labor force and accounts for 20% of GDP (including forestry), also rests on a relatively diversified base, producing cotton, tobacco, grapes, and a variety of foodstuffs. The transport sector is well developed, integrating the country's various regions and facilitating both domestic and external trade.

Despite its economic potential, Azerbaijan has been slow in making the transition from a command to a market economy. Large state companies continue to dominate the economy and below-market price controls still cover many key commodities. The war with Armenia has also slowed economic growth by disrupting trade ties and draining government revenues. In 1992, Azerbaijan implemented an economic blockade against both Armenia and the enclave of Nagorno-Karabakh, which is still in effect despite the cease-fire reached in 1994. In 1992 the United States passed Section 907 of the Freedom Support Act, restricting assistance to

Azerbaijan until “demonstrable steps” were taken to lift the embargo and cease offensive actions. In January 2002, however, US president George W. Bush waived Section 907 purportedly due to Azerbaijan’s support of the US-proclaimed War on Terror. In August 2002, CCC, a Greek-based construction and project management firm, won the tender for laying pipes for the Baku-Tbilisi-Ceyhan (BTC) oil pipeline officially approved September 2002 and scheduled to go into operation in 2005. Trade has traditionally been with Russia and the former Soviet republics and the economy is still greatly affected by events in those countries.

In 1994, Russia, citing its own conflict in Chechnya, closed all rail and road borders with Azerbaijan. Cut off from its major source of production inputs and main outlet for manufactured projects, Azerbaijan’s industrial production fell by more than 20% in 1995. Overall, it is estimated that from 1991 through 1995 the economy declined by about 60%. Recently, Azerbaijan has begun to shift trade to Iran and Turkey and away from Russia and Ukraine. The BTC pipeline is designed to avoid Russia. Foreign investment, the majority in hydrocarbons, began a period of steady growth in the late 1990s, and in 2001 the economy registered its fifth straight year of real GDP growth. For 1999 to 2001, based on data supplied by the government of Azerbaijan, growth rates were 7.2%, 11.1% and 8.5%, respectively, with a forecast of about 9% (US State Department estimate) for 2002. Nevertheless, the country’s GDP is not expected to reach its 1991 level until 2007.

Localized fighting with Armenia broke out in the spring of 1997 and in the summer of 1999, and efforts to reach a peace agreement have failed to date. The prospects for long-term economic growth have been significantly enhanced in 2002, however, by the cutting of one Gordian knot: the official sanctioning in September 2002 of the BTC pipeline from Baku to the Turkish Mediterranean, which has been pending since the country’s first production sharing contract (PSC) was agreed to in 1994 with the Azerbaijan International Operating Company (AOIC). The AOIC is an international consortium of companies headed by British Petroleum (BP) as operator with a plurality share of 34.1% share. Actual construction on the BTC pipeline began in 2002. Azerbaijan’s second PSC, signed and ratified in 1996, for the Shah Deniz gas pipeline involving another consortia headed by BP (with 25.5% and also designated operator) and Norway (Statoil with 25.5%) more typically failed to be sanctioned in October 2002 as planned due to problems sorting out finance. Azerbaijan’s economic development will ultimately depend on the diversification of its production for export, but in the near future the prospect is for the increasing dominance of the hydrocarbon sector as a percent of GDP and as a percent of exports.

In 2004, the GDP was \$30 billion, an improvement of 10.2% over the previous year. Estimates of the Economist Intelligence Unit show that the GDP growth rate will reach 21% in 2005, and a whopping 25% in 2006, as a result of increased oil and gas exports. Official unemployment has remained fairly stable at around 1.2%, but it is believed that part of the working population is “technically” unemployed or working for the gray market. Inflation has been fluctuating, but at 6.7% in 2004 it is not a major source of concern.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Azerbaijan’s gross domestic product (GDP) was estimated at \$36.5 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$4,600. The annual growth rate of GDP was estimated at 18.3%. The average inflation rate in 2005 was 12%. It was estimated that agriculture accounted for 14.1% of GDP, industry 45.7%, and services 40.2%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$171 million or about \$21 per capita and accounted for approximately 2.4% of GDP. Foreign aid receipts amounted to \$297 million or about \$36 per capita and accounted for approximately 4.4% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Azerbaijan totaled \$4.51 billion or about \$548 per capita based on a GDP of \$7.1 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.4%. In 2001 it was estimated that approximately 51% of household consumption was spent on food, 16% on fuel, 9% on health care, and 2% on education. It was estimated that in 2002 about 49% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, there were an estimated 5.45 million workers in the labor force. As of 2001 (the latest year for which data was available), agriculture and forestry accounted for 41% of employment, industry 7%, and the services sector 52%. As of 2005, the nation’s unemployment rate was officially put at 1.2%.

The constitution provides for the right to form labor unions, but in practice this right is limited and unions are generally not effective in wage negotiations. Collective bargaining is at a rudimentary level. Wages are still set by government ministries for organizations within the budget. Most major industries are state-owned and the government runs the largest industrial and white-collar unions. Uniformed police, military, and customs personnel are prohibited from forming unions, and trade unions may not participate in political activity. The use of compulsory labor is limited to certain circumstances.

The minimum wage as of 2005, was \$25 per month. However, the minimum wage is below the level needed to support a worker and family, nor is it effectively enforced. As a result, many rely upon outside income sources and the structure of extended families generally, to ensure a decent living. In addition, most workers earn in excess of the minimum wage. The legal workweek is 40 hours, although workers in dangerous occupations are limited to 36 hours per week. The maximum daily work shift is 12 hours, and lunch and rest periods are also required. There is a minimum working age of 16 with exceptions for children as young as 14 to work during vacations.

Although health and safety standards have been set by law, these rules are mostly ignored and inspections by the government were ineffective and weak. Workers who leave their jobs due to health and safety hazards, do so at the risk of losing their jobs.

## 22 AGRICULTURE

Some 24% of Azerbaijan's area was cultivated or considered arable in 2002. There are currently 59 agricultural regions in 10 geographic zones; the principal crops are grapes, cotton, and tobacco. Agriculture accounted for 21% of GDP in 2002.

Wheat production in Azerbaijan suffers from a number of problems common in the former Soviet Union, including inadequate production credit and lack of inputs. Most wheat is still produced on state farms, as privatization is only beginning. Production in 2004 amounted to 1,600,000 tons from 620,000 hectares (1,530,000 acres). Seed cotton production amounted to 135,685 tons in 2004, from a harvested area of 77,700 hectares (192,000 acres). Cotton production has been stagnant due to low producer prices, lack of incentives, and a shortage of both inputs and operating capital. Tobacco was grown on about 2,100 hectares (5,200 acres) in 2004; production totaled 6,518 tons.

During the Soviet period, some 1,200 state and cooperative farms existed. Since independence, former state-owned farms have become more productive, and private fruit and vegetable farming is increasing. Of the total crop production of 2004, grapes totaled 55,000 tons; cotton (lint), 40,000 tons; tomatoes, 420,000 tons; watermelons, 280,000 tons; sugar beets, 60,000 tons; hazelnuts, 20,000 tons; garlic, 20,000 tons; sunflower seeds, 18,000 tons; walnuts, 9,700 tons; and tea, 1,048 tons.

Grapes were grown across 10,000 hectares (25,000 acres) in 2004; wine production amounted to 52,800 tons that year. Azerbaijan has an expanding wine-producing industry whose wines have frequently won awards at international exhibitions.

## 23 ANIMAL HUSBANDRY

Azerbaijan has some 2.7 million hectares (6.7 million acres) of permanent pasture. The livestock population in 2004 included 16,878,000 chickens, 6,676,000 sheep, 1,934,000 cattle, 604,000 goats, 20,000 pigs, and 68,000 horses. Meat production in 2004 amounted to 145,500 tons, almost three-fourths of which was beef and mutton. In 2004, about 1,190,000 tons of cow's milk, 46,500 tons of eggs, and 12,100 tons of greasy wool were produced.

## 24 FISHING

The Caspian Sea is Azerbaijan's principal fishing resource. Commercial fishing traditionally centered on caviar and sturgeon. The total catch was 6,937 tons in 2003, primarily Azov sea sprat.

## 25 FORESTRY

About 13% of the land area consists of forests and woodlands. Soviet-era policies gave priority to high production and rapid growth at the expense of the environment. The State Committee for Ecology and Use of Natural Resources has introduced new regulations to protect forest resources. Roundwood production in 2003 totaled 14,000 cu m (494,000 cu ft), with 23% used for fuel wood.

## 26 MINING

Besides significant reserves of natural gas and petroleum, Azerbaijan has iron ore reserves near the disputed Nagorno-Karabakh region, and lead-zinc and copper-molybdenum deposits in the Nakhichevan area. Production of metallic and industrial minerals in 2002 included alunite (no figure was available for 2002, but 23,000 tons were produced in 2000. There is no recorded production in 2001), alumina (217,000 tons in 2000 and 91,000 tons in 2002), bromine, clays, gypsum (1,039 metric tons), iodine (300,000 kg), limestone, marble, sand and gravel, decorative building stone, and precious and semiprecious stones.

## 27 ENERGY AND POWER

At the turn of the 20th century, Azerbaijan accounted for half of the world's oil production. Oil wells have been operating in Baku since the 1840s. As of the early 21st century, almost all production came from offshore in the Caspian Sea. Azerbaijan was one of only four former Soviet republics (along with Russian, Kazakhstan, and Turkmenistan) to be self-sufficient in petroleum. However, production declined following the 1991 breakup of the Soviet Union until foreign investment provided the capital for new development, turning this trend around in 1998. Production rose from 194,000 barrels per day in 1998 to an average of 318,000 barrels per day in 2004.

According to industry journals and government sources, proven oil reserves as of 2004 totaled between 7 billion and 13 billion barrels. The State Oil Company of Azerbaijan (SOCAR) has planned for joint development of the offshore fields (which are now largely untapped) and has entered into several agreements to build oil pipelines. For instance, a project with the Caspian Pipeline Consortium would carry oil from the Caspian Sea to the Russian Black Sea port of Novorossiysk. Another deal with Turkey involved the construction of a 1,760-km (1,090-mi) pipeline, the symbolic first length of which was installed in September 2002, to carry crude oil from Baku to Ceyhan, Turkey. In 1995 Azerbaijan had 17 offshore oil fields in production. Guneshli, about 60 mi (96 km) off the Azeri coast, currently accounts for more than half the annual production. By the end of 2002, 33 companies in 15 foreign countries had signed agreements to develop 21 major oil fields in Azerbaijan. As of 2003 disputes over offshore oil rights in the Caspian Sea continued to hinder development of those reserves.

Natural gas production has become more important in recent years, especially in Baku, where some of the oil wells have been exhausted. Proven reserves as of late 2004 totaled 1.37 trillion cu m (48.4 trillion cu ft). Production of natural gas in 2004 totaled 4.6 billion cu m. Ukraine and Iran are interested in running a natural gas pipeline through Azerbaijan en route to Eastern Europe.

In 2003, net electricity generation was estimated at 19.5 billion kWh. In 2003, consumption of electricity was estimated at 19.8 million kWh. Total installed capacity at the beginning of 2001 was 5.1 million kW. Eight thermal plants supply more than 80% of capacity, and the rest comes from hydroelectric plants. The main power plants (both thermal) were near Ali-Bayramy (1,100 MW) and Mingechaur (2,100 MW).

Petroleum and natural gas resources are the basis for an extensive system of refineries, which produce gasoline, herbicides, fertilizers, kerosene, synthetic rubber, and plastics.

## 28 INDUSTRY

The oil and gas industry has traditionally been pivotal to the economy; in 1891, Azerbaijan produced more than half of the world's total oil production. In 2001 refinery production accounted for over 14.9% of total industrial production, second only to the 58.6% accounted for by the extraction of crude oil and natural gas, according to the Azeri government statistics. Oil refining is concentrated in the Azerineftyag (Baku) refinery, with a capacity of 230,000 bpd, and the Azerneftyanajag (New Baku) refinery, with a capacity of 212,000 bpd.

The total domestic production of oil in 2001 was 311,200 bpd of which an estimated 175,200 bpd (56%) was exported, which left the two refineries operating well below capacity, with overall utilization rates as low as 40%. Both refineries are in need of modernization, which the government estimates will cost \$600 million to \$700 million. The US Trade and Development Agency financed a \$600,000 feasibility study, awarded to ABB Lumas in January 2002, on upgrading the refineries and the specialized oil port of Dubendi.

Failure to replace worn and outdated technology as well as falling demand in the rest of the former USSR resulted in a steady decline in the production of oil products since the early 1980s. Total output averaged 185,000 bpd in 1995, as compared to 285,000 bpd in 1987, and has declined further since. Output of refined products in 2001 included heating oil (approximately 50%), diesel fuel (28%), gasoline (10%), motor oil (7%), kerosene (3%), and other products (3%). Petroleum production is situated in 40 deposits on land and 12 offshore deposits in the Caspian Sea.

The offshore Gunashli petroleum mining operation supplies half of the country's petroleum. As of June 2002, Azerbaijan had entered into 23 production-sharing agreements (PSAs) involving about 30 companies from about 15 countries involving 13 offshore fields, and 10 onshore fields. Only six—the offshore Azeri, Chirag, and deepwater Gunashli (ACG) field being developed by the AIOC consortium for connection to the Baku-Tbilisi-Ceyan (BTC) pipeline, and five relatively small onshore fields—were actually producing measurable daily output in 2002.

In line with the historic importance of the oil sector for the Azeri economy, the fabrication of equipment related to petroleum production had been one of the country's major industries. As a source of 70% of the former Soviet Union's oilfield equipment, it also held great importance for other oil-producing post-Soviet republics in the early years of the transition from Communism. Azerbaijan's petroleum equipment manufacturing industry comprised the second-largest concentration of such industries in the world (behind that of the United States). Like most other of the country's economic sectors, however, the industry was plagued by plant obsolescence. Industrial production and export statistics for 2001 indicate no manufacturing or export of oilfield equipment. On the contrary, the US Commercial Service has issued bulletins pointing to upwards of \$10 billion in procurement opportunities in Azerbaijan for foreign suppliers of oil field equipment in the period 2002–05. In August 2002, CCC, a Greece-based construction and project management firm, won the contract for laying the pipeline for the Azeri portion of the BTC pipeline.

Other important industrial sectors in the Azeri economy include electrical power production (12.1% of total industrial production in 2001), chemicals (3.4%), food processing (3.2%), cars

and other transport equipment (2.9%), and tobacco goods (1.6%), as well as various kinds of light manufacturing. As with fuel and oilfield equipment production, however, output in almost all of these sectors declined or stagnated in the 1990s due to the conflict with Armenia.

In aggregate terms, the real value of total industrial production in Azerbaijan dropped 21% in 1995, following already steep declines of 31% in 1992, 8% in 1991, and 17% in 1990. In 1998 total industrial production index registered its first year-on-year increase in the decade, moving from 28% of the 1990 level to 29%. By 2001 the index stood at 34% of the 1990 level, and it is estimated that pre-transition levels industrial output will not be achieved until 2007. Manufacturing, the main component in the industrial production index, is lagging the most. In 2001 it stood at only 24% of the 1990 level, whereas other components, namely, the extraction industry and utilities (electric, gas, and water), had reached 83% and 69%, respectively, of 1990 levels of output. A structural change is evidenced in the relative weights of production and refining activities in industrial production between 1997 and 2001. Refining declined from 34% to 14.9% of the total, while extraction increased from 31.2% to 58.6% in 2001. In 2001 total industrial production rose 5.1% over 2000.

In 2004, the industrial production growth rate was 4%, and industry accounted for more than 45% of the GDP, while employing only 7% of the working population; agriculture contributed 14.1% to the GDP, and employed 41% of the labor force; services came in second in terms of contribution to the economy (40.2%), but first in terms of employed labor force (52%).

## 29 SCIENCE AND TECHNOLOGY

The Azerbaijan Academy of Sciences in Baku has departments of physical engineering and mathematical sciences, chemistry, earth sciences, and biology; as of 1997, 19 science and technology-related research institutes were attached to it. The country has numerous other institutes conducting research in agriculture, medicine, and technology.

The Azerbaijan Technical University in Baku, founded in 1920, has faculties in automation and computing technology, electrical engineering, machine-building, automechanics, metallurgy, radio-engineering, robotics, and transport. Baku State University, founded in 1919, has faculties of mathematics, physics, chemistry, biology, geology, and geography. Azerbaijan also has five higher institutes offering courses in agriculture, medicine, petroleum engineering, engineering, and technology. In 1987–97, science and engineering students accounted for 37% of college and university enrollments. The Azerbaijan Scientific and Technical Library is located in Baku.

As of 2002, there were 1,248 researchers and 197 technicians actively engaged in research and development (R&D). R&D spending in that year totaled \$81.045 million, of which 54% was by the government, 24.5% by higher education, and 21.1% by business. In 2002, high technology exports totaled \$10 million or 8% of manufactured exports.

## 30 DOMESTIC TRADE

Despite the government's claims that it is moving towards a free market economy, government ownership is still common among large industries. Since independence, there has been an informal

privatization of the trading sector as many small shops have sprung up throughout Azerbaijan. Private traders now handle most retail sales. Private business people see trade as relatively low risk in an environment where private ownership rights do not exist. Business and retail hours can vary according to the owner's preference; however, most businesses are open from 9 AM to 6 PM, Monday through Friday. Many businesses and offices also have Saturday hours. Private transactions are primarily in cash. Credit cards are not generally accepted, except in major hotels and restaurants. An 18% value added tax applies to all goods and services.

### 31 FOREIGN TRADE

Like other post-Soviet economies, Azerbaijan is highly trade-dependent; however, it is endowed with a more diversified export

#### Principal Trading Partners – Azerbaijan (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	2,591.7	2,626.4	-34.7
Italy-San Marino-Holy See	1,345.9	74.0	1,271.9
France-Monaco	209.7	156.0	53.7
Russia	147.8	383.9	-236.1
Israel	138.1	...	138.1
Georgia	111.5	10.2	101.3
Turkey	107.0	195.1	-88.1
Greece	71.4	...	71.4
United States	63.9	132.6	-68.7
Croatia	61.1	...	61.1
Iran	49.1	50.6	-1.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Azerbaijan (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-2,020.9</b>
Balance on goods		-98.5
Imports	-2,723.1	
Exports	2,624.6	
Balance on services		-1,614.5
Balance on income		-442.1
Current transfers		134.2
<b>Capital Account</b>		<b>-23.1</b>
<b>Financial Account</b>		<b>2,279.7</b>
Direct investment abroad		-933.3
Direct investment in Azerbaijan		3,285.0
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-169.2
Other investment liabilities		97.2
<b>Net Errors and Omissions</b>		<b>-111.8</b>
<b>Reserves and Related Items</b>		<b>-123.8</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

structure than many other former USSR countries, especially in neighboring Central Asia. While the centrally planned state ordering system is steadily losing its place as the basis for trade in the former Soviet Union, the Azeri Ministry of Foreign Economic Relations still controls the export of all products considered to be of strategic importance to the national economy.

Key to Azerbaijan's trade future will be the development and operations of a major oil pipeline out of the Caspian Sea. Currently, the construction of a major export pipeline to the Mediterranean is under way and scheduled for completion in 2005. Exports include oil and gas (84%), chemicals, oilfield equipment, textiles, and cotton. Imports include machinery and parts (32%), consumer goods, food, and textiles.

In 2004, exports totaled \$3.2 billion (FOB—Free on Board) and mainly went to Italy (26.6%), the Czech Republic (11.9%), Germany (8.1%), Indonesia (6.4%), Romania (6.2%), and Georgia (6%). Imports were slightly higher at \$3.6 billion, and they chiefly came from Russia (16.1%), the United Kingdom (12.5%), Turkey (10.5%), Germany (7.8%), and the Ukraine (5.6%).

### 32 BALANCE OF PAYMENTS

The war with Armenia in and around Nagorno-Karabakh had facilitated Azerbaijan's trade deterioration, which was further exacerbated by the collapse of the local currency. Reviving ruble-related trade links with Russia was a key reason for Azerbaijan's entry into the Commonwealth of Independent States in September 1992. In 1995 inflation fell and the currency was stable until it was devalued in 1999, causing inflation of 10% to 15%. The current account deficit was over one-third of GDP in 1998.

The US Central Intelligence Agency (CIA) reported that in 2002 the purchasing power parity of Azerbaijan's exports was \$2 billion while imports totaled \$1.8 billion resulting in a trade surplus of \$200 million.

The International Monetary Fund (IMF) reported that in 2001 Azerbaijan had exports of goods totaling \$2.08 billion and imports totaling \$1.47 billion. The services credit totaled \$290 million and debit \$665 million.

Exports of goods and services totaled \$3.7 billion in 2004, slightly higher than the imports (\$3.6 billion). Estimates of the Economist Intelligence Unit see the exports almost tripling by 2007, with the imports stabilizing around \$4.7 billion. Obviously, the increased oil production will be the main engine of this growth. The current account balance was -\$2.6 billion, but is expected to go into the positive by 2006. Reserves of foreign exchange and gold reached \$875 million in 2004, covering almost three months of imports.

### 33 BANKING AND SECURITIES

The National Bank of Azerbaijan is the central bank of Azerbaijan. The central bank is charged with regulating the money supply, circulating currency, and regulating the commercial banks of the country. However, the banking system in Azerbaijan is minimal and ineffective. An estimated \$1 billion is held in cash or outside the banking sector, a considerable amount in comparison with the scope of the country's entire economy.

There are approximately 70 foreign and local banks in Azerbaijan. Of the four state-owned banks, only the International Bank of

**Public Finance – Azerbaijan (1999f)**

(In billions of manat, central government figures)

<b>Revenue and Grants</b>	<b>3,380.2</b>	<b>100.0%</b>
Tax revenue	2,403.5	71.1%
Social contributions	733	21.7%
Grants	63.2	1.9%
Other revenue	180.5	5.3%
<b>Expenditures</b>	<b>4,260.9</b>	<b>100.0%</b>
General public services	1,377.3	32.3%
Defense	472.1	11.1%
Public order and safety	482.9	11.3%
Economic affairs	362.4	8.5%
Environmental protection	...	...
Housing and community amenities	1.5	<1.0%
Health	34.7	0.8%
Recreational, culture, and religion	54.7	1.3%
Education	136.6	3.2%
Social protection	1,412.1	33.1%

(...) data not available or not significant. f = forecasted or projected data.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Azerbaijan (IBA) was solvent in 1999. The IBA was in the process of being privatized in that year. Major commercial banks include the Promtekhbank, Azakbank, Azerdemiryolbank, Bacobank, Gunay International Bank, Halgbank, ILKBANK, and the Universal Bank. Most businesses use the IBA, or the British Bank of the Middle East, Baku.

The central bank increased the minimum bank capital to \$1.5 million in 1999, and expected to increase the figure to \$3 million in 2001 (the latest year for which data was available), effectively consolidating the sector. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$363.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$738.5 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

The Baku Stock Exchange, known as the BSE, opened in 2001 trading short-term treasury bonds and the common stock of recently privatized state-owned enterprises. Trading volume in the first six months was just under \$1 million. A regulatory framework for the new exchange is under development and is expected to conform to international transparency standards.

**3<sup>4</sup> INSURANCE**

As of 1995, at least 14 insurance companies were doing business in Azerbaijan.

**3<sup>5</sup> PUBLIC FINANCE**

Since 1996, the Azerbaijani government has emphasized privatization as a means towards consolidation of the public debt and revitalization of the economy. Over 70% of all parastatals are set to be privatized; more than 20,600 companies were privatized during 1997 and 1998. Foreign investment was encouraged, especially in the oil sector, however the diversification needed for long-term

growth is lacking. The budget deficit in 2001 was a mere 0.5% of GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Azerbaijan's central government took in revenues of approximately \$31.8 billion and had expenditures of \$29.8 billion. Revenues minus expenditures totaled approximately \$28.8 billion. Public debt in 2005 amounted to 13.9% of GDP. Total external debt was \$2.253 billion.

The International Monetary Fund (IMF) reported that in 1999, the most recent year for which it had data, central government revenues in billions of manat were 3,380.2 and expenditures were 4,260.9. The value of revenues in millions of US dollars was \$1 and expenditures \$1, based on an official exchange rate for 1999 of 4,120.17 as reported by the IMF. Government outlays by function were as follows: general public services, 32.3%; defense, 11.1%; public order and safety, 11.3%; economic affairs, 8.5%; health, 0.8%; recreation, culture, and religion, 1.3%; education, 3.2%; and social protection, 33.1%.

**3<sup>6</sup> TAXATION**

On 1 January 2001, a new tax code went into effect. Personal income rates remained the same, at rates ranging from 12–35%, as did the corporate tax rate, at 27%. However, as of 2005, the corporate rate was set at 24%. The revised depreciation schedule for corporate assets favors investments in high-tech equipment and oil and gas exploration. Depreciation rates are 10% a year for buildings, 25% a year for equipment and computers, 25% for geological and exploratory costs, and 20% a year for all other assets. However, accelerated depreciation is allowed for capital spending allocated for production purposes at twice the standard rates. Included in this are expenditures on the building of those facilities that are to be used in the actual manufacture of goods. The value-added tax (VAT) was reduced from 20% to 18%, while the property tax was raised from .5% to 1% of assessed value. A .05% Road Fund Tax on turnover was abolished, but there is a highway tax imposed on foreign-registered vehicles collected by customs authorities. There are payroll taxes paid by the employer amounting to 32%, 30% going to the Social Protection Fund, and 2% going to the Employment Fund. There are excise taxes, but excise paid for goods used in production can be offset against excise charged for the finished product. In 2001, total government revenue came to an estimated 21.4% of GDP, while total expenditures, including net lending, amounted to only 20% of GDP, producing a positive fiscal balance equal to 1.4% of GDP.

**3<sup>7</sup> CUSTOMS AND DUTIES**

Tariffs are set at 15%, 5%, 3%, or 0.5%. Most goods carry the 15% import customs duty. Capital goods and some primary goods are exempt. There is also a 20% value-added tax on certain imports. A dividend withholding tax of 15% is applicable to monies sent abroad.

In 1992, Azerbaijan signed trade agreements with all the republics of the former USSR except Armenia and Russia. Azerbaijan joined the Commonwealth of Independent States (CIS) in September 1993 and acceded to the CIS economic union treaty the same year. Azerbaijan is a member of the Economic Cooperation Organization. In 1999, Azerbaijan entered into a Partnership and Cooperation Agreement with the European Union and was seek-

ing membership in the World Trade Organization, but as of 2003 has not yet received it.

### 38 FOREIGN INVESTMENT

Foreign investment plays a major role in financing the development of much of Azerbaijan's industrial sector, especially the oil and gas-related industries. The 1992 Law on Foreign Investment provided many basic guarantees to foreign investors, including nondiscriminatory treatment, the repatriation of profits, guarantees against expropriation, and dispute settlement. The Privatization Law passed in 1995 allowed foreign investors to acquire shares in state companies and purchase real estate jointly. Starting in 1997, foreign tax privileges were revoked. As of 1999, foreign investors were required to obtain a license and pay a fee in order to open business in Azerbaijan.

Only about 100 joint venture projects were registered by mid-1992; these were dominated by Turkish firms and involved primarily in trade and textiles. In the oil sector, preliminary agreements were signed with US, Scottish, British, and other foreign companies for the exploration and development of several major oil fields in the Caspian Sea. In 1992, Azerbaijan joined a consortium with Oman, Kazakhstan, and Russia aimed at constructing a pipeline through Armenia, Iran and Turkey, or Georgia. Little action was taken on these agreements, due to heightened political tensions. The Azerbaijan International Operating Company (AIOC), led by BP Amoco, signed an \$8 billion contract in 1994 to exploit oil reserves at Azeri, Chirag, and Guneshli (ACG). Foreign direct investment leapt from only \$30 million in 1994 to over \$1 billion in 2002 (about 17% of GDP), with approximately 90% of FDI concentrated in the hydrocarbons sector.

Although the US government had banned public aid to Azerbaijan in 1992, US investors played a large role in exploiting Azerbaijani oil reserves, increasingly so since January 2002 when the Bush administration waived the ban on public assistance (due to Azerbaijan's trade embargo against Armenia and Nagorno-Karabakh) because of Azerbaijan's support in the War on Terror. In the energy sector, by June 2002, the government had concluded Production Sharing Agreements (PSAs) with over 30 companies representing 15 countries.

Over 90 US energy-related companies are currently resident in Baku pursuing investment opportunities. Significant foreign investors in the energy sector included British Petroleum (BP)—the designated operator for both the ACG oil field and the Shah Deniz natural gas field—Unocal, ExxonMobil, Devon Energy (Pennzoil), Chevron, Conoco, Moncrief Oil, TPAO (Turkish Oil Company), Statoil (Norway), Lukoil (Russia), Itochu (Japan), Agip (Italy), and TotalfinaELF (France).

The US State Department projects that as work on the BTC pipeline proceeds and development of Azerbaijan's oil and gas resources intensifies, foreign investment should increase from levels of 15–25% of GDP to 50% of GDP. The US State Department also noted that data from Azerbaijan is not reliable, and only rough estimates can be made. On this basis, it reported that foreign investments in 2000 amounted to about \$927 million, of which \$546.1 million (58.9%) was in the energy sector.

Investments came in at a faster pace in subsequent years, reaching \$1.4 billion in 2002, \$3.3 billion in 2003, and \$3.0 billion in 2004. Most of the capital inflows went to the energy sector, but

there were also some investments in the transport and communications sectors.

### 39 ECONOMIC DEVELOPMENT

Rapid development of the Azeri economy in the former USSR was based on the expansion of both its industrial sector, led by oil-related industries, and its agricultural sector, led by grape, tobacco, and cotton production. With grape and wine production weakened by the effects of Gorbachev's anti-alcoholism campaign in the 1980s, and much of the country's industrial sector afflicted by technological obsolescence, overall economic growth in the republic had already begun to decline by 1989, when NMP dropped 6%. Real gross domestic product (GDP) contracted by almost 60% from 1990 to 1995. However, in the late 1990s, foreign investment in the country's oil and natural gas sectors opened a period of steady growth. Key strategies of the Azeri government to bring about economic revitalization have included both an economic restructuring program as well as efforts to expand its economic ties to countries beyond the former Soviet Union. To the latter end, Azerbaijan joined the Economic Cooperation Organization set up by Iran, Pakistan, and Turkey to promote trade among Muslim countries. It was also the first of the former Soviet republics to become a member of the Islamic Development Bank, which provides potential access to financing for programs related to agriculture, construction, training, and food aid. In 2002, economic prospects brightened considerably with progress made on its two major pipeline projects designed to connect the Caspian Sea to the Turkish Mediterranean to provide oil and gas for the European and North American markets, the Baku-Tbilisi-Ceyhan Export Oil Pipeline (BTC) and the Baku-Tbilisi-Erzrum Gas Pipeline. The BTC particularly received an important impetus when the Azeri government came out as a strong ally of the United States in its War on Terror.

The restructuring program in Azerbaijan has been similar to those of other countries in the former USSR. Its main points include stabilization measures (price liberalization, introduction of national currency, and establishment of an exchange rate stabilization fund); introduction of new legislation regarding privatization, foreign investment, and employment; fiscal and monetary reform (including introduction of a VAT and controls on government expenditures); civil service reform; and development of the banking sector. Four committees on antitrust, support for enterprises, state property, and land reform have been established to oversee the implementation of reform legislation. Privatization of the state enterprise sector is moving at a slow pace. Particular attention is being directed at modernizing those strategic sectors of the economy with the greatest potential for export growth, particularly the oil industry and, to a lesser extent, textile production; the role of foreign investment is seen as pivotal in these areas.

Since 1994, the Azerbaijan parliament has ratified 22 other PSCs, 19 of which were still operative in the early 2000s. Virtually every major oil company in the world is a player in Azerbaijan, including over 90 American companies resident in Baku in 2002. The US State Department estimates that for the period 2002–05 opportunities for sales of upwards of \$10 billion will be available in association with the expansion of AIOC's offshore oil and gas production. Macroeconomic stability has also been a clear achievement with the government's tight fiscal and monetary pol-

icies producing low consumer price inflation rates in 2000 and 2001 of 1.8% and 1.5%, respectively, according to IMF staff reports, after two years of actual declines in the price level in 1998 and 1999, of -0.8% and -8.5%, respectively.

Economic reforms in Azerbaijan have come increasingly under the conservative supervision of the IMF and the World Bank, which have also taken aim at the problem of pervasive corruption in the administration of taxes and custom duties. In 2002, Azerbaijan was under a three-year Poverty Reduction and Growth Facility (PRGF) program with the IMF, the objectives of which include establishing financial discipline in the energy sector, and increasing efficiency and transparency in the operations of the Ministry of Taxation and the State Customs Committee, and developing a comprehensive anticorruption program.

In March 2002, Azerbaijan reached agreement with the World Bank for a second Structural Adjustment Credit (SAC-II) program, funded at \$60 million. If implemented, the IMF and World Bank programs would greatly improve the investment climate in Azerbaijan. Azerbaijan's two privatization programs since its transition to a free market economy have faltered on the lack security and market transparency. The first, from 1996 to 1998, focused on small and medium-sized enterprises was hindered by lack of resources to properly prepare assets for privatization and insufficient information about these enterprises. A presidential decree of August 2000 opened up case-by-case sales of some of the country's largest enterprises, and in March 2001 additional decrees were issued identifying about 450 enterprises to be privatized during the second privatization program. Progress continues to be slow, however. Attempts to privatize large state enterprises, such as the Azerboru pipe facility, failed for lack of qualified bidders, although by January 2002 the government had succeeded in placing the Baku electrical distribution network under the long-term private management of a Turkish firm, Barmek Holdings. There has been no substantial progress in privatizing the important telecommunications sector. The private sector's contribution to the economy does continue to grow due to both the first privatization program and to land reform. Official statistics placed the private sector's contribution to GDP at over 70% for 2002, although independent economic observers estimate this share at closer to 50–60%, according to the US State Department.

The pursuit of development plans remains hampered by ongoing political conflicts in the country. Border disputes limit vital trade with Turkey, not to mention the overall economic benefits of a lasting peace between the Azerbaijan and Armenia. Azerbaijan's potential for economic development based on both its natural and human resources remains high, but the challenges posed by both external and internal politics which have eaten at the supporting infrastructure, tangible and intangible, remain quite formidable.

#### **40 SOCIAL DEVELOPMENT**

Old age, disability, and survivor benefits have been provided since 1956. Pensions are provided for men at age 62 with 25 years of employment, and at age 57 for women with 20 years of employment. Social insurance, instituted in 1997, covers all employed residents. Workers' compensation provides both short-term disability benefits and pensions. Unemployment benefits were introduced in 1991. To obtain benefits there must be at least 26 weeks of covered employment in the 12 months prior to unemployment. These

benefits are suspended if the applicant refuses two acceptable job offers. Benefits amount to 70% of average gross monthly earnings but are not to exceed the national average monthly wage.

Women nominally enjoy the same legal status as men and are underrepresented in government and higher levels of the work force. Although women receive opportunities for education, work, and political activity, social traditions tend to keep them in subordinate positions. Violence against women is a serious problem especially in rural areas. As of 2004 there are no laws on spousal abuse or rape, and there are no government-sponsored programs for victims of sexual abuse. The government is committed to protecting the rights of children, however economic hardship limits the ability to safeguard children.

Ethnic tensions and anti-Armenian sentiment are still strong. Many Armenians have either been expelled or emigrated. It was estimated that approximately 20,000 Armenians, almost all of mixed marriages or mixed parentage, continue to reside in Azerbaijan in 2004. Other minorities, such as the Kurds and the Turks, also report problems of discrimination. The constitution provides for freedom of assembly, religion, and speech, but these rights are often restricted by the government. Azerbaijan's human rights record remains poor. Excessive force is used by police, and the judicial system continues to be inefficient and corrupt. Torture remains a problem, and harsh prison conditions continue.

#### **41 HEALTH**

As part of the former Soviet Union, Azerbaijan has had to develop and maintain its own health care system and standards. As of 2004, there were an estimated 354 doctors and 728 nurses per 100,000 people practicing in the country. Additionally, there were an estimated 26 dentists and 122 midwives per 100,000 residents. The total expenditure on health was estimated at 1.8% of GDP.

Azerbaijan's infant mortality rate for 2005 was 81.74 per 1,000 live births, which represents an enormous increase in the previous five years. Life expectancy in 2005 was 63.35 years. As of 1999, the country immunized an estimated 99% of one-year-old children against diphtheria, pertussis, and tetanus and 99% against polio.

The overall death rate in 2002 was estimated at 10 per 1,000 inhabitants. Thousands of lives were lost between 1989 and 1992 when the country was at war with Armenia. Diphtheria, tuberculosis, hepatitis A, and diarrheal and acute respiratory infections have been serious public health problems. There have also been outbreaks of anthrax, botulism, cholera, tetanus, and malaria. Measles and tuberculosis still remain in this country despite a high incidence of vaccination for one-year-old children. The incidence of tuberculosis was 62 per 100,000 people. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,400 people living with HIV/AIDS in the country. There were an estimated 100 deaths from AIDS in 2003.

#### **42 HOUSING**

As of 1996, over 1.3 million people were living in houses that were considered to be structurally dilapidated and dangerous. About 67% of current dwellings were built within the period 1981–96. In the period 1991–95, construction of new housing fell by nearly 50% due to poor economic conditions and the government esti-

mated that a total of about 107,000 homes had been lost due to the conflict over Nagorno-Karabakh.

The government keeps statistics on the square meters of living space available. In 2003, the total dwelling stock was estimated at about 1,000,400 square meters of available living space. About 94% of the population has access to piped water (cold), but only 19.2% have access to hot piped water. About 92% have access to appropriate sewage systems and 76% have central heating systems. About 21% of the population are living in apartment buildings and about 14% live in private houses. Most private homes are located in rural areas.

### 43 EDUCATION

Education is compulsory for students between the ages of 6 and 15. In 2001, about 23% of children ages three to five attended some type of preschool program. Primary school covers a program of four years, followed by a five-year basic program and a two-year secondary program. Secondary students might choose to attend a three-year technical program instead. The usual language of instruction is Azerbaijani, although Russian, Armenian, Georgian, and English are also offered by some schools. The academic year runs from September through May. The Ministry of Education and the Council of University Presidents are the primary national administrative bodies. As of 2003, public expenditure on education was estimated at 3.2% of GDP.

Primary school enrollment in 2003 was estimated at about 80% of age-eligible students; 81% for boys and 79% for girls. The same year, secondary school enrollment was about 76%; 77% for boys and 75% for girls. The student-to-teacher ratio for primary school was at about 15:1 in 2003. The ratio for secondary school was about 9:1.

Azerbaijan's most important institutes of higher learning are the Azerbaijan Polytechnic Institute, located in Baku, with seven departments and an enrollment of 12,000 students; and the State University, also located at Baku and founded in 1919. It has an enrollment of over 15,000 students in 11 departments. Other institutions include the Medical University, Technological University, the Economic Institute, and the Oil and Chemistry Academy. Russian is more commonly used as the language of instruction at higher-level institutions, but this is slowly changing with a growing demand for the use of Azerbaijani. In 2003, about 16% of the tertiary age population were enrolled in some type of higher education program; 19% men and 14% women. The adult literacy rate is at about 97%.

Baku is sometimes referred to as an "oil academy" because of its ongoing research in the areas of turbine drilling, cementation of oil wells, and the development of synthetic rubber from natural gas.

### 44 LIBRARIES AND MUSEUMS

The Mirza Fatali Akhundov National Library of Azerbaijan is in Baku and contains about 4.4 million volumes. Other public libraries in Baku include City Central Library, the Kocharli Azerbaijan State Children's Library, and Jafar Jabbarly Republican Youth Library. The country has about 4,000 public libraries that are administered by the Ministry of Culture. Academic libraries include a library of Russian language and literature at the Azerbaijan Pedagogical University and a scientific library at Baku State University.

The Azerbaijan Library Development Association was founded in 1999.

There are 115 recognized museums in the country, 27 of which are art museums, and there are 20 theaters. The country also has 6,571 monuments and historic sights. The Ichari Shahr, or Old Town, in Baku has the Shirvanshah Palace, an architectural monument from the 15th and 16th centuries which has been restored and is now a museum. Other museums are the Museum of History of Azerbaijan (1920), which exhibits archeological, ethnographic, and other relics; the Rustam Mustafayev Azerbaijan State Arts Museum, displaying works of Azerbaijani, Russian and West European artists from the 15th–19th centuries along with the works of modern Azerbaijani artists; the State Museum of Azerbaijani Carpets and Folk and Applied Art; and the Nizami State Museum of Azerbaijani Literature, depicting the stages of literary development. The Gobustan Museum features prehistoric dwellings and cave paintings over 10,000 years old. Baku, the capital, remains an important cultural and intellectual center in Transcaucasia.

### 45 MEDIA

Azerbaijan is connected to other former Soviet republics by land-line or microwave and to other countries through Moscow. Phone service is said to be of poor quality and inadequate. Most telephones are in Baku and other industrial centers. There are about 700 villages still without public telephone service. In 2003, there were an estimated 114 mainline telephones for every 1,000 people; about 55,400 people were on a waiting list for telephone service installation. The same year, there were approximately 128 mobile phones in use for every 1,000 people.

In 2004, there were over 40 independent newspapers and magazines. There were 10 state newspapers and 80 newspapers funded by city or district-level officials. Most newspapers and magazines are printed in government publishing houses or on private printing presses owned by individuals close to the government.

Major newspapers include *Azərbaycan*, a government daily, and *Ekho. Zerkalo* is published in Russian and English and the *Baku Sun* is a popular English paper. Weeklies include *Ekspress* and 525 *Qazet. Ganjları (Youth of Azerbaijan)* had a circulation of 161,000 in 2002. Over 100 other periodicals are published, more than half in Azerbaijani.

A majority of radio and television broadcasting sources are controlled by the government, but some private stations have begun to flourish. In 2004 there were 15 television stations and 9 radio stations in operation. The public broadcasting station ITV was launched in 2005. Domestic and Russian television programs are received locally, while Iranian television is received from an Intelsat satellite through a receive-only earth station. In 2003, there were an estimated 22 radios and 334 television sets for every 1,000 people. In 2003, 37 of every 1,000 people had access to the Internet. There were three secure servers in the country in 2004.

The constitution of Azerbaijan specifically outlaws press censorship; however, it is said that the government does not always respect freedom of the press in practice.

### 46 ORGANIZATIONS

The Azerbaijan Republic Chamber of Commerce and Industry is based in Baku. Azad İstehlakçılar Birliyi is an independent con-

sumers' union. Important political associations in the Republic of Azerbaijan include the Helsinki Group, a human rights group, the National Democratic Movement, and Musavat (Equality). The Committee of Democracy and Human Rights in Azerbaijan, founded in 1993, is made up of both individuals and organizations focusing on promoting respect for human rights. The group publicizes human rights abuses and offers legal assistance to victims.

The Azerbaijan Medical Association promotes the rights of both physicians and patients and serves as a networking organization for a number of associations in specialized fields of medicine.

A number of groups promote and protect civil rights and humanitarian and development needs for women and children. These include: the Association for the Defense of Rights of Azerbaijan Women, the Azerbaijan Women's Association, Azerbaijan Women and Development Center, Azerbaijan Women's Intelligence Organization, Azerbaijani League for the Defense of the Rights of Children, and the Mothers Outcry Society.

There are over 20 youth organizations united and coordinated in part by the National Assembly of Youth Organizations of Azerbaijan (NAYORA), which was established in 1995. The Azerbaijan Union of the Democratic Youth (AUDY), established in 1994, is an independent group seeking to unite youth of all languages, religions, and nationalities into a single cause of patriotism for an independent and democratic Azerbaijan society. A scouting organization is also present. There are several athletic associations representing particular sports, including skating, weightlifting, handball, and track and field. There is a National Olympic Committee, a Paralympic Committee, and a chapter of the Special Olympics.

There are national chapters of the Red Crescent Society, UNICEF, World Vision, and Caritas.

## **47 TOURISM, TRAVEL, AND RECREATION**

The capital city of Baku is one of the prime tourist destinations of the Caucasus region. Its Old Town, with the Shirvanshah Palace dating back to the 15–16th centuries, is especially popular with sightseers. Other attractions include the Museum of History and the State Arts Museum, as well as museums of folk art and literature. Elsewhere in Azerbaijan, the Gobustan Museum displays prehistoric dwellings and cave paintings, and the village of Surakhani attracts visitors to the Atashgah Fire-Worshipper's Temple. Visitors are also welcome at the carpet-weaving factory in the village of Nardaran, the Wine-making State Farm in the Shamakhi area, the Fruit and Vegetable State Farm around the town of Guba, and the Mashtagha Subtropical Fruit State Farm.

There were 1,013,811 tourist arrivals in Azerbaijan in 2003, with about 73% of visitors coming from Europe. Tourism receipts that year reached about \$70 million. Hotel rooms numbered 5,034 with 10,068 beds.

In 2004, the US Department of State estimated the cost of staying in Baku at \$328 per day.

## **48 FAMOUS AZERBAIJANIS**

Heydar Aliyev (1923?–2003) was president from 1993 until 2003, when he was succeeded by his son Ilham Aliyev (b.1961). The poet Nizami Ganjavi (1141–1204) is celebrated for his *Khamasa*, a collection of five epic poems. Muhammed Fizuli (1438–1556) based his poems on traditional folktales, and his poetic versions provide the basis for many 20th century plays and operas. Satirical poet Sabir (1862–1911) was openly critical of the clergy at a time when their influence controlled much of society. Abul Hasan Bakhmanyar, an 11th century scientist, wrote respected books on mathematics and philosophy. Hasan Shirvani wrote a book on astronomy.

The composer Uzeyir Hajibeyov (1885–1948) wrote the first Azerbaijani opera, and also founded the Azerbaijani Symphonic Orchestra and composed Azerbaijan's National Anthem. Other famous composers from Azerbaijan include Gara Garayev (1918–82), Haji Khanmammadov (b.1918), Fikrat Amirov (1922–84), and Vasif Adigozal (b.1936). Vagif Mustafa Zadeh (1940–79) is considered the founder of the Azerbaijani music movement of the 1960s that mixed jazz with the traditional style known as *muğam*. His daughter, Aziza Mustafa Zadeh (b.1969), is a noted jazz pianist.

Prominent modern Azerbaijani scientists include Lotfi Zadeh (b.1921), pioneer of the “fuzzy logic” concept, and Ali Javan (b.Iran, 1928), inventor of the gas laser.

## **49 DEPENDENCIES**

Azerbaijan has no territories or colonies.

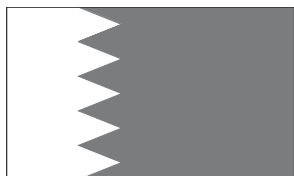
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# BAHRAIN

State of Bahrain  
*Dawlat al-Bahrayn*



**CAPITAL:** Manama (Al-Manamah)

**FLAG:** Red with a white vertical stripe on the hoist, the edge between them being saw-toothed.

**ANTHEM:** Music without words.

**MONETARY UNIT:** The Bahrain dinar (BD) is divided into 1,000 fils. There are coins of 5, 10, 25, 50, and 100 fils and notes of 500 fils and 1, 5, 10, and 20 dinars. BD1 = \$2.63158 (or \$1 = BD0.38) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is used; local measures also are used.

**HOLIDAYS:** New Year's Day, 1 January; National Day, 16 December. Movable Muslim religious holidays include Hijra (Muslim New Year), 'Ashura, Prophet's Birthday, 'Id al-Fitr, and 'Id al-Adha'.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in the western Persian Gulf, 29 km (18 mi) NW of Qatar, the State of Bahrain consists of a group of 33 islands (6 inhabited) with a total area of 620 sq km (239 sq mi), extending 48 km (30 mi) N-S and 19 km (12 mi) E-W. Comparatively, Bahrain occupies slightly less than 3.5 times the area of Washington, DC. Bahrain, the main island, is linked by causeways and bridges to Muharraq and Sitra islands and to Saudi Arabia; other islands include the Hawar group, Nabih Salih, Umm an Nasān, and Jiddah. The total coastline is 161 km (100 mi). Bahrain's capital city, Manama, is located on the northeastern coast.

## <sup>2</sup>TOPOGRAPHY

A narrow strip of land along the north coast of Bahrain is irrigated by natural springs and artesian wells. South of the cultivable area, the land is barren. The landscape consists of low rolling hills with numerous rocky cliffs and wadis. From the shoreline the surface rises gradually toward the center, where it drops into a basin surrounded by steep cliffs. Toward the center of the basin is Jabal ad-Dukhan, a rocky, steep-sided hill that rises to 122 m (400 ft). Most of the lesser islands are flat and sandy, while Nabih Salih is covered with date groves.

## <sup>3</sup>CLIMATE

Summers in Bahrain are hot and humid, and winters are relatively cool. Daily average temperatures in July range from a minimum of 29°C (84°F) to a maximum of 37°C (99°F); the January minimum is 14°C (57°F), the maximum 20°C (68°F). Rainfall averages less than 10 cm (4 in) annually and occurs mostly from December to March. Prevailing southeast winds occasionally raise dust storms.

## <sup>4</sup>FLORA AND FAUNA

Outside the cultivated areas, numerous wild desert flowers appear, most noticeably after rain. Desert shrubs, grasses, and wild date

palms are also found. Mammalian life is limited to the jerboa (desert rat), gazelle, mongoose, and hare; some 14 species of lizard and 4 types of land snake are also found. Bird life is especially varied. Larks, song thrushes, swallows, and terns are frequent visitors, and residents include the bulbul, hoopoe, parakeet, and warbler.

## <sup>5</sup>ENVIRONMENT

Bahrain's principal environmental problems are scarcity of fresh water, desertification, and pollution from oil production. Population growth and industrial development have reduced the amount of agricultural land and lowered the water table, leaving aquifers vulnerable to saline contamination. In recent years, the government has attempted to limit extraction of groundwater (in part by expansion of seawater desalinization facilities) and to protect vegetation from further erosion.

Bahrain has developed its oil resources at the expense of its agricultural lands. As a result, lands that might otherwise be productive are gradually claimed by the expansion of the desert. Pollution from oil production was accelerated by the Persian Gulf War and the resulting damage to oil-producing facilities in the Gulf area, which threatened the purity of both coastal and ground water, damaging coastlines, coral reefs, and marine vegetation through oil spills and other discharges.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 7 species of birds, 4 types of reptiles, and 6 species of fish. A wildlife sanctuary established in 1980 was home to threatened and at-risk Gulf species, including the Arabian oryx, gazelle, zebra, giraffe, Defassa waterbuck, addax, and lesser kudu. Bahrain has also established captive breeding centers for falcons and for the rare Houbara bustard. The goitered gazelle, the greater spotted eagle, and the green sea turtle are considered endangered species. There are two Ramsar international wetland sites in the country: the Hawar Islands and Tubli Bay.

## 6 POPULATION

The population of Bahrain in 2005 was estimated by the United Nations (UN) at 731,000, which placed it at number 158 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 28% of the population under 15 years of age. There were 132 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 965,000. The population density was 1,059 per sq km (2,744 per sq mi).

The UN estimated that 87% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.01%. The capital city, Manama (Al-Manamah), had a population of 139,000 in that year. Manama is connected by causeway with the other major city, Al Muharraq, population 91,939.

The vast majority of the population lives on the main island of Bahrain. Approximately 40% of the population is made up of immigrants who come for work in the country. Although the percentage of the population infected with HIV/AIDS is small (0.2%), the number of women ages 15–49 with HIV/AIDS doubled between 2001 and 2003.

## 7 MIGRATION

The proportion of aliens increased from 20% of the total population in 1975 to an estimated 40% in 2000, and the expatriate labor force comprised nearly 69% of the labor force that year. Most are temporary workers from Iran, Pakistan, India, the Republic of Korea, and other Arab countries. Many skilled workers are Europeans. In 2005, the net migration rate was estimated as 1.04 migrants per 1,000 population. The government views these migration levels as satisfactory requiring no intervention.

A population of stateless inhabitants in Bahrain is the *Bidun*, a name derived from the Arabic expression meaning “without nationality.” The *Bidun* have no proof of citizenship for their home country. In 2001, Bahrain granted the majority of 9,000–15,000 *Bidun* citizenship status, giving them the right to own land, start a business, or get government loans. Most Bahraini *Bidun* are of Iranian origin, and are mostly Shiite, with some Christians.

## 8 ETHNIC GROUPS

According to a 2005 report, about 63% of the population consisted of indigenous Bahrainis, the vast majority of whom were of northern Arab (Adnani) stock, infused with black racial traits. Asians accounted for 19% of the population; other Arab groups (principally Omanis) 10%; Iranians 8%; and other ethnic groups 6%.

## 9 LANGUAGES

Arabic is the universal language; the Gulf dialect is spoken. English is widely understood. Farsi and Urdu are spoken by small groups of people.

## 10 RELIGIONS

In 2005, an estimated 98% of the country's citizens were Muslim, with about two-thirds practicing the Shia branch and the others Sunni. Foreigners make up 38% of the total population; roughly half are non-Muslim, including Christians, Jews, Hindus, Bud-

dhists, Sikhs, and Baha'is. All are free to practice their own religions, keep their own places of worship, and display the symbols for their religions. Islam, however, is the official religion. Religious groups are required to obtain a license from the government through the Ministry of Islamic Affairs, but small unlicensed groups have operated without government interference. Sunni Muslims, though a minority, seem to enjoy a favored status, as Shias face discrimination and disadvantage in social and economic realms.

## 11 TRANSPORTATION

The outline of the present road network was traced in the early 1930s, soon after the discovery of oil. The four main islands and all the towns and villages are linked by excellent roads. There were 3,498 km (2,176 mi) of roadways in 2003, of which 2,768 km (1,722 mi) were paved. A four-lane, 2.8-km (1.7-mi) causeway and bridge connect Manama with Al Muharraq, and another bridge joins Sitra to the main island. A four-lane highway atop a 24-km (15-mi) causeway, linking Bahrain with the Saudi Arabian mainland via Umm an Nasān, was completed in December 1986 and financed by Saudi Arabia. In 2003, there were 290,600 passenger vehicles and 124,500 commercial vehicles.

Bahrain's port of Mina Sulman can accommodate 16 oceangoing vessels drawing up to 11 m (36 ft). In 2005, Bahrain had a merchant fleet of eight ships of 1,000 GRT or over, totaling 219,083 GRT. Also in 2004, there were four airports. As of 2005, a total of three had paved runways, and there was a single heliport. The international airport near Al Muharraq can handle large jet aircraft and serves more than two dozen international airlines. In 1997, the airport was in the midst of a major expansion. Gulf Air, headquartered in Bahrain and owned equally by the governments of Bahrain, Oman, Qatar, and the United Arab Emirates (UAE), flies to other Gulf countries, India, and Europe. In 2001, 1,250,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The history of Bahrain has been traced back 5,000 years to Sumerian times. Known as Dilmun, Bahrain was a thriving trade center around 2000 BC; the islands were visited by the ships of Alexander the Great in the third century BC. Bahrain accepted Islam in the 7th century AD, after which it was ruled alternately by its own princes and by the caliphs' governors. The Portuguese occupied Bahrain from 1522 to 1602. The present ruling family, the Khalifa, who are related to the Sabah family of Kuwait and the Saudi royal family, captured Bahrain in 1782. Following an initial contact in 1805, the ruler of Bahrain signed the first treaty with Britain in 1820. A binding treaty of protection, similar to those with other Persian Gulf principalities, was concluded in 1861 and revised in 1892 and 1951. After World War II, Britain maintained at Bahrain its headquarters for treaty affairs in the lower Gulf. Claims to Bahrain pressed by Iran were abandoned in 1971 after a UN mission ascertained that the Bahrainis wished to remain independent of that nation.

Between 1968 and 1971, Bahrain participated in discussions aimed at forming a federation of the nine sheikhdoms of the southern Gulf. On 14 August 1971, Sheikh 'Isa bin Salman al-Khalifa declared that, in view of the failure of the larger federation

to materialize, Bahrain would declare its independence. Its treaties with the United Kingdom were replaced by a treaty of friendship and cooperation, and on 15 August, the country became the sovereign State of Bahrain. Bahrain promulgated its first constitution in 1973, which occasioned the convening of an elective National Assembly; the legislature was dissolved in August 1975 amid charges of communist influence. The emir continued to set state policy, and his brother, Crown Prince Hamad bin 'Isa al-Khalifa, directed government administration. In 1993, Bahrain established an appointive Consultative Assembly (Majlis al-Shura). On 14 February 2001, a referendum was held that endorsed a return to constitutional rule. Under the constitution amended 14 February 2002, the country is no longer an emirate, but a constitutional monarchy. The emir was replaced by a king. A two-house National Assembly was established, along with an independent judiciary.

Owing to its small size, Bahrain generally takes its lead in foreign affairs from its Arab neighbors on the Gulf. A founding member of the Gulf Cooperation Council, it shares with the other five members a long-standing concern with pressures from Iran and Iraq. During the Iran-Iraq War, Bahrain joined most other Arab states in supporting Iraq. Subsequently, it has carefully tried to foster better relations with Iran through trade. When Iraq invaded Kuwait, Bahrain stood with the allies, contributing military support and facilities to the defeat of Iraq.

Bahrain has long assisted the American naval presence in the Persian Gulf. In 1977, a formal agreement for home-porting US naval ships was replaced by arrangements to continue ship visits and other security cooperation. Since the Gulf War, this cooperation has expanded with arms sales, plans for joint exercises, and US pre-positioning of military material for future contingencies. In 1991, the United States signed an agreement giving the Department of Defense access to facilities on the island. The country is home to the US Navy's Fifth Fleet.

Since 1994, Bahrain, like several traditional emirates of the Gulf, experienced sometimes severe civil disturbances from a Shiite-led resistance opposed to the ruling family and supportive of establishing an Islamic democracy. In 1996, a band of 44 Bahraini Islamists were arrested for allegedly planning a coup to overthrow the ruling family. The emirate broke relations with Iran, which the former accused of fomenting its civil disturbances which between 1994 and 1996 had resulted in 25 deaths. In 1997, the United States disclosed that it had uncovered a plot to attack its military forces stationed in the country.

On 6 March 1999, Sheikh 'Isa bin Salman al-Khalifa, who had ruled his country since its independence in 1971, died of a heart attack. He was succeeded on the throne by his son, Sheikh Hamad bin 'Isa al-Khalifa. Over the following year, there were signs that while the new ruler would continue his father's pro-Western foreign-policy orientation, domestically he would take a more liberal approach to government. In April, Sheikh Hamad released high-profile Shiite dissident, Sheikh Abdul Amir al-Jamri, from jail together with hundreds of other political prisoners. Another broad pardon of dissidents took place in November. By February 2001, the emir had pardoned and released all political prisoners, detainees, and exiles.

On 16 March 2001, the International Court of Justice (ICJ) resolved a territorial dispute between Bahrain and Qatar over the potential oil- and gas-rich Hawar Islands. The islands were con-



LOCATION: 25°47' to 26°17' N; 50°22' to 50°40' E. TOTAL COASTLINE: 161 kilometers (100 miles). TERRITORIAL SEA LIMIT: 3 miles.

trolled by Bahrain since the 1930s but were claimed by Qatar. Bahrain also claimed the town of Zubarah, which is on the mainland of Qatar. The dispute has lasted for decades and almost brought the two nations to the brink of war in 1986. In its judgment, the ICJ drew a single maritime boundary in the Gulf of Bahrain, delineating Bahrain and Qatar's territorial waters and sovereignty over the disputed islands within. The ICJ awarded Bahrain the largest disputed islands, the Hawar Islands, and Qit'at Jaradah Is-

land. Qatar was given sovereignty over Janan Island and the low-tide elevation of Fasht ad Dibal. The Court reaffirmed Qatari sovereignty over the Zubarah Strip.

In August 2002, Hamad (now king) made the first state visit to Iran since the Islamic revolution in 1979. The two countries voiced their support for solidarity with the Iraqi people. Iraq was at that time under the threat of a military attack led by the United States for its possession of weapons of mass destruction. Bahrain and Iran urged Iraq to implement all UN resolutions then pending, so that Iraq's territorial integrity and sovereignty could be honored. President Mohammed Khatami of Iran and King Hamad also noted the importance of preserving security and stability in the region, and thus pledged to strengthen ties with one another. Several trade, taxation, and naval agreements were signed at the conclusion of the state visit. As well, both countries agreed to "open a new page" in their bilateral relations, previously strained due to Iran's support for Bahraini opposition movements, and Iran's criticism of the American military presence in Bahrain.

In January and March 2003, demonstrations took place in Bahrain in opposition to a potential US-led war with Iraq. By 13 January, there were approximately 150,000 US troops in the Gulf region, many of which were stationed in Bahrain, in addition to Kuwait, Qatar, Saudi Arabia, and Oman. US naval operations were headquartered in Bahrain with 4,000 US troops stationed aboard Fifth Fleet ships. As anti-American sentiment in the Gulf increased, the government arrested five men plotting attacks against Americans in February 2003; and by July 2004 Americans were warned to leave. In May 2003 the king was petitioned by thousands of victims of alleged torture to cancel the law which prevented them from suing suspected torturers. Bahrain signed a free trade pact with the United States in September 2004. Under the terms of the agreement 100% of bilateral trade in consumer and industrial products became duty-free. In addition, Bahrain and the United States provided immediate duty-free access on virtually all products in their tariff schedules and planned to phase out tariffs on the remaining handful of products within 10 years. Between March and June 2005, thousands attended protest marches led by Shiite opposition demanding a fully elected parliament. In Iraq, gunmen ambushed a senior Bahraini diplomat in July 2005. In this same month Bahrainis staged a demonstration about unemployment, estimated by economists to be at 20%.

### **13 GOVERNMENT**

Under its constitution, amended 14 February 2002, Bahrain is no longer an emirate but a constitutional hereditary monarchy. As a result of the change, the State of Bahrain became the Kingdom of Bahrain, and Sheikh Hamad bin 'Isa al-Khalifa became King Hamad, by his own decree. A referendum held on 14 February 2001 endorsed a return to constitutional rule by 98.4%.

The new legislature is called the National Assembly (Al-Majlis al-Watani). It consists of two houses, an appointed Consultative Council (Majlis al-Shura) and an elected Chamber of Deputies (Majlis al-Nawab). The Chamber of Deputies consists of 40 members, elected for a four-year term. The Chamber of Deputies elects a president and two vice presidents. The Consultative Council consists of 40 members appointed by the king for a four-year period. The king also appoints the Council speaker and the Shura Council elects two vice presidents. Both chambers must concur to

pass legislation, which is then sent to the king for ratification. The king has the power to dissolve the Chamber of Deputies, but new elections are to be held within four months from the date of the dissolution; if they are not, the dissolved Chamber reassumes its constitutional powers and is reconvened. In April 2004 a woman was made health minister, the first woman to be appointed head of a government ministry.

The constitution specifies that Shariah (Islamic law) is a principal source of legislation but also pledges freedom of conscience. It guarantees equality of women with men "in political, social, cultural and economic spheres, without breaching the provisions of Shariah." The constitution states that every citizen is entitled to health care. It protects private property, but states that "all natural wealth and resources are state property." Discrimination is banned on the basis of sex, national origin, language, religion, or creed.

In the first parliamentary elections since 1973, 190 candidates ran for 40 seats in the Chamber of Deputies on 24 October 2002. In nearly half the races, runoff elections were held between the top two vote getters due to close election results. Under the new constitution, women have the right to vote and run for public office. Of the eight women seeking election in the October parliamentary elections, two forced runoff elections by being among the top two vote getters. As in municipal elections held in May 2002, women constituted over half of those voting. Leaders of Bahrain's Shia population and labor-oriented groups called for a boycott of the elections, claiming dissatisfaction with the structure of parliament. Voter turnout was 53.2%. Moderate Sunni Islamists and independents won 16 of 40 seats on 24 October. In a second round held on 31 October, the independents won 12 seats and the Islamists 9. In total, secular representatives or independents secured a total of 21 of the 40 seats, and Islamists 19.

### **14 POLITICAL PARTIES**

Political parties are illegal in Bahrain. Groups known as political societies, or blocs, remnants of the former Communist left and the Islamist right, hold some seats in parliament: National Islamic Society, Islamic Action Party, National Democratic Action, Democratic Bloc, Al Meethaq, National Action Charter Society, Progressive Democratic Front, Nationalist Democratic Rally Society. Several underground groups, including branches of Hizbollah and other pro-Iranian militant Islamic groups, have been active. Anti-regime dissidents have frequently been jailed or exiled. However, Sheikh Hamad bin 'Isa al-Khalifa in 1999 issued an amnesty for most political prisoners, ended the house arrest of Shiite opposition leader Sheikh Abdul Amir al-Jamri, and granted permission for the return of 108 people in exile. By February 2001, the emir had pardoned and released all political prisoners, detainees, and exiles. In addition, the reinstatement of dissidents fired from public sector jobs, the lifting of travel bans on political activists, and the abrogation of state security laws have all created a more open atmosphere for political expression.

Beginning with municipal elections in May 2002, candidates from a wide variety of political groups formed a more pluralistic political culture in Bahrain. These groups were not officially designated as political parties, but they had the attributes of democratic parties in the West: they fielded candidates in elections, organized activities, and campaigned freely. There are seven main political groups: the Arab-Islamic Wasat (Center) Society (AIWS); the

Democratic Progressive Forum (DPF); the Islamic National Accord (INA); the National Action Charter Society (NACS); the National Democratic Action Society (NDAS); the National Democratic Gathering Society (NDGS); and the National Islamic Forum (NIF).

In addition, numerous other nongovernmental organizations were set up after the constitution was endorsed in February 2001, among them the Bahrain Human Rights Society, the Supreme Council for Bahraini Women, and the Organization Against Normalization with Israel. These organizations campaign on single-issue platforms, hold public discussions and meetings, consult with the government, and are members of Bahraini delegations to international forums.

The partially elected bicameral parliament that was approved in a referendum in 2001 held its first session in December 2002 after elections were held that October. In the 40-member directly-elected House of Deputies, independents took 21 seats, Sunni Islamists won 9 seats, and other groupings held 10 seats.

## 15 LOCAL GOVERNMENT

Under the new constitution, there are five municipal councils in Bahrain, each with 10 elected members and an appointed chairman. The first local elections since 1957 were held on 9 May 2002. In the five new municipal councils, 30 of the 50 seats contested were decided in the first round of voting, with the remaining 20 seats—where no candidate received an absolute majority—being decided in a second round of voting on 16 May. Candidates with links to Islamist groups won the majority of seats. There were 31 women among 306 candidates in the first round of voting, but none won. After the elections, some political figures suggested that a quota system should be set up to assure that some women would obtain seats in the municipal councils. Out of the 50 municipal seats, 38 were won by candidates affiliated with Islamist parties. Voter turnout in the first round of voting was 51.3%.

The democratic municipalities are responsible for the provision of local goods and services, including transportation, waste disposal, street cleaning and beautification, and enforcing health and safety standards.

## 16 JUDICIAL SYSTEM

The law of Bahrain represents a mixture of Islamic religious law (Shariah), tribal law, and other civil codes and regulations. The new constitution promises an independent judiciary. A Higher Judicial Council supervises the courts. Courts have been granted the power of judicial review.

The new reforms establish a constitutional court, consisting of a president and six members, appointed by the king for a specified period. Members are not liable to dismissal. The government, or either house of the National Assembly, may challenge the constitutionality of any measure before the court. The king may refer to the court draft laws prior to their adoption, to determine their constitutionality.

Military courts are confined to military offenses only, and cannot be extended to others without the declaration of martial laws.

Shariah governs the personal legal rights of women, although the new constitution provides for women's political rights. Specific rights vary according to Shia or Sunni interpretations of Islamic law, as determined by the individual's faith, or by the courts

in which various contracts, including marriage, have been made. While both Shia and Sunni women have the right to initiate a divorce, religious courts may refuse the request. Women of either branch of Islam may own and inherit property and may represent themselves in all public and legal matters. A Muslim woman legally may marry a non-Muslim man if the man converts to Islam. In such marriages, the children automatically are considered to be Muslim.

## 17 ARMED FORCES

In 2005 Bahrain's armed forces had 11,200 active members. The Army consisted of 8,500 personnel, equipped with 180 main battle tanks, 46 reconnaissance vehicles, 25 armored infantry fighting vehicles, more than 235 armored personnel carriers, and 69 artillery pieces. The Navy had 1,200 active personnel. Major naval units included one frigate, two corvettes, and eight patrol/coastal vessels. The Air Force had 1,500 active members and 33 combat capable aircraft including 12 fighters, 21 fighter ground attack aircraft, and 24 attack helicopters. Paramilitary troops consisted of an estimated 10,160 personnel, including the police, national guard, and coast guard. The defense budget in 2005 totaled \$526 million.

## 18 INTERNATIONAL COOPERATION

Bahrain joined the UN on 21 September 1971 and is a member of ESCWA, all major regional organizations, and several nonregional specialized agencies. It also belongs to the Arab League, the Arab Monetary Fund, the Islamic Development Bank, OAPEC, the Organization of Islamic Conference (OIC), the Gulf Cooperation Council, and G-77. The country joined the WTO 1 January 1995. Bahrain was a founding member of the Gulf Cooperation Council, inaugurated in 1981. The country is also a part of the Nonaligned Movement and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, the country is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

For centuries, Bahrain depended almost exclusively on trade (or piracy), pearl diving, and agriculture. The discovery of oil on 1 June 1932 changed that. Although its economy has been based on oil for the last six decades, Bahrain's development has been tempered by relatively limited reserves. Proven reserves are 125 million barrels, all from one diminishing oil field, the Awali field. At current production levels, the field has a life of less than 10 years. Oil revenue accounted for 24.4% of GDP in 2003. Oil and petroleum products also made up 74.4% of export earnings in 2003.

Significant progress has been made in enhancing Bahrain as an *entrepôt* (trade center) and as a service and commercial center for the Gulf region. Bahrain provides ample warehousing for goods in transit and dry dock facilities for marine engine and ship repairs. Bahrain also acts as a major banking, telecommunications, and air transportation center. Bahrain also began diversifying its economy to rely on services to a higher degree after the Lebanese civil war in the late 1970s and early 1980s essentially ended that country's status as a safe, regulation-free banking environment.

Services accounted for 56.9% of all economic activity in the country in 2005.

Although the Bahrain economy slowed considerably in the mid-1990s, foreign investment in the earlier part of that decade helped enable GDP to grow at an annualized rate of 4% between 1988 and 1998. Low world oil prices created a negative growth situation in 1998, but real growth has been steady since then. The International Monetary Fund (IMF) reported that real GDP grew 4.3% in 1999, 5.3% in 2000, 4.5% in 2001, 5.1% in 2002, and 5.7% in 2003. The US Central Intelligence Agency (CIA) estimates 2005 GDP at \$14.08 billion, and growth of 5.9%.

## **2<sup>0</sup> INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Bahrain's gross domestic product (GDP) was estimated at \$14.1 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$20,500. The annual growth rate of GDP was estimated at 5.9%. The average inflation rate in 2005 was 2.7%. It was estimated that agriculture accounted for 0.6% of GDP, industry 42.5%, and services 56.9%.

Approximately 32% of household consumption was spent on food, 8% on fuel, 1% on health care, and 6% on education.

## **2<sup>1</sup> LABOR**

The Bahraini labor force in 2005 was estimated at 380,000. In 1997 (the latest year for which data was available), employment by sector was estimated as follows: industry, commerce, and services accounted for 79%; government 20%; and agriculture 1%. In 1998, (the latest year for which data was available), unemployment was estimated at 15%. Nonnationals in 2005 made up an estimated 44% of the country's population between the ages of 15 and 64.

Although the constitution permits workers to organize, the government bans trade unions. With this absence of legitimate trade unions, no collective bargaining entities or collective agreements exist. Workers may express grievances through joint labor-management committees (JLCs). JLCs are generally created at each major company and have an equal number of labor and management representatives. As of 2000, there were a total of 20 JLCs. There are no internationally affiliated trade unions, and foreign workers are underrepresented in the General Committee of Bahrain workers which coordinates the JLCs.

The government set minimum wage scales for public sector employees and this generally provides a decent standard of living for workers and their families. The minimum wage for public-sector wages were specified on a contract basis. All foreign workers must be sponsored by Bahrainis or Bahrain-based companies, which can revoke the residence permit of anyone under their sponsorship. Migrant workers from developing countries are often unwilling to report health and safety abuses for fear of forced repatriation. Nor do labor laws apply to foreign workers, who often work far in excess of official maximum hour laws. The minimum age for working is 14 years and until age 16, special work conditions and hour limits apply to workers. There is general compliance with this in the industrial sector, but there is rampant abuse outside it, especially in family-owned businesses.

## **2<sup>2</sup> AGRICULTURE**

Only 2.9% of the land is arable. Agriculture accounts for only about 1% of the GDP. Ninety farms and small holdings produce fruit and vegetables, as well as alfalfa for fodder. The date palm industry has declined sharply in recent years due to heavy demands on the limited water supply, and dates have become a luxury item. In 2004, 7,667 tons of vegetables and 19,000 tons of fruit crops were produced. The government's goal is for output to meet 16% of demand, compared with the current 6%.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

Most domestic meat consumption is supplied through imports of live cattle, goats, and sheep. About 9,000 head of cattle, 39,000 sheep, and 25,000 goats were kept for milk and meat production in 2004. A thriving poultry industry provided 13,500 tons of meat and 5,000 tons of eggs in 2004. A national dairy pasteurization plant has been established in order to centralize all milk processing and distribution. In 2004, milk production totaled 11,000 tons. An abattoir that opened in 1984 slaughters imported sheep and cattle.

## **2<sup>4</sup> FISHING**

Although the more than 300 species of fish found in Bahraini waters constitute an important food source for much of the population, local fishing and pearl diving have declined because of industrial pollution. The catch totaled 13,641 tons in 2003. The government operates a fleet of seven trawlers. By encouraging traditional angling, giving incentives to fishermen, improving fishing and freezing equipment, and establishing cooperatives, the government is attempting to increase the annual catch. There is a modern fishing harbor at Al Muharraq, which provides docking and landing facilities, storage areas, an ice plant, and a water supply.

## **2<sup>5</sup> FORESTRY**

There are no forests in Bahrain. Bahrain's imports of forest products amounted to \$60.5 million in 2003. That year, Bahrain re-exported about \$1.9 million of forest products, including about 1,000 tons of industrial roundwood.

## **2<sup>6</sup> MINING**

Bahrain's oil-based economy produced few minerals other than crude oil and natural gas. In 2004, crude oil and refined petroleum products accounted for around \$5.5 billion of the nation's \$7.5 billion in exports. Cement production in 2004 was reported at 153,483 metric tons, up from 88,806 metric tons in 2000. Sulfur production totaled 71,258 metric tons in 2004.

## **2<sup>7</sup> ENERGY AND POWER**

The Arabian Peninsula's first oil well was drilled in Bahrain in 1932, and production began in 1934. From the 1930s to the mid-1970s, oil development was a monopoly of the Bahrain Petroleum Co. (BAPCO), which in 1936 came under the ownership of Caltex, a corporation registered in Canada and jointly owned by Texaco and Standard Oil of California. In 1975, the Bahrain government acquired a 60% holding in BAPCO, and it later formed the Bahrain National Oil Co. (BANOCO) to take over full ownership.

In 1980, BANOCO announced its acquisition of a 60% interest in Bahrain's main refinery, which had been wholly owned by Caltex.

Total daily crude petroleum production, after reaching a peak in 1970, has declined gradually. Crude oil production was estimated at 35,000 barrels per day in 2003, with proven oil reserves in Bahrain estimated at 125 million barrels as of 1 January 2004. From 1972 until 1996, Bahrain shared revenues from the Abu Safa oil field, which lies halfway within Saudi Arabian territorial waters, with Saudi Arabia. In 1996, the Saudi government ceded the remainder of its share of the field to Bahrain, increasing the government's revenue by about \$200 million.

Bahrain gained the right to offer concessions in offshore oil fields in the Gulf of Bahrain after a territorial dispute with Qatar was settled by the International Court of Justice in March 2001 and Bahrain won control of the Hawar Islands. In November 2001 drilling rights were awarded to Petronas and Chevron Texaco, and oil exploration began in late 2002. As of early 2003 a \$900 million modernization was planned for Bahrain's only refinery, Sitra, which had a capacity of 248,900 barrels per day. Plans to build a second refinery, approved in 1999, had been delayed due to financing problems.

Bahrain's natural gas resources were estimated at 90 billion cu m (3.2 trillion cu ft) as of end 2004. Production of gas was 9.8 billion cu m in 2004, most of which was associated with drilling in the Awali oil field.

The Directorate of Electricity operates plants at Manama, Sitra, and Rifaa. In 2002, electricity generation was 6.841 billion kWh, of which 100% came from fossil fuels. In the same year, consumption of electricity totaled 6.362 billion kWh. Total capacity at the beginning of 2002 was estimated at 1.4 gigawatts (GW). Power is principally derived from a municipal power station at Jufair, from the Sitra power and water station, from two gas turbines at Al Muharraq, and from the power station at East Rifaa, which was completed in 1985 and is the largest and most modern. BANOCO produces its own electricity from a 60 MW plant. Phase One of the Hidd power project, completed in 1999, created an additional 280 MW of gas-fired generating capacity. Completion of Phase Two would add another 630 MW.

## 28 INDUSTRY

Bahrain was the first Gulf state to discover oil and built the region's first refinery in 1935. Known as the Bahrain Oil Company, it has been 60% owned by the Bahrain National Oil Company and 40% owned by the US company Caltex since 1980. The Bahrain National Oil Company also maintains holdings in the Bahrain Petroleum Company, which was formed in 2002 through a merger with a government-owned petroleum enterprise. Most of the crude oil processed in Bahrain's refinery comes from Saudi Arabia. Because Bahrain's own oil reserves are relatively limited, an agreement with Saudi Arabia allows the country to receive revenues from Saudi Arabia's Abu Saafa offshore oilfield. Bahrain's oil production had stabilized at about 40,000 barrels per day in early 2006, and its reserves were expected to last 10 to 15 years.

Bahrain also has a gas liquefaction plant, operated by the Bahrain National Gas Company. Gas reserves are expected to last about 50 years.

Other petroleum enterprises include the Gulf Petrochemical Industries Company, a joint venture of the petrochemical industries of Kuwait, the Saudi Basic Industries Corporation, and the

Government of Bahrain, which produces ammonia and methanol for export. Bahrain also has awarded exploration rights to two multinational companies—Petronas from Malaysia and Chevron Texaco from the United States.

A government-controlled aluminum industry, Aluminum Bahrain BSC (ALBA), was launched in 1971 with an original smelter capacity of 120,000 tons annually; the successful completion of a 1997 expansion project increased production to more than 500,000 metric tons in 1998 and to 720,000 metric tons in 2005. It is the world's second-largest aluminum smelter, and is 77% owned by the government. Other aluminum factories include the Aluminum Extrusion Company and the Gulf Aluminum Rolling Mill. Bahrain also has an iron ore palletizing plant, and a shipbuilding and repair yard.

Overall industrial production accounts for 42.5% of GDP.

## 29 SCIENCE AND TECHNOLOGY

The economy depends heavily on advanced petrochemical technologies, and many Bahrainis have had or are receiving technical training. The University of Bahrain, at Isa Town, has a college of engineering and science. The Arabian Gulf University, founded in 1980 by the seven Gulf states, has colleges of medicine and applied sciences. The Bahrain Society of Engineers and the Bahrain Computer Society, in Manama, and the Bahrain Medical Society in Adliya, are leading professional groups. The College of Health Sciences, founded in 1976, had 528 students in 1996. The Bahrain Centre for Studies and Research, founded in 1981, conducts scientific study and research.

## 30 DOMESTIC TRADE

Bahraini shops have become increasingly modernized and specialized. American-style supermarkets are open in Manama and most supplies and services are available in shops throughout the country. Business hours for most shops are from 8:30 AM to 12:30 and from 4 to 8 PM, Saturday through Wednesday, with a half day on Thursday. Government offices and banks are generally open Saturday through Thursday. Of all the Gulf states, Bahrain offers the most scope for consumer advertising through its publications, cinemas, direct mail facilities, and radio and television stations.

### Principal Trading Partners – Bahrain (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	6,609.8	5,401.7	1,208.1
Area nes	4,681.6	2,066.8	2,614.8
Saudi Arabia	454.9	315.5	139.4
United States	282.8	189.0	93.8
Other Asia nes	199.3	24.2	175.1
India	113.2	132.0	-18.8
United Arab Emirates	106.5	156.9	-50.4
Qatar	76.4	...	76.4
Japan	63.8	415.0	-351.2
Kuwait	60.1	35.9	24.2
Malaysia	58.1	47.2	10.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

### 3<sup>1</sup> FOREIGN TRADE

Petroleum products drive Bahrain's economy and export market (70%). Aluminum, which is manufactured in government-controlled enterprises, ranks as the country's second-largest export commodity (14%). Other exports include apparel (4.6%), iron (3.5%), and chemicals (2.5%).

Bahrain exports its products widely throughout the world. As a result, no one country commands a significant share of Bahrain's exports: its largest trading partners in 2004 were India (4.3%), Saudi Arabia (3%), the United States (2.9%), and the United Arab Emirates (2.2%). Imports come from Saudi Arabia (32.4%), Japan (7.3%), Germany (6.1%), the United States (5.6%), the United Kingdom (5.4%), and France (4.8%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

Traditionally, Bahrain relied on a substantial influx of funds from Saudi Arabia, Kuwait, Abu Dhabi, and Iran to finance capital outlays. In recent years, however, increased income from tourism and financial services, have placed Bahrain in a favorable payments position.

The US Central Intelligence Agency (CIA) reported that in 2005 the purchasing power parity of Bahrain's exports was \$11.17 billion while imports totaled \$7.83 billion. The country's current account balance was \$1.569 billion in 2005. Bahrain's foreign reserves totaled \$2.433 billion in 2005. Since 1992, Bahrain has received \$150 million annually from Saudi Arabia, the United Arab Emirates, and Kuwait.

The International Monetary Fund (IMF) reported that in 2003 Bahrain had exports of \$6.6 billion, of which \$4.9 billion were petroleum products. Imports in 2003 totaled \$5.5 billion.

### 3<sup>3</sup> BANKING AND SECURITIES

Bahrain is considered the preeminent financial services center in the Middle East. The Bahrain Monetary Agency (BMA), Bahrain's equivalent of a central bank, issues and redeems bank notes, regulates the value of the Bahrain dinar, supervises interest rates, and licenses and monitors the activities of money changers. One factor contributing to Bahrain's growth as a Middle Eastern financial services center is that unlike some of its larger, richer neighbors, there is no serious religious opposition to western banking practices—especially the accrual of interest—which some Islamic scholars consider to be contrary to Muslim teachings. There are, however, several large banks in Bahrain classified as Islamic; they don't pay or charge interest, don't finance or otherwise support "un-Islamic" enterprises, and make a conscious effort to invest in socially productive enterprises. Another important factor influencing the growth of the financial sector is the tax-free environment.

The value of assets and liabilities held by Bahrain's commercial banks rose by 43%, and offshore banking units (DBUs) rose by 20% between 1991 and 1995. The consolidated assets and liabilities of commercial and offshore banks in Bahrain reached over \$82 million in 1997. In 2000, Bahrain was home to 20 full commercial banks, 2 specialized banks, 52 offshore banks, 37 representative offices, 33 investment banks, 6 foreign exchange and money brokers, 8 investment and financial advisory services, and 18 money-changing companies. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate

#### Balance of Payments – Bahrain (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-68.4</b>
Balance on goods	1,610.5	
Imports	-5,079.3	
Exports	6,689.8	
Balance on services	197.0	
Balance on income	-536.0	
Current transfers	-1,340.0	
<b>Capital Account</b>		<b>50.0</b>
<b>Financial Account</b>		<b>-252.9</b>
Direct investment abroad	-741.4	
Direct investment in Bahrain	516.7	
Portfolio investment assets	-3,064.4	
Portfolio investment liabilities	688.4	
Financial derivatives	...	
Other investment assets	-20,786.6	
Other investment liabilities	23,134.3	
<b>Net Errors and Omissions</b>		<b>314.9</b>
<b>Reserves and Related Items</b>		<b>-43.7</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

gate commonly known as M1—were equal to \$1.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.9%.

The Bahrain Stock Exchange (BSE) was planned in 1987 after the unofficial Kuwait Stock Exchange collapsed. The BSE has become an important Gulf center of share trading; volume or shares increased from its inception from 62 million in 1989 to almost 400 million in 1993. Beginning in 1995, the BSE listed foreign companies, bonds, and investment funds. Trading in foreign investment vehicles was made open to all Bahrainis, and resident and non-resident foreigners in late 1996. As of 2004, there were 42 companies listed on the BSE. Market capitalization as of December 2004 stood at \$13.513 billion, with the BSE up 30.2% from the previous year.

### 3<sup>4</sup> INSURANCE

The total value of direct premiums underwritten in 2003 in Bahrain was \$159 million, of which nonlife premiums accounted for the largest portion at \$124 million. The country's top nonlife insurer that year had gross nonlife written premiums of \$46 million, with Zürich the top life insurer, with gross life written premiums totaling \$23.8 million in 2003.

### 3<sup>5</sup> PUBLIC FINANCE

The budget is presented biennially and regularly updated, and represents a large section of economic activity. More than half of government revenues come from oil production and refining; the oil industry is completely controlled by the government. The public deficit is covered by internal borrowing, loans from Arab funds, and the IDB; although privatization has become increasingly important to controlling the budget. The oil and aluminum industries are still controlled by the government, although utili-

ties, banks, financial services, and telecommunications have started to fall into private hands.

The US Central Intelligence Agency (CIA) estimated that in 2005 Bahrain's central government took in revenues of approximately \$4.6 billion and had expenditures of \$3.4 billion. Revenues minus expenditures totaled approximately \$1.2 billion. Public debt in 2005 amounted to 51.5% of GDP. Total external debt was \$6.831 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues in millions of dinars were 1,144.8 and expenditures were 1,055.5. The value of revenues in millions of US dollars was \$4,304 and expenditures \$3,969, based on a official exchange rate for 2003 of .26596 as reported by the IMF. Government outlays by function were as follows: general public services, 33.1%; defense, 16.5%; public order and safety, 10.6%; economic affairs, 1.9%; housing and community amenities, 9.9%; health, 7.6%; recreation, culture, and religion, 0.5%; education, 15.4%; and social protection, 4.4%.

### 36 TAXATION

The only taxes in Bahrain are an income tax on oil production and a municipal tax of 10% on residential rents. The rate is 7.5% on furnished rentals, office, and commercial rents. As an offshore tax haven, Bahrain allows foreign firms to remit accumulated profits and capital without taxation.

### 37 CUSTOMS AND DUTIES

Import licenses for items sold in Bahrain are issued only to local companies that are at least 51% Bahraini-owned. Principal prohibited items are arms, ammunition, liquor (except by authorized importers), and cultured pearls. Customs duties are 20% on corn and palm oil; 5% on foodstuffs and nonluxuries; 7.5% on consumer goods; 20% on cars and boats; 70% on tobacco and cigarettes; and 125% on authorized imports of liquor. A free transit zone operates at the port of Mina Sulman. Free trade is available with Gulf

Cooperation Council (GCC) countries if products have at least 40% local value-added content.

## 38 FOREIGN INVESTMENT

Bahrain has well-established communication and transport facilities. The strength of its infrastructure, along with the generous incentives it offers to foreign investors, have made the country home to many multinational companies doing business in the Persian Gulf. In recent years, the government has sought to control more of the country's key businesses. Bahrain, however, continues to court international investment; the country does not tax corporate or individual earnings. Only petroleum royalties are subject to taxation.

The United Nations Conference on Trade and Development reported foreign direct investment (FDI) in Bahrain of \$865 million in 2004. FDI stocks totaled \$7.585 billion in 2004, about 70.5% of GDP.

## 39 ECONOMIC DEVELOPMENT

Since the late 1960s, the government has concentrated on policies and projects that will provide sufficient diversification in industrial, commercial, and financial activities to sustain growth in income, employment, and exports into the post-oil era. To this end, Bahrain in September 2004 became the first Gulf state to sign a Free Trade Agreement with the United States. The pact was ratified by the Bahraini parliament in July 2005 and by the US Congress in December 2005. US President George W. Bush signed the agreement into law in January 2006, and implementing legislation to allow full enactment was pending.

Despite diversification efforts, the oil and gas sectors remain the cornerstone of the economy. The reliance on oil poses one of Bahrain's biggest long-term economic challenges. Unemployment and a shortage of long-range water resources also are issues. Much of Bahrain's labor force, estimated in 2005 at 380,000, consists of non-Bahrainis. In hopes of encouraging more employment among its citizenry, the country has adopted a policy of matching job seekers with potential employers. It also is promoting training programs that would give young adults marketable skills. The country also is considering a labor law that would stress the value of vocational training and require that benefits for public and private sector employees be equal. It also is considering introduction of a minimum wage law.

The strongest possibility for growth in Bahrain lies in its financial sector. Bahrain leads an effort to develop Islamic financial services, and has 28 Islamic banks based in the country. More than 100 offshore banks also operate in Bahrain, helping to boost financial services activity to 24.2% of GDP in 2005. In hopes of keeping the sector both vibrant and efficient, it has consolidated regulation of banks, insurance companies, and capital markets under one umbrella.

## 40 SOCIAL DEVELOPMENT

Impoverished families receive subsistence allowances from the Ministry of Labor and Social Affairs. Beginning in 2005 all establishments with one or more employees are covered by the social insurance system. A social security fund provides old age, disability, survivor, and accident insurance. Contributions amount to 5% of earnings by workers and 7% by employers. Work injury insur-

### Public Finance – Bahrain (2003)

(In millions of dinars, central government figures)

<b>Revenue and Grants</b>	<b>1,144.8</b>	<b>100.0%</b>
Tax revenue	137.7	12.0%
Social contributions	55	4.8%
Grants	18.8	1.6%
Other revenue	933.3	81.5%
<b>Expenditures</b>	<b>1,055.5</b>	<b>100.0%</b>
General public services	349.5	33.1%
Defense	174.5	16.5%
Public order and safety	111.4	10.6%
Economic affairs	19.9	1.9%
Environmental protection	...	...
Housing and community amenities	105	9.9%
Health	80.6	7.6%
Recreational, culture, and religion	5.6	0.5%
Education	162.8	15.4%
Social protection	46.2	4.4%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

ance exempts domestic servants, self-employed and agricultural workers.

Islamic law, either Shia or Sunni, dictates the legal rights of Bahraini women. Women may initiate divorce proceedings, although religious courts often refuse the request. Men retain legal rights over children, even in case of divorce. Custody of young children is granted to women, but fathers automatically regain custody when the children reach the age of nine (for daughters) and seven (for sons). Women make up approximately 17% of the labor force. The majority of working women are young and single, and most women cease working outside the home after marriage. Bahrain's labor law does not recognize the concept of equal pay for equal work, and women are often paid less than men. Sexual harassment is a common problem. As of 2004 spousal abuse remained widespread, especially in economically deprived areas. It is estimated that 30% of married women are victims of spousal abuse though few women seek assistance.

Bahrain's government regularly violates citizens' human rights. There was a continuation of torture, arbitrary arrest, denial of the right to a fair trial, and restrictions on freedom of speech, press, assembly, association, and workers' rights. The treatment of foreign workers, especially women employed as domestic help, is especially abusive.

#### **4<sup>1</sup> HEALTH**

In 1960, Bahrain inaugurated a free national health service, available to both foreign and indigenous segments of the population through a system of primary care health centers and modern hospital facilities. Bahraini patients who require sophisticated surgery or treatment are sent abroad at government expense.

Medical services are provided by the government and a small private sector. Health care centers are accessible to the population free of charge. In 1990, there were 4 government-operated hospitals (including a psychiatric hospital and a geriatric hospital), 5 maternity hospitals, 19 health centers, 6 environment health centers, and 16 maternity and child welfare centers. In 2004, there were an estimated 160 physicians, 413 nurses, 21 dentists, and 22 pharmacists per 100,000 people.

Infant mortality was estimated at 17.27 per 1,000 live births in 2005. In 1994, 93% of the country's one-year-old children were vaccinated against measles. In 1990, 100% of the population had access to health care services and 93% had access to safe drinking water. Life expectancy in 2005 was 74.23 years. Malaria was reported in 258 people while polio, measles, and neonatal tetanus were nonexistent. The HIV/AIDS prevalence was 3.00 per 100 adults in 2003. As of 2004, there were approximately 600 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

#### **4<sup>2</sup> HOUSING**

According to the 2001 government census, there were 105,686 housing units within the country. About 18% were private villas (single family, independent structure homes). There were 8,076 apartment buildings containing a total of about 36,320 flats. About 72% of all units were connected to the public water system. About 14.8% of homes relied on bottled water. About 63,374 units

were occupied by single (nuclear) families. The greatest number of housing units (32,538) was available in Manama.

#### **4<sup>3</sup> EDUCATION**

Education is compulsory for students between the ages of 6 and 15. Primary education lasts for six years followed by an intermediate program of three years. Students may then choose from three options for their secondary education: general (science or literary tracks), technical, or commercial. Each secondary program is a three-year course of study. The academic year runs from October to August. The primary languages of instruction are Arabic and English. The Ministry of Education is the primary administrative body. As of 1995, public expenditure on education was estimated at 3.6% of GDP.

Primary school enrollment in 2003 was estimated at about 89.9% of age-eligible students; The same year, secondary school enrollment was about 87% of age-eligible students. Less than 1% of children ages three to five attend preschool programs. It is estimated that 99% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 16:1 in 2003; the ratio for secondary school was about 12:1.

Bahrain's principal university is the University of Bahrain, established in 1986 after a merger between the University College and Gulf Polytechnic. It is comprised of five colleges and an English language center: colleges of arts, sciences, engineering, education, and business administration. The Arabian Gulf University (founded in 1980) has faculties in science, engineering and medicine, and is in fact a joint venture project among the six Gulf Cooperation Council members and Iraq. Each nation is allocated 10% of the seats (total 70%) and the remaining 30% are given to other countries. Also important is the Bahrain Training Institute, which currently has over 50% female students.

There are also 67 adult education centers in Bahrain, which have helped to reduce the illiteracy rate of the country. For promoting technical education, a "10,000 Training Plan" was launched in 1980. Nearly 6,500 students have participated in this program since its inception and scholarships are given to students to pursue higher studies at Bahrain or abroad. In 1994 all institutions of higher learning had 655 teachers and enrolled 7,147 students. The adult literacy rate in 2003 was estimated about 89.1%; 91.9% for men and 85% for women.

#### **4<sup>4</sup> LIBRARIES AND MUSEUMS**

Manama Public Library was the first to open in the country in 1946; it contains the collection of United Nations related publications. The Bahrain National Bank Public Library in Muharraq (opened in 1969 as the Muharraq Public Library) includes the Mohammed Hassan Al-Hassan Collection of over 400 books on national and international law (with volumes in Arabic and English), a library for the blind, a children's library, and a special section on travel and tourism. The Central Public Library in Isa Town has 124,000 volumes. In 2005, there were nine public libraries nationwide under supervision of the Directorate of Public Libraries at the Ministry of Education. The University of Bahrain in Manama (1978) holds 140,000 volumes, while the Manama Central Library holds 155,000 volumes. In 2003, the first specialized law library opened at the University's Sakhir campus. The Educational Documentation Library in Manama holds the largest collection of

educational research materials with about 22,000 books and nearly 200 periodicals; publications are available in Arabic and English. The Bahrain National Commission for Education, Science and Culture Library, also in Manama, was established in 1967, serving primarily as a research library; holdings include materials from four main international organizations: United Nations Educational, Scientific and Cultural Organization (UNESCO), Arab League Educational, Cultural and Scientific Organization (ALECSO), Arab Bureau of Education for the Gulf States (ABEGS), and Islamic Educational, Scientific and Cultural Organization (ISESCO).

The Bahrain National Museum in Manama holds art, archaeological, and historical exhibits, chronicling the rise of the Dilmun civilization. Muharraq Island hosts a few of traditional homes that are open to visitors. The Royal Tombs in A'ali are popular archeological sites.

#### 45 MEDIA

Modern telephone, cable, and telex systems are available. In 2003, there were about 185,800 mainline telephones in use, along with 443,100 mobile phones. Basic service is provided by the National Telephone Company (BATELCO).

In 1998, there were two AM and three FM stations and four broadcast television stations, all of which were owned and operated by the government. In 1997 there were 499 radios and 420 television sets in use per 1,000 population. Internet service is provided through the national phone company, with 195,700 subscribers counted in 2003. Government control restricts access to some Internet sites considered with content that is considered anti-Islamic or antigovernment. Many districts of Manama have cyber cafes. It is estimated that about 22% of the population owns personal computers.

Bahrain's first daily newspaper in Arabic, *Akhbar al-Khalij* (circulation 17,000 in 2002), began publication in 1976, and the first English daily, the *Gulf Daily News* (50,000), was established in 1991. *Al Ayam*, an Arabic daily founded in 1989, had a 2002 circulation of 37,000.

Though the Bahraini constitution has provisions for freedom of expression, press criticism of the ruling family or government policy is strictly prohibited.

#### 46 ORGANIZATIONS

In addition to the national Chamber of Commerce and Industry, Bahrain is a committee member of the International Chamber of Commerce. There are numerous Bahraini and multinational groups, including the Bahrain Red Crescent Society and the Children's and Mothers' Welfare Society. Health and welfare organiza-

tions include the Bahrain Family Planning Association and the Bahrain Diabetic Association. Youth organizations include those representing the Youth Hostel Federation, Red Crescent Youth, the Boy Scouts of Bahrain and the Girl Guides, and Arab Student Aid International (ASAI). The Bahrain Olympic Committee coordinates activities for about 12 national youth sports federations.

#### 47 TOURISM, TRAVEL, AND RECREATION

Bahrain has been a fast growing destination in the Middle East since the early 1990s. Tourist attractions include archeological sites, notably Qal-at Al-Bahrain (The Portuguese Fort), the National Museum, and the Heritage Center. Recreational riding and horse racing are both popular in Bahrain. Pearl diving is also part of Bahrain's heritage. In 2002, there were 4,830,943 tourist arrivals, almost 4,000,000 of whom were from other Middle Eastern countries, and tourism receipts totaled \$985 million. Hotel rooms numbered 7,880 in 2002 with 10,759 beds and an occupancy rate of 53%. Most visitors need a visa and a valid passport.

#### 48 FAMOUS BAHRAINIS

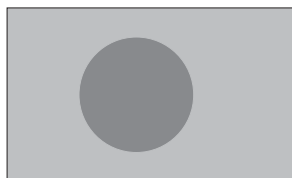
Sheikh 'Isa bin Salman al-Khalifa (1933–99) ruled from 1961 until his death in 1999. He was succeeded by his son, Sheikh Hamad bin 'Isa al-Khalifa (b.1950).

#### 49 DEPENDENCIES

Bahrain has no territories or colonies.

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# BANGLADESH

People's Republic of Bangladesh

*Gana-Prajatantri Bangladesh*

**CAPITAL:** Dhaka (formerly Dacca)

**FLAG:** The national flag is a red circle against a dark-green background.

**ANTHEM:** *Amar Sonar Bangla (My Golden Bengal).*

**MONETARY UNIT:** The taka (T) of 100 poisha is a paper currency set on a par with the Indian rupee. There are coins of 1, 2, 5, 10, 25, and 50 poisha, and notes of 1, 5, 10, 20, 50, and 100 taka. T1 = \$0.01556 (or \$1 = T64.26) as of 2005.

**WEIGHTS AND MEASURES:** Bangladesh adopted the metric system as of 1 July 1982. Customary numerical units include the lakh (equal to 100,000) and the crore (equal to 10 million).

**HOLIDAYS:** New Year's Day, 1 January; National Mourning Day (Shaheed Day), 21 February; Independence Day, 26 March; May Day, 1 May; Victory Day, 16 December; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Jamat Wida, Shab-i-Bharat, 'Id al-Fitr, 'Id al-'Adha, and Durga Puja.

**TIME:** 6 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in South Asia, Bangladesh, before it became an independent state, was the eastern province of Pakistan, known as East Bengal and, later, as East Pakistan. Bangladesh is slightly smaller than the state of Iowa with a total area of 144,000 sq km (55,598 sq mi), extending 767 km (477 mi) SSE–NNW and 429 km (267 mi) ENE–WSW. Bangladesh is bordered in the W, N, and E by India, on the SE by Myanmar (Burma), and on the S by the Bay of Bengal, with a total boundary length of 4,246 km (2,638 mi). A border demarcation agreement was signed with Myanmar in May 1979. Demarcation of the marine boundary with India remained unresolved as of 2006. Bangladesh's capital city, Dhaka, is located near the center of the country.

## <sup>2</sup>TOPOGRAPHY

Bangladesh is a tropical country, situated mainly on the deltas of large rivers flowing from the Himalayas. The Brahmaputra River, known locally as the Jamuna, unites with part of the Ganges to form the Padma, which, after its juncture with a third large river, the Meghna, flows into the Bay of Bengal. Offshoots of the Ganges-Padma, including the Burishwar, Garai, Kobadak, and Madhumati, also flow south to the Bay of Bengal. No part of the delta area is more than 150 m (500 ft) above sea level, and most of it is but a meter or two (a few feet) above sea level. Its soil consists mostly of fertile alluvium, which is intensively farmed; mineral deposits are negligible. During the rainy season floodwater covers most of the land surface, damaging crops and injuring the economy. The northwestern section of the country, drained by the Tista (Teesta) River, is somewhat higher and less flat, but the only really hilly regions are in the east, notably in the Chittagong Hill Tracts

to the southeast and the Sylhet District to the northeast. Near the Myanmar border in the extreme southeast is the Keokradong, which, at 1,230 m (4,034 ft), is the highest peak in Bangladesh.

## <sup>3</sup>CLIMATE

Bangladesh has a tropical monsoon climate. Annual rainfall is high, averaging from about 119 cm (47 in) up to 145 cm (57 in). There are three distinct seasons. The winter, which lasts from October through early March, is cool and dry, with temperature ranges from 5°C to 22°C (41°F to 72°F); total winter rainfall averages about 18 cm (7 in) in the east and less than 8 cm (3 in) in the northwest. Temperatures rise rapidly in March, and during the summer season—March through May—average about 32°C (90°F). Rainfall also increases during this period. However, nearly 80% of the annual rainfall falls from May to September, the monsoon season, when moisture-laden winds blow from the south and southeast. Temperatures drop somewhat, seldom exceeding 31°C (88°F), but humidity remains high.

In April through June and from October through November, tropical cyclones, accompanied by high seas and heavy flooding, are common. There were cyclones in May 1963, May and December 1965, October 1966, and most notably during the night of 12–13 November 1970, when a storm and resultant flooding killed more than 200,000 persons. A cyclone on 30 April 1991 left over 131,000 people dead and nine million homeless. Monsoon floods in 1974, 1980, and 1983 also devastated the country and caused many deaths, and a cyclonic storm on 24–25 May 1985 took more than 11,000 lives. The monsoon in August and September 1988 left three-fourths of the country flooded, 1,300 persons dead, and

over three million people homeless, with damage to the country's infrastructure estimated at \$1 billion.

#### **4 FLORA AND FAUNA**

Bangladesh has the plant and animal life typical of a tropical and riverine swamp. The landscape, which for most of the year is lush green, is dotted with palms and flowering trees. The large forest area of the Sunderbans in the southwest is the home of the endangered Bengal tiger; there are also cheetahs, leopards, crocodiles, elephants, spotted deer, monkeys, boars, bears, pheasants, and many varieties of birds and waterfowl.

#### **5 ENVIRONMENT**

Overpopulation has severely strained Bangladesh's limited natural resources. Nearly all arable land is already cultivated and forestland has been greatly reduced by agricultural expansion and by timber and firewood cutting. Between 1983 and 1993, forest and woodland declined by 12.5% to 1.9 million ha (4.7 million acres). As of 2000, about 10% of the total land area was forested.

Bangladesh's environmental problems have been complicated by natural disasters that add to the strain on an agricultural system which supports one of the world's most populous countries. Water supply is also a major problem because of population size, lack of purification procedures, and the spread of untreated contaminants into the usable water supply by flood waters. To ease these problems, the government has established drainage, irrigation, and flood protection systems, and has drilled thousands of tube wells to supply safe drinking water in villages. As of 2001, safe water was available to 100% of the population.

Despite passage of the Wildlife Preservation Act of 1973, wildlife continued to suffer from human encroachment. Only 0.8% of the country's total land area is protected. The Sunderbans is a natural UNESCO World Heritage Site and a Ramsar international wetland site. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 22 types of mammals, 23 species of birds, 20 types of reptiles, 8 species of fish, and 12 species of plants. Threatened species included the Asian elephant, pygmy hog, Sumatran rhinoceros, Bengal tiger, estuarine crocodile, gaviel, and river terrapin.

#### **6 POPULATION**

The population of Bangladesh in 2005 was estimated by the United Nations (UN) at 144,233,000, which placed it at number 7 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 35% of the population under 15 years of age. There were 104 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.9%, a rate the government viewed as too high. In 2004–06, the government carried out a program aimed at reducing population growth. The projected population for the year 2025 was 189,971,000. The population density was 1,002 per sq km (2,594 per sq mi).

The UN estimated that 23% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.45%. The capital city, Dhaka (formerly Dacca), had a population of 11,560,000 in that year. Other major towns are Holeytown, Speightstown, and Oistins.

#### **7 MIGRATION**

Since 1947 there has been a regular interchange of population between India and what is now Bangladesh, with Hindus migrating to India and Muslims emigrating from India. There was also substantial migration between Bangladesh (then East Pakistan) and West Pakistan until the 1971 war. Before and during the war, an estimated 8 to 10 million Bengalis fled to India; most of these refugees returned after the independence of Bangladesh was firmly established.

In 1993, repatriation began of an estimated 56,000 Chakma refugees from the Indian state of Tripura to the Chittagong Hill Tracts of Bangladesh. They had fled unrest in this area. As of May 1997, 47,000 Chakma refugees still lived in northeastern India. In 1991–92 about 265,000 Rohingyas—Muslims from Myanmar—fled to Bangladesh to escape repression. Beginning in 1994, over 200,000 of these refugees returned home to Myanmar (Burma). However, as of 1999, around 22,000 Myanmar refugees still resided in southern Bangladesh in two camps. The United Nations urged the governments of both Bangladesh and Myanmar to accelerate the process. In 2004 the refugee population numbered around 5,500.

Bangladeshi long-term migration to industrialized countries in the West began in the 1950s to the United Kingdom, and in the 1960s to the United States. Labor migration to the Middle East and Southeast Asia began in the 1970s on short term bases. As of 2004, the preferred Middle Eastern countries for labor migration were Saudi Arabia, the UAE, and Kuwait. The flow of remittances to Bangladesh has increased dramatically. In 1976, us\$24 million entered the country through official channels, by the first nine months of 2004, this sum had increased to us\$2.35 billion. However, Bangladeshis sought asylum in fourteen countries, mainly South Africa, Cyprus, and France in 2004.

As of 2000, there were approximately 988,000 migrants living in Bangladesh. In 2003, there were 150,000 to 520,000 internally displaced persons (IDP) within the country. Estimated for 2005 the net migration rate was -0.69 per 1,000 population. The government viewed the emigration level as too low, and the immigration level as satisfactory.

#### **8 ETHNIC GROUPS**

Residents of Bangladesh are called Bangladeshis. About 98% of the people are of the ethnic group called Bengalis (or Banglas). About 12 tribes inhabiting the Chittagong Hill Tracts, collectively totaling less than one million people, are ethnically distinct from the Bengalis; their facial features and language are closer to the Burmese. The government's policy of resettling Bengalis in the region, which is much less densely populated than Bangladesh as a whole, led to racial and religious disturbances and a small-scale tribal insurgency in the early 1980s. About 250,000 of the national population consists of Biharis, non-Bengali Muslims who migrated from India to what was then East Pakistan after the partition of the subcontinent in 1947. In the coastal areas of Bangladesh, Arab,

Portuguese, and Dutch settlers have gradually come to adopt the Bengali life-style.

## <sup>9</sup> LANGUAGES

Bengali (Bangla), part of the Indo-European language family, is the official language of Bangladesh and is spoken by about 98% of the population. The successful move to make Bengali coequal with Urdu as an official language was a hallmark of Bengali nationalism in the early 1950s. Non-Bengali migrants from India still speak Urdu (and Hindi) today, and this language is widely understood in urban areas. A few tribal groups, notably the tribal peoples of the Chittagong Hill Tracts, also speak distinct Tibeto-Burmese languages, akin to Burmese and Assamese. Among those speaking Bangla there are differences of dialect according to region. The people of Chittagong, Noakhali, and Sylhet are known for their distinctive dialects. Although today Bangla is the official language, English is also used for official and legal purposes and widely used in business.

## <sup>10</sup> RELIGIONS

Nearly 88% of the people are Sunni Muslims, making Bangladesh one of the world's largest Muslim countries. About 10% of the population are Hindu; the remaining are mainly Buddhist or Christian, the latter being mostly Roman Catholics. There are small numbers of Shia Muslims, Sikhs, Baha'is, Ahmadis, and animists.

Islam was established as the state religion in 1988. Freedom of worship is provided for in the constitution; however, in practice there have been reports of social, political, and economic discrimination against non-Muslims.

## <sup>11</sup> TRANSPORTATION

The large number of rivers and the annual flooding hazard make it difficult to build and maintain adequate transportation facilities in Bangladesh. Railways and waterways are the chief means of transportation. The railways are managed by the government and reach most districts of the country. The Bangladesh Railway operated 2,706 km (1,683 mi) of narrow and broad gauge track in 2004. Of that total, narrow (1,000-m) gauge is the most prevalent at 1,822 km (1,133 mi), followed by broad gauge (1,676-m) at 884 km (550 mi). The quality of service has declined because of the expense of importing new equipment. Enlarging and improving the railway system is also costly, partly because of the number of bridges needed.

The country has two deepwater ports: Chittagong, serving the eastern sector, and Chalna, serving the west. There are five main river ports—Dhaka, Nārāyanganj, Chandpur, Barisal, and Khulna—and more than 1,500 smaller ports. The inland water system has 8,372 km (5,023 mi) of navigable waterways, including 2,575 km (1,600 mi) of main cargo routes. The oceangoing merchant fleet in 2005 consisted of 41 ships of 1,000 GRT or over, with a combined capacity of 319,897 GRT.

Road connections are inadequate, but conditions have improved significantly in recent years. There were 239,226 km (148,799 mi) of roadways in 2003, of which 22,726 km (14,135 mi) were paved. A large part of the highway system becomes submerged in the rainy season; bridges, ferries, embankments, and dikes are therefore necessary to the inland transportation system. Because of the difficulties of land travel, the number of motor vehicles remains



LOCATION: 20°34' to 26°38' N; 88°1' to 92°41' E. BOUNDARY LENGTHS: India, 4,053 kilometers (2,553 miles); Myanmar, 193 kilometers (122 miles); Bay of Bengal coastline, 580 kilometers (324 miles). TERRITORIAL SEA LIMIT: 12 miles.

relatively small. As of 2003, there were 31,700 passenger cars and 60,200 commercial vehicles that were registered.

Bangladesh had an estimated 16 airports in 2004. As of 2005, a total of 15 had paved runways. Zia International is the principal airport, located at Dhaka. Bangladesh Biman is the national airline. It has an extended network connecting major cities and operates international flights from Dhaka. In 2003, airlines carried 1.579 million domestic and international passengers.

## <sup>12</sup> HISTORY

In ancient times, the area now known as Bangladesh was the eastern portion of a huge river delta region called Bang, where the

Ganges and Brahmaputra River systems empty into the Bay of Bengal and Indian Ocean. The region became known as Bengal in more modern times, but recorded history of the region can be traced to the 4th century BC when it was home to an apparently flourishing riverain civilization. The oldest surviving remains of this civilization are the ruins of the city of Mahasthan, the ancient Pundranagar, which continued to flourish for more than 1,500 years, even though the region was conquered by the Hindu Maurya empire that reached its height under Emperor Asoka around 207 BC. From this time onward, the history of Bengal was part of the wider historical experience of the Indian subcontinent, and during most of India's classical Hindu period—AD 320 to AD 1000—Bengal was a loosely incorporated outpost of empires centered in the Gangetic plain.

Islam came to South Asia in the years following AD 800 but did not reach Bengal until Muslim invaders from the west secured a foothold there around AD 1200. In the 13th and 14th centuries, after successive waves of Turkish, Persian, and Afghan invaders, Islam began to take a firm hold in the area that is now Bangladesh. The region was annexed by the Mughal Empire in 1576 under Emperor Akbar and ruled by his successors into the 17th century. The fealty lesser Nawabs (or Nabobs) of the Bengal area paid to the Mughals ensured the political stability and economic prosperity of the region, which became known for its industries based on the weaving of silk and cotton cloth.

The arrival of the French and British East India Companies in the early 18th century coincided with Mughal decline, the death of Emperor Aurangzeb, and an intense period of competition and conflict between Britain and France. By the middle of the 18th century, the British emerged supreme in what they created as the Bengal Presidency, establishing themselves in Calcutta and expanding with alacrity into all of what is now Bangladesh, as well as the Indian states of West Bengal, Bihar, Assam and Orissa. From Calcutta, British traders and administrators successfully played off rivalries among the satraps of the late Mughal empire to gain control of most of the subcontinent in the years between the Battle of Plassey in 1756 and the assumption of the company's domain by the British Crown in 1859. Calcutta remained the seat of British power in the subcontinent and the center of British control over the Indian Empire until 1931 when the capital was moved to the new city of New Delhi, adjacent to the traditional seat of Mughal power in old Delhi.

Well-to-do Hindus in Bengal generally prospered under the British, apparently taking more easily to British ways and British law than the numerically dominant Muslims. The Muslim aristocracy of eastern Bengal—feudal barons under the Mughals—resisted British rule. By the turn of the 20th century, both communities had begun to develop a political-cum-cultural consciousness of their own in reaction to the Western culture brought by the British. They took offense at British efforts to impose western educational systems on local universities, reducing their independence. Hindus were further enraged by the British decision in 1905, in an effort to improve administration and to placate Muslims, to divide the overly large Bengal Presidency in two, with the Muslim-dominant area of eastern Bengal and Assam to be a separate province. The 1905 partition was the first acknowledgment of a sense of separateness among Muslims by the British and foreshadowed events

of 42 years later when Bengal was divided between Muslim-majority and Hindu-majority districts to create East Pakistan.

The 1905 action resulted in increasing acts of violence. This lasted until it was undone six years later in favor of reuniting Bengal and instead separating out what would become the provinces of Orissa and Bihar. But the agitation provoked by the 1905 partition and the Hindu-Muslim enmities it left behind continued to provoke terrorist actions against British rule until nonviolence emerged as a mode of political struggle, under the leadership of Mohandas (Mahatma) Gandhi of the Indian National Congress.

British reforms in 1909 and 1919 expanded local self-rule in their Indian domains, but the pace fell short of the pace of demands put forth by the rising tide of nationalists espoused by the Indian National Congress, which in 1929 committed itself to the goal of complete independence. As the struggle gained momentum, differences between Hindus and Muslims widened. While the majority Hindu community saw a single Indian polity committed to secularism and diversity as the goal of the independence movement, Muslims came to fear that their community would be a permanent electoral minority, an anxiety they saw borne out in the 1937 elections held under British auspices. To look after their unique cultural interests, they formed the All-India Muslim League, and under the Muslim League leadership, sentiment began to coalesce around the “two nation” theory propounded earlier by the poet Iqbal, a belief that South Asian Muslims and Hindus were and should be two separate nations, i.e. that Muslims required the creation of an independent nation of their own—Pakistan—in which they would predominate. In 1940, the Muslim League adopted this as its goal, under the leadership of Mohammad Ali Jinnah, a Mumbai (formerly Bombay) attorney who resisted all efforts at compromise through all the difficult days leading up to the grant of independence in 1947.

In language, culture, ethnic background, population density, political experience, and economic potential, East and West Pakistan were totally disparate. The primary bond was Islam. Pakistan's early years as a nation were dominated by unsuccessful attempts—punctuated by bouts of authoritarian rule—to create a national polity that would somehow bridge these differences. Larger in population and in economic importance than the west wing, the Bengali east wing chafed under national policies effectively dominated by the leadership residing in the west wing. When its influence was further reduced under repeated bouts of martial law and by the reconstruction of West Pakistan as a single province, demands for autonomy in the east began to mount. This demand proved more than the fragile sense of Islamic nationhood could sustain. The new state of Pakistan, made up of Muslim-majority districts in both eastern and western reaches of formerly British India, was at best an unwieldy creation. It cut across long-established lines of trade and communication, divided families, provoked a mass movement of millions of refugees caught on the “wrong” side of the partition markers, and forced the creation of a new but divided polity. Pakistan consisted of two distinct territories, separated by 1,600 km (1,000 mi) of secular but predominantly Hindu India. West Pakistan, with a population of 34 million, consisted mainly of the former provinces of Baluchistan, Sindh, the Northwest Frontier, and (partially) Punjab (which, like Bengal, was also partitioned). East Pakistan, its 42 million people including nearly 9

million Hindus, encompassed the eastern half of Bengal province as shaped in 1912, plus the Sylhet District of Assam.

### Nationhood

After a round of martial law in Pakistan in 1969, national elections were scheduled for 1970. But when the popular verdict in those elections—even in the national assembly—supported greater autonomy for East Pakistan than the West Pakistan-dominated national leadership was prepared to accord, the results were set aside.

Subsequent civil unrest escalated quickly to civil war in East Pakistan. Swamped with a million refugees from the fighting, India intervened militarily in December 1971, tipping the scales in favor of the rebels and facilitating the creation of Bangladesh in 1972. Sheikh Mujibur (Mujib) Rahman, leader of the Awami League and of the fight for autonomy, was released from prison in West Pakistan (which became the Islamic Republic of Pakistan) and became prime minister of the new nation of Bangladesh.

The 1971 civil war undid much of the limited progress East Pakistan had made in recovering from the 1947 partition. Mujib faced a task for which his administrative and political experience was lacking. He fought and won a massive victory at the polls in 1973, but two years later, he suspended the political process and took power into his own hands. Bangla opinion turned against Mujib, coalescing two main opposition groups that otherwise shared little in common besides their opposition to Mujib and to Indian influence: they were the ultra conservative Islamic groups, led by the Jamaat-i-Islami, and the radical left, led by Maoists, who opposed both Indian and Soviet influence.

On 15 August 1975, a group of young military officers seized power, killing Mujib and many of his family members and imposing martial law. A counter-coup three months later produced a new military government with Gen. Zia-ur Rahman at its head. In 1978, with limited political activity permitted, he was elected president and lifted martial law. In February 1979, he restored parliamentary government after elections gave his new party, the Bangladesh National Party (BNP) a two-thirds majority in the National Assembly.

Zia's assassination during an abortive military coup in May 1981 set back the progress he had made. He was succeeded in power by his vice president, Abdus Sattar, who was deposed the following March by his army chief, Gen. Hussain Mohammad Ershad. Declaring martial law, Ershad became Chief Martial Law Administrator (CMLA), suspended the 1972 constitution, and banned political parties.

Ershad gained support by cracking down on corruption and opening up the economy to foreign collaboration. In 1983, he assumed the presidency, and by January 1986, he had restored full political activity in which his own party, the Jatiya (People's) Party took a prominent part. He retired from the army and was elected president without opposition in October 1986, but in July 1987, mounting opposition to his often dictatorial rule among the united opposition parties led him again to declare a state of emergency, dissolve the assembly, and schedule new elections for March 1988. His Jatiya Party triumphed in those elections, due mainly to the refusal of the opposition parties to participate. At the end of 1990, in the face of widespread demonstrations and some Hindu-Muslim violence, his opposition had grown so strong that Ershad

was forced to resign the presidency, turning the government over to Supreme Court Chief Justice Shahabuddin Ahmed, the unanimous choice of the opposition parties.

An interim government scheduled elections for February 1991, and the result—in what has been described as the fairest polling ever held in the country—was the election of an assembly in which the BNP, headed by Begum Khaleda Zia-ur Rahman, Zia's widow, held a plurality. However, the BNP lost popular support by March 1994, when opposition parties walked out of Parliament and boycotted the government, claiming the BNP had rigged a regional election. The main opposition groups—the Awami League (AL), Jatiya Party, and the Jamaat-e-Islami—continued the protest for two years, boycotting February 1996 elections swept by the BNP. Amid further charges of vote-rigging, Khaleda Zia resigned, the BNP dissolved Parliament, and a caretaker government conducted new elections in June 1996. The Awami League, led by Sheikh Hasina Wajed, daughter of the Sheikh Mujib, gained control of Parliament in the elections, contested by all parties and monitored by international observers. Although initially dependent on the support of the Jatiya Party to form a government, by late September the Awami League held an absolute majority of seats in the legislature.

Prime Minister Sheikh Hasina had no easier time ruling Bangladesh than her predecessor. Her government faced continuing protests, strikes, and often violent demonstrations organized by the BNP and other opposition parties. Targets for such actions included the government's historic agreement with India in December 1996 over sharing the waters of the River Ganges, higher taxes imposed by the government in July 1997, and problems of law and order in the country. During September 1997, Islamic militants took to the streets demanding the arrest and execution of controversial Bangladeshi author Taslima Nasreen. November 1998 saw a general strike organized by the BNP over alleged government repression and clashes between police and protesters over alleged electoral fraud. Tensions were heightened by the conviction and death sentences passed on several people involved in the assassination of Sheikh Hasina's father, Sheikh Mujib.

In August 1998, Bangladesh also saw some of the worst flooding in the country's history. Over 1,000 people died and flood waters covered some 60% of the country. Loss of crops raised the specter of widespread famine, and the total damage to the country's economy and infrastructure was estimated at over US\$2 billion.

Among the AL government's achievements, however, were the Ganges water-sharing treaty, the December 1997 accord that ended the tribal insurgency in the Chittagong Hill Tracts (CHT) in southeastern Bangladesh, and a restructuring of local government to increase grassroots involvement in politics. On the international stage, Bangladesh was elected to serve a two-year term on the Security Council of the United Nations, effective 1 January 2000.

In December 2000, Bangladesh expelled a Pakistani diplomat for stating that the number of dead in the 1971 war was 26,000, whereas Bangladesh holds that nearly three million were killed. Bangladesh wanted Pakistan to apologize for the alleged genocide it says Pakistani forces were guilty of during the 1971 war. In July 2002, Pakistan's president Gen. Pervez Musharraf visited Dhaka, and made an apology for excesses committed in Bangladesh's war for independence.

A series of bombings beset Bangladesh during 2001, in April, June, and September. In total, 155 people were killed and more than 2,500 were injured in violence leading up to the October 2001 parliamentary elections. In July, Prime Minister Hasina stepped down, handing power over to a caretaker authority that supervised the upcoming elections; she became the first prime minister in the country's history to complete a full five-year term. Former prime minister Khaleda Zia won a landslide victory on 1 October 2001, campaigning against lawlessness and corruption, in an election in which 75% of the registered voters went to the polls. The Awami League boycotted Parliament, protesting alleged rigging of elections and the persecution of religious minorities.

In March 2002, the government enacted tough laws to combat the use of corrosive acid to disfigure and sometimes kill individuals, mostly women. The death penalty was set as the maximum sentence in some cases. In 2001, 338 acid attacks were carried out in Bangladesh, 90% of them against women. Most of the acid victims have had sulphuric or hydrochloric acid splashed on their faces.

In June 2002, the Awami League ended its boycott of Parliament, and attended for the first time since losing in the October 2001 elections. Also in June 2002, President Badruddoza Chowdhury resigned, after being criticized for not visiting the grave of the BNP's founder, Zia-ur Rahman. That October, Prime Minister Zia called out the army to contain terrorist attacks throughout the country in the absence of adequate logistic support from the police. The army was also directed to curb crime and corruption. As many as 44 people died in custody in the drive lasting from 16 October 2002 to 9 January 2003. Zia granted immunity to the armed forces for their actions during that period, a decision that was highly criticized by the opposition Awami League.

Bangladesh's history of political violence continued through 2004. In 2002, bomb explosions in four cinemas killed 17 people and injured 300 among families celebrating the end of Ramadan. The government arrested 39 members of the Awami League in connection with the explosions. Two years later, in August 2004, a bomb exploded at a rally being held in the capital city of Dhaka by the Awami League. The blast, believed to be an assassination attempt against Hasina, killed 12 people and wounded more than 100 others.

The majority of Bangladesh's 141 million people are Muslim, and the country like many other Muslim-majority countries in Asia saw an increase in Islamic militant activity following the attacks on the World Trade Center in the United States on 11 September 2001. Although the nation remains officially secular, calls to adopt Islamic law have grown since 2001. In 2002 and 2003, editions of the newsmagazine *Newsweek* were banned in Bangladesh because they contained articles that the government deemed offensive to Muslims. The threat of militant violence continued to grow throughout 2005. On 17 August of that year, about 100 small bombs exploded across the country, mainly at government offices, bus and train stations, and in public markets. Two people were killed and at least 125 others were wounded in the blasts. Leaflets from the Islamic group, Jamaat-ul-Mujahideen, were found at many of the bomb sites, calling for Islamic rule in Bangladesh.

### <sup>13</sup> GOVERNMENT

Bangladesh inherited the provincial government under which first the Dominion, then Republic, of Pakistan was governed, a parliamentary system based on the Westminster model with a unicameral legislature. Following this model, the constitution of December 1972 established a unitary, democratic republic, with an indirectly elected president as nominal head of state and a prime minister as head of government and chief executive. The prime minister and his government are responsible to a unicameral legislature—the Jatiya Sangsad—elected no less frequently than every five years and composed of 300 members. (A constitutional amendment reserving 30 additional parliamentary seats for indirect election of women expired in May 2001.) The constitution incorporated four basic principles of state policy: nationalism, secularism, socialism, and democracy. With considerable controversy, because of its impact on the nearly 17% of the population which is non-Muslim, Islam replaced secularism as a state principle by constitutional amendment in 1977.

The constitution was amended in 1975, at the initiative of Prime Minister Mujibur Rahman, to abrogate most guarantees of civil liberties, to establish a one-party polity, and to make the presidency, rather than the prime ministership, the chief executive of the government. Mujib's assassination later that year, and the counter-coup that occurred three months later resulted in a four-year suspension of the constitution by Bangladesh's martial law ruler, Gen. Zia-ur Rahman.

Rahman himself was assassinated in 1981, and in the turmoil that ensued, Gen. H. M. Ershad seized power. Ershad declared himself president in 1982, and held office until 1990, when increasing antigovernment protests and violence resulted in his resignation. He was later jailed on corruption charges. The interim government then conducted what most observers regard as the most free and fair elections ever held in Bangladesh, in 1991.

Begum Khaleda Zia-ir Rahman, widow of General Rahman and the head of his Bangladesh Nationalist Party, became the first woman to hold the position of prime minister in Bangladesh following the elections in 1991. Among her first acts, she reversed from her former position in favor of retaining a strong presidential system to restore the parliamentary system of 1972 and to return to the prime ministership the powers removed by Mujib in 1975. She led the campaign with strong Awami League support, which resulted in overwhelming parliamentary approval of a constitutional amendment. Khaleda Zia was forced to step down in March 1996, after two years of political turmoil following an opposition boycott of Parliament and elections. The opposition AL, which claimed the BNP had rigged two elections, was swept into power in the internationally monitored elections of June 1996. Sheikh Hasina Wajed then formed a coalition majority in Parliament with the Jatiya Party. By September 1996, with several victories in by-elections, the Awami League controlled an absolute majority of seats in Parliament. The government was thus unaffected by the Jatiya Party's withdrawal from the coalition in March 1997.

Parliamentary elections held 1 October 2001 resulted in a return of Khaleda Zia to power. The BNP took 201 seats, the AL held 62, Jamaat-e-Islami held 18, and the Ershad faction of the Jatiya Party took 14 seats. The majority BNP government aligned with three of the smaller parties, Jamaat-e-Islami, Islami Oikya Jote, and the Naziur faction of the Jatiya Party. Elections were scheduled to be

held in 2007. The Jamaat-e-Islami party is sympathetic to Osama bin Laden, a position that was controversial, especially after the 11 September 2001 terrorist attacks on the United States attributed to him. Zia attempted to quell domestic and international unease resulting from this position, asserting that Bangladesh would not become a fundamentalist Islamic state. However, her three coalition partners advocated replacing Bangladesh's secular laws with Islamic law, or Shariah.

## 14 POLITICAL PARTIES

From 1947 through the end of 1971, East Pakistan—now Bangladesh—was governed as a single province, one of the two wings of Pakistan. In all, there were more than 30 political parties operating in the east wing, most of them small, fractious, and with few elected members. The major parties at that time operated on the all-Pakistan level as well, and included the moderate Pakistan Muslim League (PML), a national movement that became the party of independence and the ruling party of Pakistan; the moderate socialist Awami (Freedom) League (AL), a spin-off from the Muslim League and the advocate of Bengali autonomy, with the bulk of its support in the east wing; the ultraconservative Islamic Jamaat-e-Islami (JI), grounded in Sunni Islamic orthodoxy (in Pakistan as in India) and initially opposed to the 1947 partition; and the leftist peasants and workers party, the Krishak Sramik Party (KSP) of Fazlul Haq. The Communist Party of Pakistan (CPP) was banned in 1952 and remained illegal until its east wing component became the Bangladesh Communist Party (BCP) after 1971.

The PML governed East Pakistan from 1947, but in elections in 1954, the Awami League and the Krishak Sramik, supported in a United Front by the Jamaat, ousted the Muslim League from office. After four years of political instability, however, the two parties were displaced by the central government under "Governor's Rule," and the emergency provisions of the 1935 Government of India Act, then Pakistan's constitution. When the East Pakistan government was restored in August 1955, the KSP ruled in its own right until displaced by an AL government headed by Maulana Bhashani in 1956. Loss of Hindu support in 1958 cost the AL its majority in 1958, but "Governor's Rule" was again imposed, the provision having been carried over into the 1956 Pakistan Constitution. Martial law was imposed in Pakistan in 1965 and in elections held thereafter, under a limited political franchise, the Muslim League, now a shadow of its former self and the vehicle for General Ayub Khan's entry into elective politics, came to power briefly. Imposition of martial law in 1969 suspended political activity again until the scheduling of elections in 1970 restored political activity.

By 1970, the moderate-to-left populist Pakistan People's Party (PPP) of Zulfikar Bhutto, and the Awami League of Sheikh Mujibur Rahman, now advocating far-reaching autonomy for East Bengal, had become the dominant political forces, respectively, in West and East Pakistan. Elections confirmed this position, with the AL winning 167 of East Pakistan's 169 seats in the National Assembly and absolute control in East Pakistan. The AL was the only constituent in the Bangla Government-in-Exile in 1971, with leftist parties in support and Islamic parties in opposition. After independence, the Islamic party leaders were jailed, their parties having been banned, and in 1973, Mujib's Awami League elected 293 members of the 300-elective seats in the Assembly.

In January 1975, with his power slipping, President Mujib amended the constitution to create a one-party state, renaming his party the Bangladesh Krishak Sramik Awami League (BKSAL). After the coup later in 1975, the BKSAL was disbanded and disappeared. When Zia-ur Rahman lifted the ban on political parties in 1978, his presidential bid was supported by a newly formed Nationalist Front, dominated by his Bangladesh National Party (BNP), which won 207 of the assembly's 300 elective seats. All political activity was banned anew in March 1982 when Gen. Ershad seized power, but as he settled into power, Ershad supported the formation of the Jatiya (People's) Party, which became his vehicle for ending martial law and transforming his regime into a parliamentary government. In elections marked by violence and discredited by extensive fraud, Ershad's Jatiya Party won more than 200 of the 300 elective seats at stake. The Awami League, now under the leadership of Mujib's daughter, Sheikh Hasina Wajed, took 76 seats as the leading opposition party. Begum Khaleda Zia's BNP, heading an alliance of seven parties, boycotted the elections and gained considerable respect by this action. The BNP, the AL, and all other parties boycotted Ershad's 1988 election as well, discrediting the result that gave the Jatiya a two-thirds majority and fueling the fires of discontent that led to Ershad's resignation on 4 December 1990. Ershad was arrested on corruption charges eight days later by the interim government, convicted, and imprisoned on corruption charges.

A BNP plurality in the elections on 27 February 1991 enabled Begum Khaleda Zia to form a government with the support of 28 of the appointive members of the assembly and of the JI, which won 18 seats. The leader of the opposition is Sheikh Hasina Wajed of the Awami League (AL), which won 88 seats to claim the second ranking position in the assembly. However, Khaleda Zia resigned and Parliament was dissolved in March 1996 amid vote-rigging charges and a two-year government boycott by opposition parties. June 1996 elections brought Sheikh Hasina and the AL to a majority role in the new Parliament. The AL won 140 seats to the BNP's 116. New Prime Minister Hasina formed a cooperative government with the Jatiya Party, which won 32 seats. Although the Jatiya Party withdrew from the coalition in March 1997, the Awami League had by then acquired an absolute majority in the legislature and continued as the party in power.

From 1997 to 2001, the main opposition party, the BNP, hindered the work of the Jatiya Sangsad (Parliament) by repeatedly boycotting its proceedings. One such boycott—over issues ranging from restoration of a floating footbridge to Zia-ur Rahman's tomb to the dropping of criminal charges against BNP members of parliament—lasted for six months (August 1997–March 1998). Outside Parliament, the BNP continued to support public anti-government demonstrations, and organized a three-day general strike (*hartal*) in November 1998 to protest alleged government repression. A month later, the opposition strengthened its position when the BNP and the Jamaat-e-Islami decided to accept Ershad and his Jatiya Party into the antigovernment movement.

After October 2001 parliamentary elections swept Khaleda Zia's BNP to power, ousting the Awami League of Hasina Wajed, concern was raised over the political stance of one of Zia's coalition partners, the Jamaat-e-Islami party, which voices support for Osama bin Laden. Zia's three coalition partners in the government formed in 2001, Jamaat-e-Islami, Islami Oikya Jote, and the Na-

ziur faction of the Jatiya Party, are all Islamic parties advocating a return to Islamic law, or Shariah. Zia, however, granted the US-led military coalition the use of Bangladesh air space and other help for its attacks on bin Laden and his al-Qaeda training camps in Afghanistan in 2001–02, approving of the US-led war on terrorism. Hasina's Awami League supports secularism. Khaleda Zia's term extended through 2007.

## 15 LOCAL GOVERNMENT

As a unitary state, the key administrative unit in Bangladesh is the region (also popularly referred to as the district), of which there are 21 in all. For administrative convenience, regions are grouped into (and report through) six divisions (Barisal, Chittagong, Dhaka, Khulna, Rajshahi, and Sylhet), under a senior civil servant with the title of division commander (formerly commissioner).

As of 1985, regions or districts were subdivided into *zilas*; in urban areas, these were further broken down into municipalities, wards, *mohallas*, and *thanas*, while in rural areas, the breakdown was into *upazilas* (subdistricts), unions, *mouzas*, and villages. Under that system, each region or district was under the charge of a senior civil servant with the title of deputy commissioner; they are appointed by the national government and are vested with broad powers to collect revenues and taxes, assist in development activities, and maintain law and order.

In 1997, Bangladesh reorganized its local government structure in rural areas. New legislation created a four-tier local government system: gram (village), union (collection of villages), *upazila* (subdistrict), and *zila* (district) councils. The purpose of this reorganization was to democratize government at the grassroots level in a process that, in theory at least, is nonpartisan. Elections for union *parishads* (councils) held in December 1997 created widespread interest, with particularly high levels of participation from women, both as candidates as well as voters. Other legislation made the *upazila* level the most important tier in local government, giving the *upazila* council power to collect revenue, prepare its own budget and hire its own employees. The restructuring of local government in Bangladesh is an ongoing process aimed at increasing popular participation in the governmental process.

## 16 JUDICIAL SYSTEM

The judicial system, modeled after the British system, is similar to that of neighboring countries. Besides the 1972 constitution, the fundamental law of the land, there are codes of civil and criminal laws. The civil law incorporates certain Islamic and Hindu religious principles relating to marriage, inheritance, and other social matters.

The constitution provides for an impartial and independent judiciary. After the 1982 coup, the constitution was suspended, martial law courts were established throughout the country, and Lieut. Gen Ershad assumed the power to appoint judges. The constitution was reinstated in November 1986.

The judicial system consists of a Low Court and a Supreme Court, both of which hear civil and criminal cases. The Low Court consists of administrative courts (magistrate courts) and session judges. The Supreme Court also has two divisions, a High Court which hears original cases and reviews decisions of the Low Court, and an Appellate Court which hears appeals from the High Court. The upper-level courts have exercised independent judgment, re-

cently ruling against the government on a number of occasions in criminal, civil, and even political trials. The trials are public. There is a right to counsel and right to appeal. There is also a system of bail. An overwhelming backlog of cases remained the major problem of the court system.

The government, with the help of the World Bank, has undertaken an ambitious project to reform the judicial system. Changes include the creation of "Legal Aid Committees" to provide assistance to the poor, as well as the establishing of Metropolitan Courts of Sessions in Dhaka and Chittagong. In March 2001, the World Bank announced the approval of a US\$30.6 million credit to assist Bangladesh in making its judicial system more efficient and accountable. A permanent Law Commission has been created to reform and update existing laws, and the government is committed to establishing a Human Rights Commission as well as an Office of the Ombudsman.

## 17 ARMED FORCES

In 2005, Bangladesh had 125,500 active military personnel, of which the Army had 110,000, the Navy 9,000, and the Air Force 6,500. Paramilitary forces of border guards, armed police, and security guards totaled 126,200. The Army's primary weapons systems included 180 main battle tanks, more than 40 light tanks, over 180 armored personnel carriers, and over 190 artillery pieces. Major naval units included 5 frigates, 33 patrol/coastal vessels, and 4 mine warfare ships. The Air Force's main weapons include 29 fighters and 34 fighter ground attack aircraft. Bangladesh was attempting to improve naval command primarily to combat piracy. The military budget in 2005 was \$785 million.

Bangladesh participated in 11 UN peacekeeping missions.

## 18 INTERNATIONAL COOPERATION

Bangladesh joined the United Nations on 17 September 1974; it belongs to ESCAP and several nonregional specialized agencies. The country holds membership in the Asian Development Bank, the Colombo Plan, the Commonwealth of Nations, the Organization of the Islamic Conference (OIC), and G-77. The nation became a member of the WTO on 1 January 1995. In 1985, Bangladesh became one of seven constituent members of the SAARC, under which it is a signatory to the South Asia Preferential Trade Agreement.

Soon after independence, Bangladesh signed a friendship treaty with India, but relations between the two nations are often strained. In 1997, Bangladesh signed an agreement with India on sharing water from the Ganges River. Pakistan recognized Bangladesh in February 1974, and the two have developed good relations, their past differences notwithstanding.

Generally, Bangladesh follows a nonaligned foreign policy but the late 1990s was seeking closer relations with other Islamic states, ASEAN, and China. Bangladesh has offered assistance to UN efforts in Kosovo (est. 1999), the Western Sahara (est. 1991), Ethiopia and Eritrea (est. 2000), Sierra Leone (est. 1999), East Timor (est. 2002), Georgia (est. 1993), Côte d'Ivoire (est. 2004), and DROC (est. 1999). Bangladesh also continued a healthy relationship with the United States, with which it had bilateral trade agreements. In 1995, the country's trade exporters association signed an agreement with the United Nations Children's Fund

(UNICEF) and the International Labor Organization (ILO) under which industry's rampant use of child labor would be eliminated.

In environmental cooperation, Bangladesh is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## <sup>19</sup>ECONOMY

Bangladesh lies along a river delta and has gained interest from foreign investors in recent years because of its large potential natural gas reserves. However, with the highest population density of any country except city-states like Singapore, its cultivated land is overcrowded, undercapitalized, and dominated by subsistence farmers. Over 60% of the country's total land area is cultivated. Although half of the nation's gross domestic product comes from the services sector, about 63% of the economically active population subsists on agriculture. Growth rates have not been high enough to eliminate substantial poverty; it is estimated that 45% of the population lived below the poverty line in 2004. Nevertheless, signs of modest improvement in the economy have been evident during the past decade, with growth occurring at a steady 5.2% rate over the past several years. Despite this improvement, Bangladesh's reliance on agriculture makes its economy extremely vulnerable to cyclones, floods, and droughts. Changes in world commodity prices also have a strong effect on the country's economic condition. Agriculture accounts for 20.5% of the country's GDP, with services comprising 52.8% and industry 26.7%.

The prospect of return to elected government in 1990 helped produce an upsurge in growth in 1989/90 of 6.6%, but in 1990/91 the combined effects of the Gulf War, domestic political disturbances, and a devastating cyclone resulted in a drop in the GDP's growth rate to 3.4%. Pursuit of further stabilization and structural adjustment measures by the government in 1991 allowed Bangladesh to weather these crises, strengthen its revenue base, bring inflation to a record low of 1.4% in 1993, and maintain a good balance of payments position. However, political instability and a lack of continued economic reforms pushed inflation to 5.2% in 1995. Sluggish development investments, limited growth in manufacturing, and bureaucratic inefficiency persisted. The election of the Awami League government helped calm the political situation, and the economy responded. GDP grew 4.7% in 1996, while inflation eased to 5.04%.

In 1997, the government's delay in instituting reforms threatened to slow economic advances. Inflation rose to 7%, while GDP slowed to 4%. Although the Awami League promoted the exploration, distribution and manufacture of oil and gas in Bangladesh in the late 1990s, exploration has been delayed by political squabbles over how foreign companies would participate. The economy grew strongly during 1998, with real growth reaching 5.4%. Growth slowed to 4.9% in 1999, and to 3.4% in 2000. The global economic slowdown, and the after-effects of the 11 September 2001 terrorist attacks on the United States, combined with continuing internal political turmoil initially brought economic growth almost to a halt in Bangladesh, with an estimated growth rate of 1.6%. Although Bangladesh's growth rate improved to 5.2% in the early 2000s, severe flooding in 2004 damaged crops and infrastructure, illustrating once again the country's vulnerability to

natural disasters. As of 2005, Bangladesh experienced an inflation rate of 6%, and its public debt comprised 46.1% of its GDP. Although the country received \$30 billion in foreign aid and loans since 1971, nearly half of its people continue to live below the poverty line. Both the IMF and World Bank predicted that Bangladesh would not be able to ease poverty significantly until annual growth reached 7–8%.

## <sup>20</sup>INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Bangladesh's gross domestic product (GDP) was estimated at \$299.9 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,100. The annual growth rate of GDP was estimated at 5.2%. The average inflation rate in 2005 was 6.7%. It was estimated that agriculture accounted for 20.5% of GDP, industry 26.7%, and services 52.8%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$3.191 billion or about \$23 per capita and accounted for approximately 6.1% of GDP. Foreign aid receipts amounted to \$1,393 million or about \$10 per capita and accounted for approximately 2.5% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Bangladesh totaled \$39.68 billion or about \$288 per capita based on a GDP of \$51.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.9%. In 2001 it was estimated that approximately 49% of household consumption was spent on food, 18% on fuel, 8% on health care, and 9% on education. It was estimated that in 2004 about 45% of the population had incomes below the poverty line.

## <sup>21</sup>LABOR

The labor force in 2005 was estimated at 66.6 million workers. In the Fiscal Year 1995/96 (the latest year for which data was available), 11% of the civilian labor force was employed in the industrial sector, with agriculture accounting for 63%, and service employees 26%. Statistics are unreliable because of a large, informal, unreported market. The unemployment rate in 2005 was estimated at 2.5%, and included those who would be considered "underemployed." Also, Bangladesh is an extensive exporter of labor to Saudi Arabia, Malaysia, Qatar, and Oman.

Although 1.8 million out of the 5 million workers in the formal sector of the economy were unionized, most of which were tied to political parties and represented only a small fraction of the economically active population. Strikes are a common form of workers protest. There are industrial tribunals to settle labor disputes. The government can impose labor settlements through arbitration, as well as by declaring a strike illegal. Unions have become progressively more aggressive in asserting themselves, especially on the political scene. Civil service and security forces personnel are banned from joining unions. In addition, teachers in

both the private and public sectors are prohibited from forming a trade union.

Bangladesh has no national minimum wage. Instead, wages are set by the National Pay and Wages Commission and may not be disputed. In the private sector, wages are set by industry, and collective bargaining rarely occurs due to high unemployment and workers' concerns over job security. By law, government employees, as well as workers in nongovernmental organizations (NGOs), banks and other office workers are subject to a 40 hour work week, with Fridays and Saturdays off. However, the legal workweek for factory workers is 48 hours, with up to 12 hours of overtime and one day off mandated. This law is rarely enforced, especially in the garment industry. Children under the age of 14 are prohibited by law to work in factories but may work (under restricted hours) in other industries. But such restrictions are rarely enforced and children work in every sector of the economy. In 2003, the government estimated that 3.2 million children between the ages 5–14 were engaged in all types of employment activities, many that were harmful to their well-being. By law, every child is required to attend school up to the age of 10 or through the fifth grade. However, there is no effective way of enforcing this regulation.

## 22 AGRICULTURE

Agriculture accounted for 23% of GDP and engaged 53% of the economically active population in 2003. Most of the farmers own no more than a few acres of land, and their holdings are badly fragmented. The land is fertile, but yields are low because of a lack of capital for input.

Rice dominates the production of about 60% of all cropped land in Bangladesh. Of the varieties grown, aman rice, which can be raised in inundated land and saline soil, occupies nearly 60% of the total land under rice. Aus rice, which cannot be grown in flooded fields, is raised mostly in higher areas of Bangladesh. Boro rice is grown in the winter, mainly in the swamps and marshy areas, but government-supported irrigation projects have encouraged its extension to other areas. To meet the challenge of the food shortages, the government of Bangladesh and international aid programs introduced a high-yielding variety of rice called IRRI with considerable success. Total rice production in 2004 was 37,910,000 tons. Before November 1992, the government artificially inflated rice prices by buying over one million tons per harvest. With subsidies gone, the subsequent fall in rice prices reflected an adjustment of the market after 20 years of prices propped up by government sales and purchases.

Jute is the main cash crop of Bangladesh, which produces about one-quarter of the total jute supply of the world. Grown in most parts of the country, jute is harvested from July to September. Its strong fibers are used to produce carpets, burlap bags, mats, upholstery, and other products. Jute is also used to manufacture textiles for clothes. The combined total export of jute and jute products represents about 13–15% of Bangladesh's annual export earnings. Although Bangladesh is the world leader in exports of jute, its prominence in the economy has slipped since the 1970s. The diminished role is due to mismanagement of the nationalized jute industry, labor strikes, and a drop in the worldwide use of jute for packing. In 2004, 800,000 tons of jute were produced (28% of world production).

Although tea is the second most important agricultural export, it accounted for only 11% of agricultural export earnings in 2004. Most tea plantations are in the Sylhet Region and the Chittagong Hill Tracts. Much of the tea is consumed domestically; total production in 2004 was 55,600 tons.

The agricultural economy, though disrupted by the 1971 war, largely recovered and grew by an average 2.7% annually during the 1980s and by an annual average of 2.9% during 1990–2000. However, in 2003 agricultural production was down 2.1% from 1999–2001. Agricultural exports accounted for 1.7% of total exports in 2004. Frequent monsoons and cyclones keep the economy vulnerable. Crop output (in tons) in 2004 included sugarcane, 6,484,000; wheat, 1,253,000; potatoes, 3,908,000; sweet potatoes, 320,000; tobacco, 40,000; and barley, 1,000. Fruit production in 2004 included 700,000 tons of bananas, 243,000 tons of mangoes, and 155,000 tons of pineapples. Coconut productions totaled 89,000 tons that year; lentils, 122,000 tons.

## 23 ANIMAL HUSBANDRY

The livestock sector has made significant progress during the 1990s, rising from 1% to 10% of GDP. Livestock provide most of Bangladesh's draft power, rural transportation, manure, and fuel, in addition to meat, milk, eggs, hides, and skins. Buffalo milk is an important item of consumption, especially in the form of clarified butterfat. Small dairy farms (with 5–20 crossbred cows) have been growing fast in recent years. Entrepreneurs are encouraged by high liquid milk prices as well as government incentives under which the farmers receive cash to purchase dairy cows. There are over 20,000 small dairies; total milk production in 2004 was 2.17 million tons. There were about 24.5 million head of cattle, 850,000 buffaloes, 34.5 million goats, 1.26 million sheep, and 140 million chickens in 2004.

Much of the cattle stock is smuggled from India because of the reduced local availability of cows and bulls, especially during the midyear Muslim holiday of Eid Ul Azha, when cattle are sacrificed throughout the country. The cattle brought in from India may account for up to 30% of beef production. The scarcity of cattle in recent years is the result of lack of vaccines and fodder, natural disasters, and an absence of farmer incentives.

## 24 FISHING

Fish is a staple food of Bangladesh and the main source of protein. There are hundreds of varieties, including carp, salmon, pomfret, shrimp, catfish, and many local varieties. Dried fish is considered a delicacy in many parts of the country. About 999,000 tons of fish (76% from inland waters) were produced in 2003. While much of the fish is consumed domestically, Bangladesh exports a sizable quantity of freshwater fish to India and other neighboring countries, and freshwater shrimp and lobster are exported to a number of countries. Exports of fish products in 2003 amounted to \$322.9 million. It is also a major source of frogs' legs, which are "farmed" commercially. Fishermen's cooperatives foster the use of modern fish-catching trawlers in the Bay of Bengal, and the government has established a fisheries corporation to stimulate production of freshwater fish for export.

## 25 FORESTRY

Bangladesh has an estimated 1,300,000 hectares (3,200,000 acres) of forests, covering some 10.2% of land area. In recent years, the pressure of population has led to enormous deforestation. The government-controlled Forest Industries Development Corp. supervises the development and exploitation of forest resources. Roundwood production in 2003 came to 28 million cu m (1 billion cu ft). Over 98% of timber cut is used for firewood.

The main forest zone is the Sunderbans area in the southwest, consisting mostly of mangrove forests. Two principal species dominate the Sunderban forests: sundari trees, which grow about 15–18 m (50–60 ft) high and are of tough timber, and gewa trees, a softer wood used for making newsprint. Teak and bamboo are grown in the central forests.

## 26 MINING

Aside from its large identified natural gas reserves, Bangladesh had few mineral resources. The Bay of Bengal area was being explored for oil, and in some offshore areas, drilling was being conducted by international companies. Bangladesh had reserves of good-quality coal in the northern districts, but extraction has been difficult since many deposits were located at a depth of more than 900 m. Production estimates of mineral commodities in Bangladesh in 2004 included hydraulic cement, 5,000,000 metric tons; marine salt, 350,000 metric tons; and limestone (mined in the Sylhet and Chittagong regions), 36,000 metric tons.

## 27 ENERGY AND POWER

A substantial portion of Bangladesh's electrical supply is met by the country's only hydroelectric plant, at Kaptai, which has a capacity of 230 MW; the rest of the country's power is produced by burning coal, gas, and oil. Except for a few private installations on the tea plantations and a few other industries, the power and energy sector is controlled by a government-managed corporation. In 2003, electricity generation was estimated at 17.4 billion kWh, of which 94% came from fossil fuels and 6% from hydropower. In 2002, consumption of electricity totaled 15.353 billion kWh. Total capacity in 2003 is estimated at 3.6 gigawatts (GW). As of August 2005, it was reported that only about 20% of the population had access to electricity (25% urban and 10% rural). In addition, the power supply is erratic, and blackouts are a chronic problem, as are delays in new plant construction.

In July 1997, Bangladesh contracted with four international power and refining companies for four new power plants with a combined capacity of 1,600 MW. The new plants were expected to double the country's electricity to 4,000 MW over five years. A large-capacity, gas-fired 360 MW plant at Haripur became operational in April 2001, and a second, similar plant was scheduled for completion at Meghnaghat in late 2002. In 2000 the United States agreed to provide technical assistance for construction of the planned Rooppur nuclear plant.

Bangladesh's major energy resource is natural gas. However, there is some question as to how large the nation's natural gas reserves are. According to British Petroleum (BP), proven reserves at the end of 2004 stood at 0.44 trillion cu m (15.4 trillion cu ft), but estimates from the Oil and Gas Journal, place those reserves at 10.6 trillion cu ft as of 1 January 2005. According to estimates by

the US Geological Survey, Bangladesh's "undiscovered reserves" have been placed at 32.1 trillion cu ft. Natural gas production in 2004 has been put at 13.2 billion cu m, according to BP. With 20 natural gas fields throughout the country, the government controls the gas industry but began accepting private exploration bids in 1991. Foreign companies active in the country's natural gas sector include Shell and Unocal. More than four-fifths of Bangladesh's natural gas is used to produce power and fertilizer.

Bangladesh's proven oil reserves are reported to be modest and, as of 1 January 2005, were estimated at 56 million barrels. In 2004, production of oil was estimated at 6,725 barrels per day, of which crude oil accounted for 6,000 barrels per day. The country has one oil refinery, located at Chittagong, with a capacity of 33,000 barrels per day. In 1991 Chinese consultants confirmed the existence of 300 million tons of good quality coal at the Boropukuria coal field in northern Dajpur District.

## 28 INDUSTRY

Bangladesh came into existence after a violent fight for independence in 1971 from Pakistan, following initial partition from India when British colonial rulers pulled out of the subcontinent in 1947. Efforts to develop an industrial base faltered in the country's early years of independence when Bangladesh attempted to stimulate economic growth by nationalizing most of its industries. That statist model led to much inefficiency and stagnation, and beginning in the mid-1970s, Bangladesh started to shift its strategy toward one of encouraging a move toward a market economy. The country remained committed to developing such an economy, and has made steps in that direction. However, many of its key industries—including banking and jute production—were still government controlled. Public control of industry, coupled with the country's persistent population growth and limited capital, has led to inefficiency and a resistance to developing its richest resources.

Bangladesh developed policies to encourage private enterprise and investment through the mid-1980s. However, many stated objectives were not carried out partly because political problems preoccupied governmental leaders. As a result, Bangladesh has had difficulty achieving its major industrial goals. Privatization of industry has occurred at a slow pace, partly because of worker unrest as well as a dysfunctional banking system. However, some progress was seen on 30 June 2002 when the government succeeded in closing down its Adamjee Jute Mill, one of its largest and most expensive public enterprises. In the meantime, a global economic crisis that followed the 11 September 2001 terrorist attacks on the United States hit Bangladesh's garment industry particularly hard. Readymade garments comprise Bangladesh's primary export. The growth of these exports, 18% annually before September 2001, slowed to 8%.

The garment industry, however, remained one with strong potential for Bangladesh. About 1.8 million jobs—mostly for women—have been created in the industry since the 1990s. The country also has drawn praise for its efforts to end child labor in its garment factories, eliminating such exploitative work by 2001.

Bangladesh has seen growth in steel, sugar, tea, leather goods, newsprint, pharmaceutical, and fertilizer production. A challenge is diversifying its export base. Garments accounted for about 75% of the country's exports in 2005, though it also exports leather, shrimp, pharmaceuticals, ceramics and its historic cash crop, jute.

With a goal of expanding exports in mind, the country has made strides in its effort to establish export processing zones and was encouraging entrepreneurs to set up similar establishments.

Continued efforts to privatize industry are likely to determine whether Bangladesh will be able to compete in a global economy in the 21st century. Although progress has been made, the public sector still employed about one-third of the formal labor force and made up about 40% of the country's hard industrial assets. A lack of a privately run industrial base meant that Bangladesh was likely to continue to rely on weaker sectors such as agriculture; as of August 2005, manufacturing accounted for only 16% of the GDP.

A new potential source of industrial growth lies in Bangladesh's oil and natural gas reserves. Bangladesh produces about 6,725 barrels of oil per day and its proven reserves are estimated at 56 million. Although Bangladesh has encouraged foreign oil companies to do business in the country, exploration has proven to be difficult and disagreements over the licensing of foreign oil holdings has stalled growth in this sector. In terms of natural gas, proven reserves are estimated between 10 trillion and 15 trillion cubic feet. Bangladesh is seen as having potential to become a major gas producer and the commodity could become a valuable export. However, many in Bangladesh feel that the reserves should be used to meet domestic needs first, and leaders within its major political parties have agreed only to consider exporting natural gas if the reserves can satisfy 50 years of domestic demand.

## 29 SCIENCE AND TECHNOLOGY

Bangladesh lacks the trained personnel necessary for intensive technological development. The Bangladesh University of Engineering and Technology (founded in 1962) does, however, train some technicians. Other institutions offering scientific and technical education include the Bangladesh Agricultural University in Mymensingh, the University of Chittagong, the University of Dhaka, Jahangirnagar University in Dhaka, Khulna University, and the University of Rajshahi. In the period 1990–01, there were only 51 scientists and 32 technicians engaged in research and development per million people. In 2002, high technology exports totaled \$10 million.

The Bangladesh Council for Scientific and Industrial Research and headquartered in Dhaka, operates seven research institutes, and the Bangladesh Atomic Energy commission, founded in 1973, and also in Dhaka, operates two others. The Geological Society of Bangladesh, founded in 1972 at Dhaka, is a government organization under the Ministry of Energy and Natural resources. Leading professional groups are the Bangladesh Academy of Sciences, the Bangladesh Medical Association, and the Zoological Society of Bangladesh, all headquartered in Dhaka.

## 30 DOMESTIC TRADE

Most commodities produced in Bangladesh are consumed inside the country. Normally, the farmers or fishermen sell to wholesalers and they in turn sell to distributors and retailers. Industrial commodities for domestic consumption are distributed through the same procedure. The middlemen in the distribution process have often benefited from excessive profits, creating hardships for farmers and consumers. To meet this situation, the government has introduced mechanisms by means of which farmers can sell

directly to cooperative agencies acting on behalf of buyers. The government has also set up fair-price shops for consumers. Much domestic trade in rural areas is conducted in the marketplaces, where farmers sell directly to consumers. Bangladesh's government promotes foreign investment into the country's infrastructure, and about 60% of the domestic development budget comes from foreign aid.

Foreign products are imported by large commercial concerns located in the capital city of Dhaka or in the ports, and are then distributed through wholesalers and retailers. Normal business hours are between 9 AM and 5 PM, Sunday through Thursday, but most retail stores are open until 8 PM. Many private businesses are open on Saturday as well. Limited advertising is done through the newspapers, movie houses, handbills, and television.

Most Bangladeshis earn their living from agriculture so many of the domestic commodities that are traded are farm products. The nation's 2004 budget contained a \$100 million subsidy for the agriculture sector, in recognition of the importance of farming for its people. Rice and jute are the primary crops, with wheat and vegetables gaining more importance. Tea is grown in the northeast. Because of Bangladesh's fertile soil and ample water, rice can be grown and harvested three times a year in many areas.

## 31 FOREIGN TRADE

Since independence, Bangladesh has had a negative trade balance. Imports steadily ran more than double the value of exports between 1971 and 1991. With a surge in export growth since 1991, the trade deficit has improved; imports exceeded exports by about 56% in 1996, and by 62% in 1997 as opposed to more than 120% in 1989/90. Trade relations with the United States remained excellent. As a result of successful export promotion measures undertaken by the government during the 1980s, exports of ready-made-garments and knitwear are now Bangladesh's leading earner of foreign exchange.

The garment and textile industry garners the highest percentage of Bangladesh's export commodities, including undergarments, women's and men's outerwear, leather, hats, and yarn (85%). At the mouth of the Ganges, fish and crustaceans are also harvested and exported (5.6%).

### Principal Trading Partners – Bangladesh (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	4,787.8	7,069.5	-2,281.7
United States	1,523.5	188.0	1,335.5
Germany	649.5	152.3	497.2
United Kingdom	558.6	168.3	390.3
France-Monaco	320.6	92.3	228.3
Netherlands	215.2	78.0	137.2
Belgium	213.3	...	213.3
Italy-San Marino-Holy See	210.9	88.3	122.6
Spain	120.8	...	120.8
Canada	102.8	56.9	45.9
Sweden	94.5	49.2	45.3

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Bangladesh belongs to the South Asian Association for Regional Cooperation (SAARC). It joined the other SAARC members—Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka—in agreeing in 2004 to create a South Asian Free Trade Area by 2006.

### 3<sup>2</sup> BALANCE OF PAYMENTS

Like many poorer countries, Bangladesh has encouraged its growing cadre of workers in the Middle East and elsewhere overseas to remit earnings back to the country. As a result of these private transfers, the country has been able to offset its trade deficit to some degree. Since the end of the 1990s, the level of worker remittances has increased at an average rate of 12.6%. As of November 2004, such remittances totaled \$3 billion a year.

However, large amounts of foreign aid and heavy short-term borrowing are needed to handle the balance-of-payments problem. In FY 1991/92, the infusion of \$1.59 billion in foreign aid and transfers helped lessen a negative balance of payments. In 1995, the trade deficit widened and there was a stagnation in the growth of remittances from overseas workers. The rising trade deficit, coupled with a decline in international aid disbursements due to political turmoil, caused foreign exchange reserves to drop from a peak of \$3.4 billion in April 1995 to \$2.1 billion by the end of 1996, and \$1.7 billion by 1999. The reserves stabilized at between \$2.2 billion and \$2.5 billion after 2002, and were reported at \$3.24 billion as of May 2005.

During the 1990s, the manufacturing sector revived, due to export growth led by garments and knitwear. Although the garment industry suffered the effects of a post-9/11 economic slowdown, it remained a solid contributor to Bangladesh's export base. Bilateral quota systems with developed country markets, whose quota regimes limited the exports of many competing Asian suppliers, were a factor in the growth of garment exports starting from 1994. Other factors contributing to the success of the garment industry

in Bangladesh include few governmental regulations, the provision of customs-bonded warehouses for imported cloth, and financial arrangements allowing foreign banks to finance raw materials inventories. Nevertheless, Bangladesh must diversify its export base in order to remain competitive globally.

The US Central Intelligence Agency (CIA) reported that in 2005 the purchasing power parity of Bangladesh's exports was \$9.372 billion while imports totaled \$12.97 billion resulting in a trade deficit of \$3.6 billion. Despite the lingering deficit, the International Monetary Fund's Executive Board in 2005 praised Bangladesh's efforts to moderate inflation and increase its foreign reserves. The board recommends that the nation continue with economic reforms, diversification of exports and efforts to fight poverty.

### 3<sup>3</sup> BANKING AND SECURITIES

Central banking is conducted by the Bangladesh Bank, which has its head office in Dhaka. It is responsible for the circulation of money, supervision of commercial banks, and control of credit and foreign exchange. There are 4 commercial government-owned banks, 6 development financial institutions, 27 domestic private banks, and 12 foreign bank branches operating in Bangladesh. The four major banks are all state-owned: Sonali Bank, Janata Bank, Agrani Bank, and Rupali Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$4.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$16.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6%.

Trade on the Dhaka Stock Exchange (DSE) was dormant until 1993. The fourth quarter of 1996 was marked by feverish activity on the DSE, and on the smaller Chittagong Stock Exchange (CSE). In September, October, and the first two weeks of November, records were broken daily as share prices soared. Prices soon bore little relation to the current profitability or future prospects of the companies concerned. Up to 300,000 first-time buyers joined in the bonanza, driving the limited number of stocks traded-210-to a peak on 16 November, 1996, when the all-share index reached 3,627, up from around 1,000 in June. By 4 November, market capitalization had reached an unsustainable \$6 billion, equivalent to some 20% of the country's GDP. The government began to cool down the market by selling off state-owned enterprises. In late December, the central bank announced that T2 billion (\$47 million) would be available to the state-run Investment Corporation of Bangladesh to buy shares and give some support to the market, but the market crashed despite these preventative measures. In 1997, 37 stock brokers were charged with market manipulation in the DSE boom and crash of 1996. As of 2004, there were 250 companies listed on the DSE. Market capitalization as of December 2004 stood at \$3.317 billion, with the DSE up 103.7% from the previous year at 1,971.3.

### 3<sup>4</sup> INSURANCE

The Ministry of Finance and Planning is the insurance regulatory body. Premiums are mainly in commercial or industrial fields. Life insurance remained limited to city dwellers and middle-class professionals. In 2003, direct life insurance premiums written totaled \$194 million. All direct premiums written that same year

#### Balance of Payments – Bangladesh (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>182.5</b>
Balance on goods	-2,421.1	
Imports	-9,349.3	
Exports	6,928.2	
Balance on services	-731.6	
Balance on income	-223.1	
Current transfers	3,558.3	
<b>Capital Account</b>		<b>298.1</b>
<b>Financial Account</b>		<b>210.5</b>
Direct investment abroad	-5.9	
Direct investment in Bangladesh	102.5	
Portfolio investment assets	...	
Portfolio investment liabilities	1.6	
Financial derivatives	...	
Other investment assets	-557.9	
Other investment liabilities	670.3	
<b>Net Errors and Omissions</b>		<b>196.0</b>
<b>Reserves and Related Items</b>		<b>-887.1</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

totaled \$297 million. The country's top life insurer that same year was American Life with gross life premiums written of \$60.6 million. The top nonlife insurer had gross nonlife premiums written of \$14.1 million in 2003.

### 3<sup>5</sup> PUBLIC FINANCE

The fiscal year runs from June to July. In 1993, Bangladesh successfully completed a three-year IMF structural adjustment program. This program resulted in growth in the money supply of 11% in 1993, 15% in 1994, and 16% in 1995. In addition, government spending was curbed by a decline in subsidies to money-losing parastatals and the value added tax (VAT) continued to generate higher than predicted revenues for the government, with collections up 18% over 1994. In 1996, the government reported that exports were up, GDP grew by 4.4%, and tax revenues climbed 9% to \$3.1 billion. Encouraged by the good news, the government proposed a 1997 budget that would reduce domestic taxes, further cut import duties, and provide special incentives for foreign investors. The government stressed, however, a continuing need for foreign aid. International aid disbursements in 1996 totaled \$1.5 billion, down from \$1.7 billion in 1995. Almost half of government revenues come from foreign aid. In 1999, primarily because of flooding, foreign aid increased by 19% from \$1.3 billion in 1998. The global economic downturn of the first few years of the new millennium has had devastating effects on Bangladesh's economy. Exports had been growing 18% a year prior to the recession; they are now growing only 8% a year. The World Bank and the IMF predicted that GDP growth would fall well short of the 7–8% they believed would be necessary for the country to lift itself out of poverty.

The US Central Intelligence Agency (CIA) estimated that in 2005 Bangladesh's central government took in revenues of approximately \$5.9 billion and had expenditures of \$8.5 billion. Revenues minus expenditures totaled approximately -\$2.6 billion. Public

debt in 2005 amounted to 46.1% of GDP. Total external debt was \$21.25 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were ₳336,680 million and expenditures were ₳340,329 million. The value of revenues was us\$5,790 million and expenditures us\$5,846 million, based on an official exchange rate for 2003 of us\$1 = ₳58.150 as reported by the IMF. Government outlays by function were as follows: general public services, 28.3%; defense, 10.1%; public order and safety, 5.7%; economic affairs, 18.5%; environmental protection, 0.1%; housing and community amenities, 7.7%; health, 6.7%; recreation, culture, and religion, 1.4%; education, 17.9%; and social protection, 3.5%.

### 3<sup>6</sup> TAXATION

The principal direct taxes are personal income taxes and corporate income taxes, and a value-added tax (VAT) of 15% levied on all-important consumer goods. The top income tax rate for individuals is 25%. For the 2004/05 tax year (1 July 2004–30 June 2005) the top corporate rate was 45%. However, publicly traded companies registered in Bangladesh are charged a lower rate of 30%. Banks, financial institutions and insurance companies are charged the 45% rate. All other companies are taxed at the 37.5% rate. Effective 1 July 2002, the VAT rate on computer hardware and software was reduced to 7.5%, and certain agricultural equipment and electricity supplied to the agricultural sector was exempted from VAT altogether. VAT on the transfer of land is also to be abolished. Essential agricultural implements and irrigation pumps had previously been excluded from certain taxes.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Although it has made significant reforms in the past few years, Bangladesh remains one of the most restrictive trade regimes in Asia and gets a major portion of its current revenue from import duties and excise taxes. As of 2005, customs duties on imports ranged from 7.5–30%, although supplementary duties can push import duties much higher. There is also a 2.5% infrastructure development surcharge on nearly all imports. Customs procedures are lengthy and burdensome and Bangladesh's list of prohibited imports is lengthy.

There are three export processing zones: one in Chittagong; one in Dakha; and one in Gazipur; three more are under construction in Comilla, Issardi, and Mongla. Bangladesh is a member of the South Asia Preferential Trade Agreement (SAPTA).

### 3<sup>8</sup> FOREIGN INVESTMENT

Bangladesh nationalized most industries in 1972 and set up nine corporations to oversee them. That statist policy proved inefficient and in the mid-1980s, the Bangladesh government began relaxing its policy toward foreign investment and announced a program granting tax holidays to new foreign investors. More recently, government industrial policies have liberalized conditions for foreign investment much further—100% foreign equity is now allowed on investments anywhere in the country, and many regulations discriminating between foreign and domestic investors have been abolished. Foreign direct investment (FDI) began flowing into the

#### Public Finance – Bangladesh (2003)

(In millions of taka, central government figures)

<b>Revenue and Grants</b>	<b>336,680</b>	<b>100.0%</b>
Tax revenue	242,612	72.1%
Social contributions	...	...
Grants	33,092	9.8%
Other revenue	60,976	18.1%
<b>Expenditures</b>	<b>340,329</b>	<b>100.0%</b>
General public services	96,293	28.3%
Defense	34,354	10.1%
Public order and safety	19,511	5.7%
Economic affairs	62,874	18.5%
Environmental protection	413	0.1%
Housing and community amenities	26,307	7.7%
Health	22,959	6.7%
Recreational, culture, and religion	4,685	1.4%
Education	61,059	17.9%
Social protection	11,874	3.5%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

country, though it was curtailed sharply in 2000 and 2001 when Bangladesh failed to carry out structural economic reforms.

The US State Department reported that total foreign direct investment in Bangladesh totaled \$712 million in the period 1999–2003. Foreign investment averaged about \$7 million annually in 1990–96 before rising sharply in 1997–2000 to \$196.8 million annually. Most of the increase was due to investments in Bangladesh's oil and natural gas reserves and other aspects of its energy sector. Annual investment dropped to \$78 million in 2001 and to \$52 million in 2002. However, foreign investment rebounded, with a total of \$120.7 million invested in 2003. The largest foreign investors in Bangladesh are the United States, Norway, Malaysia, Japan, and the United Kingdom.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

The major objectives of planned development have been increased national income, rural development, self-sufficiency in food, and increased industrial production. However, political turmoil and constant natural disasters have consistently derailed Bangladesh's economic goals. Bangladesh's first five-year plan (1973–78) aimed to increase economic growth by 5.5% annually, but actual growth averaged only 4% per year. A special two-year plan (1978–80), stressing rural development, also fell short of its projected growth target, as did the second five-year plan (1980–85), which targeted 7.2% annual growth. The third five-year plan (1985–90) had a 5.4% annual growth target though only 3.8% was actually achieved.

In 1991, a new economic program was initiated that included financial sector reform and liberalization measures to encourage investment. This structural adjustment program was developed through the International Monetary Fund, which mandated a series of economic reforms. However, political turmoil from 1994 to 1996 preoccupied the government and hobbled the program. Growth slowed during this period but was renewed in the late 1990s until the global economic crisis that followed the 11 September 2001 attacks on the United States all but halted new economic growth.

The post-9/11 economic slowdown exacerbated a serious drop in foreign direct investment in 2000 and 2001 that had resulted from Bangladesh's failure to implement the IMF-mandated reforms. A new government, led by Khaleda Zia, came into power in 2001 on a pledge of returning to the earlier economic liberalization policies. The IMF approved a \$490 million plan in June 2003 to support economic reforms through the end of 2006. At about the same time, the World Bank approved \$536 million in interest-free loans.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

A system of pensions exists for public employees only, and there is a limited work injury and unemployment insurance system. These programs are financed entirely by employer contributions and cover only small percentage of the population. Sickness and maternity benefits are offered on a very limited basis.

Although the constitution prohibits discrimination, women and minority groups are confronted with social and economic disadvantages. Violence against women remained widespread. In 2004 reports continued of women being tortured and killed over dowry disputes. Rapes are seriously underreported due to the social disgrace to the victims. Acid attacks to women remained a problem.

Because of widespread poverty, children are forced to work at a very young age, and are frequently abused and subjected to dangerous working conditions. More than half of all children suffer from malnutrition. There is a huge problem of trafficking of both women and children. Some estimates place the number of child laborers as high as 10 million, including an estimated 29,000 child prostitutes. There are an estimated 400,000 homeless children, of which approximately 150,000 have no knowledge of their parents.

Although the government is secular, discrimination against minority religions leads to conflict and violence. The government's human rights record is poor, with many fundamental human rights restricted. As of 2004, disappearance, kidnapping, torture, and violent suppression of demonstrators were carried out regularly. Prison conditions are inhumane.

### **4<sup>1</sup> HEALTH**

Malaria, tuberculosis, and other serious diseases remain endemic and public health problems are aggravated by widespread malnutrition and periodic natural disasters. Between 1995 and 2000, the prevalence of malnutrition in children under five years old decreased from 84% to 55%. In 2000, 97% of the population had access to safe drinking water and 53 % had adequate sanitation, up from 78% and 35%, respectively, in 1980. Because the lack of vitamin A plays a role in blindness and malnutrition, in 1993 the government of Bangladesh introduced a national system to distribute vitamin A capsules to children.

In the mid-1990s, only 45% of the population had access to health services. In 2004, there were estimated 23 physicians, 13 nurses, and 11 midwives per 100,000 people.

The average life expectancy in 2005 was 62.08 years. The government pays the majority of vaccination costs, which has helped increase participation. As of 1999, estimated immunization rates for children under one year of age were 71% for measles and 72% for diphtheria, tetanus, and pertussis. The infant mortality rate was 62.6 per 1,000 live births in 2005. It was estimated that 54% of married women (ages 15–49) used contraception. Maternal deaths were estimated at 440 per 100,000 live births in 200, down from 850 in 1990.

A new strain of cholera was reported late in 1992. The HIV/AIDS prevalence was 0.20 per 100 adults in 2003. As of 2004, there were approximately 13,000 people living with HIV/AIDS in the country. There were an estimated 650 deaths from AIDS in 2003.

### **4<sup>2</sup> HOUSING**

Housing has long been a vital concern in Bangladesh. The government maintains an urban housing program but does not have any housing development program for villages. The House Building Finance Corp. lends money for private as well as public housing. Dhaka and Chittagong urban development is conducted under the guidance of town planning authorities, which develops land and allocates it for private dwelling and commercial purposes.

As of the 2001 census, there were about 25.36 million households with the average household contained 4.8 persons, down from 5.5 people in 1991. Over 76% of the population live in rural areas. Bamboo is still an important building material, used often for interior dividing walls, pillars, or crossbars on roofs. In rural areas, cane, jute, wood, mud bricks, and corrugated iron sheets

are primary building materials for homes. Some rural villages still feature thatched huts. Traditional dwellings are typically separate homes, with some styles featuring an inner courtyard and/or rooms on elevated platforms. Row houses have been built in urban areas.

Since 1996, the government has launched a number of programs focusing on poverty and homelessness. The Asrayon ("shelter") program provided group housing and agricultural plots on government land for about 50,000 families according to a 2002 estimate. The Gahrey Phera ("return home") program helped displaced rural families return to their villages. The Grihayan Tahabil (Housing Fund) was established through the Bangladesh Bank as a way to provide loans to nongovernment organization that endeavor to build shelters for the urban poor.

### 43 EDUCATION

Education is compulsory for students between the ages of 6 and 11, although rural girls are exempted from this law. Primary education covers five years. Secondary education is divided into three two-year cycles of junior (three years), upper (two years), and higher (two years) secondary programs. After their junior level, students may choose to attend a vocational training school for two years, followed by a higher technical course of two years, instead of following the general education track. There is also a Madrasah system (Islamic education) which is required to support national curricula. Most educational institutions are supported by the government either fully or partially. The language of instruction is Bangla.

Primary school enrollment in 2003 was estimated at about 84% of age-eligible students; 82% for boys and 86% for girls. The same year, secondary school enrollment was about 44% of age-eligible students; 42% for boys and 47% for girls. It was estimated that about 73.3% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 56:1 in 2003; the ratio for secondary school was about 34:1.

The principal administrative bodies for education are the Ministry of Education, the Ministry of Science and Technology, and the Association of Universities of Bangladesh. As of 2003, public expenditure on education was estimated at 2.4% of GDP.

There are 17 public universities and 10 medical colleges, and 10 teacher-training colleges. There are several polytechnical schools offering three-year courses in a variety of technical and engineering fields. Technical Training Centers offer certificate and diploma course. The Bangladesh Open University offers degree and non-degree continuing education programs. Research institutions include the Bangla Academy (which sponsors translations of scientific and literary works into Bangla), the Asiatic Society, and the National Institute of Public Administration's Institute of Law and International Affairs. In 2003, about 6% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 41.1%, with 50.3% for males and 31.4% for females.

### 44 LIBRARIES AND MUSEUMS

The largest library in Bangladesh is Dhaka University Library (1921; with 5.5 million volumes). It houses the university's collection and that of the former Public Library of East Pakistan. The National Library of Bangladesh, also in Dhaka, holds 200,000

books and 200,000 serials available in Bengali, English, Persian, and Arabic. The National Library also holds the National Archives collection. The Bangladesh Central Public Library System (1958) has over one million volumes; besides the main branch in Dhaka, there are four regional branches and eight district branches. The Bangla Academy maintains an excellent research collection, as does the Bangladesh Institute of Development studies in Dhaka (100,000 volumes).

The Dhaka Museum contains a variety of sculptures and paintings from the Buddhist, Hindu, and Muslim periods. Both it and the Balda Museum have outstanding collections of Bengali art and ancient artifacts. Also in Dhaka are a science and technology museum and the National Museum of Bangladesh. The Ram Mala Museum at Comilla houses 7th-century archaeological finds, and the museum in Rajshahi contains many artifacts from the ruins of an 8th-century Buddhist monastery excavated nearby, as well as significant relics from the Kushon, Gupta, Pala, and Sena periods of Bengali history. There is a gallery of contemporary paintings as well as an ethnological museum in Chittagong.

### 45 MEDIA

All postal and telecommunications services are controlled by the government. In 2003, there were an estimated five mainline telephones for every 1,000 people; about 153,100 people were on a waiting list for telephone service installation. The same year, there were approximately 10 mobile phones in use for every 1,000 people.

Color television was introduced in 1980. The primary radio and television broadcast stations are owned and operated by the government. In 2004, there was only one private radio station and three private television stations. In 2003, there were an estimated 49 radios and 59 television sets for every 1,000 people. While cable television service is available, only about 27 of every 1,000 people are subscribers. Also in 2003, there were 7.8 personal computers for every 1,000 people and 2 of every 1,000 people had access to the Internet. There were three secure Internet servers in the country in 2004.

The major Bengali daily newspapers (with 2002 circulations), all in Dhaka, are *Ittefaq* (200,000), *Dainik Inqilab* (180,000), *Sangbad* (71,050), *Dainik Bangla* (65,000), and *Dainik Sangram* (45,000). The largest English dailies, also in Dhaka, are the *Bangladesh Observer* (43,000), *Bangladesh Times* (35,000), and *Daily Star* (30,000). Bangladesh Sangbad Sangstha (BSS) and United News of Bangladesh (UNB) are the two main news agencies.

The government is said, with some exceptions, to generally respect freedom of speech and press. On occasion, the government has censored criticism of Islam.

### 46 ORGANIZATIONS

The Federation of Bangladesh Chambers of Commerce and Industry and the Foreign Investors' Chamber of Commerce and Industry are based in Dhaka. There are also many workers' associations, including the Bangladesh Teachers' Federation, Bangladesh Garment Manufacturers and Exporters Association, the Bangladesh Tea Board, and the Bangladesh Jute Mills Association. The Association for Social Advancement serves as a developmental organization assisting the poor. The Bangladesh Rural Advancement Committee (BRAC) also serves as a welfare and development or-

ganization. Maulik Chahida Karmashuchi promotes economic and social development of rural citizens through educational, vocational, and economic programs. Parbatya Bouddha Mission particularly serves the needs of the indigenous tribal people of the Chittagong Hill Tracts.

The Bangladesh Medical Studies and Research Institute and the Bangladesh Academy of Sciences promote research and education in a number of medical and scientific fields. Other medical associations include the Bangladesh Dental Society and the Bangladesh Society for Study of Pain.

Various associations for the Muslim, Hindu, Christian, and Buddhist communities have long been active in organizing religious festivals and social activities. Every town also has several cultural groups. The Bangladesh Women's Association is active in social life.

There are about 39 national youth organizations and about two hundred regional and local youth organizations. These generally hold membership in one of two coordinating bodies: the Bangladesh Youth Council (BYC) and the National Federation of Youth Organizations in Bangladesh. There are about seven major student unions including the Bangladesh federation of University Women. Particular youth groups include the Bangladesh Girl Guides, the Bangladesh Scout, Junior Chamber Bangladesh, and the YMCA/YWCA. There are several sports associations, including groups for badminton, track and field, tae kwan do, tennis, and weightlifting.

The Red Crescent Society, Amnesty International, Habitat for Humanity, Caritas, UNICEF, Society of Saint Vincent de Paul, and Greenpeace have chapters within the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

The main tourist attractions include the old Mughal capital at Dhaka, nearby Sonargaon with its ancient architecture, the Buddhist cultural center of Mainamati, and the beach resort of Cox's Bazar. At the end of the 1980s tourism declined due to political unrest. Throughout the 1990s, however, figures began to increase. In 1997, about 172,000 foreign visitors arrived. In 2003, about 244,500 tourists visited the country. There were 4,565 hotel rooms with 10,165 beds and a 38% occupancy rate. Tourism revenues totaled \$59 million. A valid passport and visa are required as well as a return or onward ticket.

In 2004, the US Department of State estimated the daily cost of staying in Dhaka at \$191. Expenses in other areas can be much lower.

#### 48 FAMOUS BANGLADESHIS

Many Bengalis distinguished themselves in political life before the creation of Bangladesh. A. K. Fazlul Huq (d.1962), the former premier of Bengal Province, moved the Lahore Resolution of 1940, calling for an independent Pakistan, and dominated Bengali politics for half a century. H. S. Suhrawardy (1895–1964), another former premier of Bengal, served for a time as premier of Pakistan and was a mentor to the next generation of Bengali leaders. Sheikh Mujibur Rahman (1920–75), a leader of the Awami League, led the successful fight for the independence of East Pakistan and was the first premier of Bangladesh (1972–75). Maj. Gen. Zia-ur Rahman (1936–81) was military ruler of the country from 1976 until his assassination.

#### 49 DEPENDENCIES

Bangladesh has no territories or colonies.

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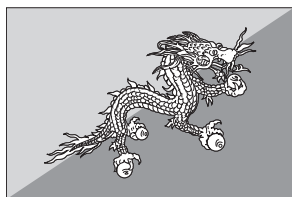
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# BHUTAN

Kingdom of Bhutan

*Druk-Yul*



**CAPITAL:** Thimphu (Tashi Chho Dzong)

**FLAG:** The flag is divided diagonally into an orange-yellow field above and a crimson field below. In the center is a wingless white Chinese dragon.

**ANTHEM:** *Gyelpo Tenjur*, beginning “In the Thunder Dragon Kingdom, adorned with sandalwood.”

**MONETARY UNIT:** The ngultrum (₱) is a paper currency of 100 chetrum. There are coins of 5, 10, 25, and 50 chetrum and 1 ngultrum, and notes of 1, 5, 10, and 100 ngultrum. The ngultrum is at par with the Indian rupee (₹), which also circulates freely. ₱1 = \$0.02207 (or \$1 = ₱45.317) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional units are still in common use.

**HOLIDAYS:** King’s Birthday, 11–13 November; National Day, 17 December. Movable Buddhist holidays and festivals are observed.

**TIME:** 5:30 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Bhutan, a landlocked country in the Himalayan mountain range, has an area of 47,000 sq km (18,147 sq mi), extending 306 km (190 mi) E–W and 145 km (90 mi) N–S. Comparatively, the area occupied by Bhutan is slightly more than half the size of the state of Indiana. It is bordered on the E, S, and W by India and on the N and NW by China, with a total boundary length of 1,075 km (668 mi). The capital city of Bhutan, Thimphu, is located in the west central part of the country.

## <sup>2</sup>TOPOGRAPHY

Bhutan is a mountainous country of extremely high altitudes and irregular, often precipitous terrain, which may vary in elevation by several thousand feet within a short distance. Elevation generally increases from south to north. The mountains are a series of parallel north–south ranges. The loftiest peaks, found in the Himalayan chain that stretches along the northern border, include Kula Kangri (7,554 m/24,783 ft) and Chomo Lhari (7,314 m/23,997 ft). Great spurs extend south from the main chain along the eastern and western borders. In the rest of the country are mainly ranges of steep hills separated by narrow valleys. Bhutan is drained by many rivers flowing south between these ranges and for the most part ultimately emptying into the Brahmaputra River in India.

## <sup>3</sup>CLIMATE

Because of the irregular terrain, the climate varies greatly from place to place. In the outer foothills adjoining the Indian plains, rainfall ranges from about 150–300 cm (60–120 in) a year; the forests are hot and steaming in the rainy season, while the higher hills are cold, wet, and misty. Violent Himalayan thunderstorms gave rise to Bhutan’s Dzongkha name, Druk-Yul, which translates as “Land of the Thunder Dragon.” Rainfall is moderate in the central belt of flat valleys (which have an elevation of 1,100–3,000 m/3,500–10,000 ft). The uplands and high valleys (above 3,700

m/12,000 ft) are relatively dry. There is less rainfall in eastern Bhutan. In general, the mountainous areas are cold most of the year. Temperatures there average 4°C (39°F) in January and 17°C (63°F) in July.

## <sup>4</sup>FLORA AND FAUNA

Dense jungle growth is characteristic at altitudes below 1,500 m (5,000 ft). Above that height the mountain slopes are covered with forest, including beech, ash, birch, maple, cypress, and yew. At 2,400–2,700 m (8,000–9,000 ft) are forests of oak and rhododendron. Above this level, firs and pines grow to the timber line. Primulas, poppies (including the rare blue variety), magnolias, and orchids abound.

The relative abundance of wild animals is attributed to the Buddhist reluctance to take life. In the lower parts of southern Bhutan, mammals include the cheetah, goral, sambar, bear, and rhinoceros; in the higher regions are snow deer, musk deer, and barking deer. Game birds include pheasants, partridges, pigeons, and quail.

## <sup>5</sup>ENVIRONMENT

The most significant environmental problems in Bhutan were soil erosion and water pollution. The erosion of the soil occurs because 50% of the land in Bhutan is situated on mountainous slopes which are subject to landslides during the monsoon season. Other contributing factors are overcutting of timber, road construction, and the building of irrigation channels. The nation has about 95 cu km of renewable water resources, but only 86% of all city dwellers and 60% of people in rural areas have pure drinking water.

The Manas Game Sanctuary is located along the banks of the Manas River in southeastern Bhutan. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 21 types of mammals, 18 species of birds, 1 species of amphibian, and 7

species of plants. Threatened species included the tiger, snow leopard, Asian elephant, and wild yak.

## 6 POPULATION

The population of Bhutan in 2005 was estimated by the United Nations (UN) at 970,000, which placed it at number 151 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.5%, a rate the government viewed as too high. The government launched a campaign with the slogan “Small Family, Happy Family” to encourage broader use of contraception and lower the fertility rate, especially among adolescents. The projected population for the year 2025 was 1,432,000. The population density was 20 per sq km (53 per sq mi).

The UN estimated that 21% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 5.83%. The capital city, Thimphu (Tashi Chho Dzong), had a population of 35,000 in that year, and Phuntsholing had an estimated population of more than 18,000.

Some 93% of the population was rural in 2001. The laboring population is not gathered into towns but lives in the countryside in the vicinity of fortresses called dzongs. A dzong, the official center of a region or district, often houses substantial numbers of Buddhist monks. Many place names incorporate the word dzong, which means “castle-monastery.”

## 7 MIGRATION

Bhutan opposes immigration and forbids the entry of new settlers from Nepal. Since 1959, when about 4,000 Tibetan refugees entered Bhutan, the border with Tibet has been closed to immigration. By 1980, most of the refugees had become citizens of Bhutan; the rest migrated to India. The border between Bhutan and India is open, and citizens of Bhutan are free to live and work in India. The net migration rate for 2005 was estimated as zero. The total number of migrants residing in Bhutan in 2000 was 10,000.

## 8 ETHNIC GROUPS

The Bhutanese are mainly of Tibetan stock, and are also known as Buotias; they account for approximately 50% of the population. The Ngalop (also called Bhote) are people of Tibetan origin who live in northern and western Bhutan; the Sharchop inhabit the eastern regions and also have ethnic affinities with the people of China's Tibetan region. Aboriginal or indigenous tribal peoples live in villages scattered throughout Bhutan and account for approximately 15% of the population. The Ngalops, Sharchops, and the indigenous tribal people are collectively known as Drukpas. The remaining peoples are Nepalese settlers (about 35% of the population), living mostly in the south. These include a group known as the Lhotsampas. Some 85,000 were expelled to Nepal in 1992–93, and about 5,000–15,000 more moved to India.

## 9 LANGUAGES

Four main languages are spoken in Bhutan. The official language is Dzongkha, a Tibetan dialect spoken mainly by Ngalop in the northern and western parts of the country. Bumthangkha, an ab-

original language, is spoken in central Bhutan, while Sharchopkha is spoken in eastern Bhutan. Both of these are used in primary schools in areas where their speakers predominate. The Nepalese largely retain their own language, Nepali.

## 10 RELIGIONS

About 75% of the Bhutanese practice Buddhism and about 25% practice Indian- and Nepalese-influenced Hinduism. While the law provides for religious freedom, Drukpa Kagyup, a branch of Mahayana Buddhism, is the state religion, and the law prohibits religious conversions. The Drukpa (people of the dragon), introduced from Tibet in the 12th century, dominates the collective life of the Bhutanese through a large clerical body estimated at more than 6,000 lamas or monks, centered in 8 major monasteries (*dzongs*) and 200 smaller shrines (*gompas*) scattered throughout the land. This sect incorporates both the ideology of the classical Buddhist scriptures and the indigenous pre-Buddhist animistic beliefs called Bon. The Ningmapa school of Mahayana Buddhism is also practiced, primarily in the eastern regions. The royal family practices a combination of Drukpa Kagyup and Ningmapa Buddhism. Most Ngalops are of the Drukpa Kagyup school; they hold a majority of positions in the government. The Sharchops are primarily of the Ningmapa school.

Among Hindus, the Shaivite, Vaishnavite, Shakta, Ghanapath, Pauranic, and Vedic schools are all represented. There are still a few Bon priests and followers in the country and there are small numbers of Christians, with worship practices generally limited to the family home.

The law provides for freedom of religion, but this right is somewhat limited in practice. Proselytizing is prohibited and all religious organizations must have a license from the government in order to build a new place of worship. There have been reports of government discrimination against the Hindu Nepalese.

## 11 TRANSPORTATION

Traditionally, Bhutan's communications have been mostly with Tibet, through several strategic mountain passes. Most travelers continue to journey on foot or mounted on hardy ponies bred to withstand great altitudes and steep slopes. Goods are transported by porters or on pack animals. Many of the rivers are still crossed by native cantilever bridges of excellent construction.

Prior to the 1961–66 development plan, there were no surfaced roads in Bhutan. Since then, a network of roads and suspension bridges has been built by India. In 2002, there were about 3,285 km (2,041 mi) of roads, including about 1,994 km (1,239 mi) of surfaced roads. Of the 186 suspension bridges projected in the 1981–87 economic plan, 102 were completed by 1985. There is bus service linking Paro Dzong and Tashi Gang Dzong with Indian border towns. In 2004 there were two airports, only one of which (as of 2005), had a paved runway. The national air carrier, Druk Airlines, began operations in 1983 with regular flights between Calcutta and Paro Dzong, the site of Bhutan's main airfield. In 2001, 35,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Little is known of the history of Bhutan before the 17th century. Buddhism was originally introduced from India in the 8th centu-

ry, although the Buddhism of today's Bhutan is very much Tibetan in character. The forebears of the Bhotes (or Bhotias) came from Tibet, probably in the 9th century, when Tibetans invaded the area and met little resistance from the indigenous Tephu tribe. In the middle of the fifteenth century, Shabdrung Ngawang Nangyal, a Tibetan lama exercising temporal as well as spiritual power, united the country and built most of the fortified villages (*dzongs*). His successors in power established a dual system, separating the temporal ruler (Desi or *deb raja*) and the spiritual ruler (Je Khempo or *dharma raja*).

The first recorded contact with the West occurred in 1772, when the British East India Company repelled a Bhutanese invasion of the princely state of Cooch Behar in India; they concluded a peace treaty two years later. During the 18th century and most of the 19th, British efforts to open trade with Bhutan proved futile, with the Bhutanese frequently attacking the relatively level areas of Assam and Bengal along their southern border. In 1865, the British finally defeated the Bhutanese, and Bhutan formally accepted a British subsidy of ₹50,000 a year, which was dependent upon their keeping the peace.

With British approval, Ugyen Dorji Wangchuk became the first hereditary king in 1907, replacing the temporal ruler. In 1910, the Punakha Treaty was concluded between the British Indian Government and Bhutan, under which British India agreed explicitly not to interfere in Bhutanese internal affairs, while Bhutan accepted British "guidance" in handling external matters—a role independent India assumed after 1947. A formal Indo-Bhutanese accord concluded in 1949 reaffirmed and amplified the earlier Punakha Treaty. Besides increasing Bhutan's annual subsidy to ₹500,000 and returning to Bhutan 83 sq km (32 sq mi) of territory around Dewangiri (wrested by the British in 1865), it made India responsible for Bhutan's defense and strategic communications, committing India to avoid interfering in Bhutan's affairs and affirming Bhutan's agreement to be "guided by the advice of" India in foreign affairs.

In 1959, China published maps of the Himalayan frontier with South Asia that showed as Chinese part of the territory claimed by Bhutan; Chinese representatives also asserted that Bhutan belonged to a greater Tibet. In response, Indian prime minister Jawaharlal Nehru warned that an attack on Bhutan would be deemed an act of war against India. Fighting between India and China in neighboring border regions in the fall of 1962 did not violate Bhutan's borders, although survivors from Indian army units decimated east of Bhutan straggled back to India through Bhutan.

In April 1964, the long-time prime minister, Jigme Dorji, was assassinated, revealing fissures among the ruling elite. The plotters who were caught were executed, including the deputy commander of the army; others fled to Nepal. In the 1960s, Bhutan's advance toward modernization and the end of its insularity were accelerated by economic plans prepared and underwritten by India.

Relations with Nepal have grown difficult since the late 1980s, due to a dispute with Nepal concerning Bhutanese refugees of Nepalese descent. The mostly Hindu "Nepali Bhutanese," comprising approximately a third of Bhutan's population, were granted citizenship in 1958. However, Bhutan changed its citizenship laws in the late 1980s, making the Nepali Bhutanese illegal immigrants. In 1990, the Bhutanese government expelled 100,000 Nepali Bhutanese, who fled to refugee camps in eastern Nepal. In 1993, Bhu-



LOCATION: 26°42' to 28°21' N; 88°45' to 92°8' E. BOUNDARY LENGTHS: India, 605 kilometers (378 miles); China, 470 kilometers (290 miles).

tan and Nepal established a Joint Ministerial Level Committee (JMLC) to address the issue of ethnic Nepalese refugees.

Nepalese activism, spearheaded by the Bhutan People's Party based in Nepal, continued through the early 1990s. It resulted in violence from both sides, and brought charges of violations of human rights against Bhutan's security forces. In 1996, "peace marches" of refugees from Nepal into Bhutan were met by force, and the marchers were deported by the Bhutanese police. The following year, the National Assembly adopted a resolution (later discarded) that prohibited family members of ethnic Nepalese refugees from holding jobs in the government or armed forces. The government also began resettling Buddhist Bhutanese from other regions of the country on land vacated by the refugees. In 1998, Foreign Minister Jigme Thinley took office with a mandate to settle the refugee issue. Although Bhutan and Nepal originally agreed in principle that the refugees be divided into four categories (1) bonafide Bhutanese; (2) Bhutanese émigrés; (3) non-Bhutanese; and (4) Bhutanese who have committed crimes in Bhutan, the question of what to do with the more than 100,000 refugees living in the camps in Nepal remained unresolved.

At the 10th JMLC round of talks held in December 2000, negotiators created a Joint Verification Team (JVT) to interview and verify the status of the Bhutanese refugees, but by the 11th round of JMLC talks held in August 2001, the verification process was moving at a rate of only 10 families per day. In addition to the JMLC talks, Foreign Secretary Level talks (FSLT) were held in November

2001, at which differences between the Nepali and Bhutanese positions on the issue of categorization of the refugees were clarified: Nepal proposed to reduce the four categories to two (Bhutanese and non-Bhutanese), a plan that was rejected by Bhutan.

In October 2003, the Nepalese and Bhutanese governments agreed to repatriate approximately 70% of the refugees from the first of the seven camps to undergo the verification procedure. However, following an incident where refugees at one of the camps injured three Bhutanese inspectors, progress came to a halt in December 2004.

There have also been tensions between Bhutan and India's northeastern state of Assam. Two separatist groups from Assam—the United Liberation Front of Asom (ULFA) and the National Democratic Front of Bodoland (NDFB)—maintain well-entrenched bases in Bhutan. The separatist Kamatapur Liberation Organization (KLO) from West Bengal state is there as well. Bhutan refrained from taking direct action against the Indian separatists for fear of retaliatory attacks on its nationals, but in late December 2002, the Bhutanese government announced it would use military might to remove the separatists from bases within its borders. The Assam government has blamed Bhutan for the rise in militancy in the region, and welcomed the government's decision to launch a military response.

Reforms introduced by King Jigme Singye Wangchuck in June 1998 mark a milestone in Bhutan's political and constitutional history. Continuing his efforts toward modernization, the king issued a royal edict relinquishing some of the monarch's traditional prerogatives and giving a greater role in Bhutan's administration to elected government officials.

On 3 December 2002, the king of Bhutan issued a first draft of a constitution for Bhutan including the option of impeachment of the king by a two-thirds majority of the National Assembly. The draft was scheduled to be discussed in the country's 20 districts before presented for ratification; the final document was released in March 2005. A referendum, which had not been scheduled as of 2006, would allow the citizens final approval.

Bhutan in June 1999 took major steps toward modernization, legalizing television and the Internet. The first Internet cafe opened in Thimphu in 2000 and the country's first university opened in 2003. A January 2005 agreement with India provided Bhutan the opportunity to link to Indian railways to Southern Bhutan. There is no internal rail system in Bhutan and foreigners are not permitted to travel to many of its areas in an attempt to minimize the effects of tourism on the local culture.

### **13 GOVERNMENT**

Bhutan is an absolute monarchy, ruled by a hereditary king, the "Druk Gyalpo," who governs with the aid of a Royal Cabinet and a National Assembly (the Tshogdu). As of 2006, the king was Jigme Singye Wangchuck, who has ruled since 1972. In the past, the king appointed members to a Royal Advisory Council and to a Council of Ministers. Following the political reforms of 1998, however, these two councils were combined to form the cabinet. This body consists of six ministers elected by the National Assembly, six advisors also elected by the National Assembly, a member nominated by the king, and two representatives of the clergy.

The unicameral National Assembly (established in 1953), known as the Tshogdu, consists of 154 members. Of these, 37 are

appointed by the king to represent government and other secular interests; 105 are elected to three-year terms by groups of village headmen, who are, in turn, elected by a one-family, one-vote system; and the remaining 12 are chosen by the lamas acting in concert. The Tshogdu meets twice a year at Thimphu, the capital (previously known as Punakha). Candidates file their own nominations. The assembly is charged with addressing the king on matters of national importance. It also enacts laws and approves senior government appointments. A simple majority is needed to pass a measure and is conducted by secret ballot. While the king may not veto legislation, he may return bills for further consideration; the king generally has enough influence to persuade the assembly to approve legislation he considers important or to withdraw proposals which he opposes. Since 1969, it has become a more active, independent influence on government policy through its power to overrule bills proposed by the king or his advisors.

During the 1960s, King Jigme Dorji Wangchuk (r.1952–72) was a prime mover behind political and administrative changes that took the country in the direction of constitutional monarchy. When Crown Prince Jigme Singye Wangchuk assumed the throne upon his father's death in July 1972 and was crowned in June 1974, he continued his father's policy of sharing authority with the Council of Ministers and the National Assembly. In 1998, the king announced ambitious political changes that moved Bhutan further down the road towards a true constitutional monarchy. He relinquished his role as Head of Government and assigned full executive powers to a cabinet consisting of ministers and advisors to be elected by the National Assembly (in reality, the National Assembly chooses from a list of nominees proposed by the king, who also retains authority relating to security issues). The Council of Ministers, a subgroup of the cabinet, elects one of its members on a rotational basis to serve a one-year term as chairman. It is this official who is the Head of Government. As part of his reforms, King Jigme Singye Wangchuk also introduced legislation by which any monarch would have to abdicate in favor of his hereditary successor if the National Assembly supported a vote of no-confidence against him by a two-thirds majority. And in December 2002, the king issued a draft for a first constitution for Bhutan; it was debated in the country's 20 districts before being officially presented in March 2005. As of 2006, no ratification referendum had been scheduled.

### **14 POLITICAL PARTIES**

The government discourages political parties and none operate legally. Freedom of speech, the press, assembly, association and workers' rights are restricted by the government, and judicial processes are based on tradition rather than written criminal or civil procedure codes.

An opposition group known as the Bhutan State Congress (BSC) composed mainly of ethnic Nepalese has long maintained its headquarters in nearby India; other such groups, all very small and headquartered in either India or in Nepal, include the People's Forum for Democratic Rights and the Students' Union of Bhutan. A militant opposition group, operating under the banner of the Bhutan People's Party (BPP) and affiliated with the Bhutan National Democratic Party (BNDP) in Nepal, was founded in 1990 in Siliguri, India. It claims to represent the interests of the thousands of ethnic Nepalese who have migrated (or been forced to

flee) from farming areas of southern Bhutan. Allegedly supported by the Communist Parties of India (CPI) and Nepal (CPN), the BPP was responsible for demonstrations in September 1990 in Bhutan; it has charged the Bhutan government with human rights violations and “ethnic cleansing” in the area.

BPP tactics in 1991 and 1992 included hit-and-run terrorist raids into Bhutan, burning schools, census and land records, and health facilities and attacking ethnic Bhutanese (as well as loyal Nepalese) in national dress; BPP activists also organized camps for the tens of thousands of refugees in southern Nepal. In 1992, Bhutan government policy toward the terrorist attacks stiffened, with arrests and long prison sentences meted out to captured BPP activists. The conflict continued throughout the 1990s. On 9 September 2001, BPP leader R. K. Budhathoki was assassinated, weakening the BPP. The BPP in October 2002 requested that Bhutanese authorities dispense justice in the case.

## **15 LOCAL GOVERNMENT**

The country is divided into four regions—East, Central, West, and South—each administered by a governor appointed by the king. As of 2002 there were 20 districts (*dzongkhas*) under the supervision of district commissioners (*dzongdas*), who are appointed by the Royal Civil Service Commission and are responsible for law and order. Districts are further subdivided into blocks (*gewog*), of which there are 202 in the country. As part of the king’s efforts to encourage decentralization in decision-making, in 1991 the government began a program to establish Block Development Committees. This project allowed people to plan and implement development projects within their respective blocks (in the 1980s, a development plan was organized for the districts). The success of the district and block development programs encouraged citizens to form other types of associations, such as school management boards, village health development committees, and associations for different agricultural products, such as apples and potatoes, for example.

## **16 JUDICIAL SYSTEM**

The legal system is based on English common law and Indian law. Local headmen and magistrates (*thrimpon*) hear cases in the first instance. Appeals may be made to a six-member High Court (also known as the Royal Court of Justice), established in 1968. From the High Court, a final appeal may be made to the king. Judges are appointed for life by the king. Criminal matters and most civil matters are resolved by application of the 17th century legal code as revised in 1957. Precedence is not used in the delivery of justice. Questions of family law are governed by traditional Buddhist or Hindu law. Minor offenses are adjudicated by village headmen. Criminal defendants have no right to court appointment of an attorney and no right to a jury trial. Under the 1979 Police Act, police need a warrant to arrest a person and must bring the detainees before a court within 24 hours of arrest. Bhutan does not accept the compulsory jurisdiction of the International Court of Justice.

In keeping with the policies of modernization being pursued in Bhutan, the government formed a special committee in 1998 to review the country’s laws and propose changes in the legal system. One of these changes saw the creation, in April 2000, of a Department of Legal Affairs to investigate and prosecute criminal and civil cases against civil servants. This department was predicted

to be the likely forerunner of a fully fledged Attorney General’s Office or a Department of Justice. In 2001, a Civil and Criminal Procedure Code was enacted by the National Assembly, as a way of strengthening and reforming the legal system.

In addition, in 2003, the king approved the establishment of a five-member National Judicial Commission to oversee the appointment of judges and other judicial staff. The government prohibits collective bargaining, unions, and strikes. Capital punishment was abolished in 2004 and a new penal code was established in August of that same year.

Bhutan is a member of many international organizations including the United Nations.

## **17 ARMED FORCES**

The armed forces consist of the Royal Bhutan Army, the National Militia, the Royal Bhutan Police, body guards, and a paramilitary force. The army is trained and equipped by India. In 2001 military expenditures were \$9.3 million, or 1.9% GDP.

## **18 INTERNATIONAL COOPERATION**

Bhutan became a UN member on 21 September 1971; it participates in several specialized agencies of the UN, such as the FAO, ICAO, IDA, IFAD, IMF, ITU, UNESCO, the World Bank, UNIDO, and WHO. Bhutan is an observer in the WTO. The country also belongs to the Colombo Plan, the Asian Development Bank, the SACEP, and G-77. In addition, Bhutan is a member of the Nonaligned Movement and was a founding member of the South Asian Association for Regional Cooperation (SAARC). Bhutan is part of the South Asian Free Trade Agreement (SAFTA). In February 2004, Bhutan joined the Bangladesh, Indian, Myanmar, Singapore, and Thailand Economic Cooperation Forum (BIMSTEC). In environmental cooperation, Bhutan is part of the Convention on Biological Diversity, the Kyoto Protocol, the Nuclear Test Ban Treaty, and the UN Convention on Climate Change.

## **19 ECONOMY**

Bhutan, a tiny Himalayan kingdom with a geographic size that is about half that of the state of Indiana, has one of the smallest and poorest economies in the world. Nevertheless, international lending authorities such as the International Monetary Fund (IMF) were optimistic about the country’s growth potential for the first decade of the 21st century. The IMF projected that GDP would grow as much as 20% in 2006/07 and that growth rates for the rest of the decade would remain at a healthy 9–10%.

About 90% of its labor force subsists by farming or forestry. Much of the country consists of rugged, mountainous terrain, which has made development of roads, utilities and other infrastructure difficult. Bhutan depends heavily on neighboring India for migrant labor, foreign aid, and trade.

Until the early 21st century, Bhutan was largely sealed off from the rest of the world. The kingdom banned television and kept foreign travel to a minimum. This situation changed after 1998, when King Jigme Singye Wangchuck, who has ruled Bhutan since 1972, began taking steps to devolve power and shift the country’s governance toward one of constitutional monarchy. A new constitution was unveiled in March 2005. Although it had not been approved by referendum as of 2006, it calls for universal suffrage, a two-party electoral system, and a mandatory retirement age of

65 for the king. Many observers praise the steps as measures that will pave the way for more contact with outsiders and economic development.

As of the early 2000s, Bhutan was becoming less isolated. Foreign travelers, who are environmentally conscientious and capable of spending as much as \$200 a day, can visit the country. Cable television and the Internet are permitted, and the country shows potential in hydropower and further tourism development. However, Bhutan contains to keep a tight grip on development. Any economic program is only allowed to proceed if it is in keeping with the country's environmental and social traditions.

Agriculture and forestry together make up 45% of the country's GDP. Although the government has relaxed the emphasis on maintaining food self-sufficiency that characterized its most isolationist decade, 1988 to 1998, the country supplies most of its food needs through the production of grains, fruits, some meat, and yak butter. Services, with tourist-related business comprising a major share, account for a further 35% of GDP. By the mid-1970s, tourism had surpassed the sale of postage stamps as the chief source of Bhutan's limited foreign exchange revenue. In turn, since the completion the first mega hydroelectric project in 1988, power exports have become the leading source of a more comfortable hard currency position. Industrial production makes up about 10% of the country's GDP.

A series of five-year plans, initiated in 1961 and financed primarily by India, have begun to improve transportation, modernize agriculture, and develop hydroelectric power. Realization of several hydroelectric and industrial projects during the 1980s helped increase industry's share of the GDP, and helped overall GDP grow 7.3% annually during 1985–90. A slowdown in government project investment in the early 1990s caused GDP growth to stabilize at an average of 3%, although an upturn in economic activity brought the rate back up to 6% by 1995 and to 7.3% by 1998. In 1999, real GDP growth dropped to 5.5%, but recovered to around the long-term average of 6% in 2000 and 2001. GDP was at 5.3% in 2003, according to the US Central Intelligence Agency (CIA), but the rate was projected to climb to more than 7% in 2004 and 2005 by the International Monetary Fund (IMF).

Bhutan's extensive forests, mineral resources, and swift-running rivers offer great potential for future development, although preservation of the country's environment continued to rank high among the government's priorities. Concern over the environment has also led the government to impose a strict set of regulations on tourists, although they are no longer subject to strict quotas that in the past held tourists to 2,500 to 4,000 a year, and banned individual tourism altogether. In 2002, tourism had climbed to about 7,000 visitors a year.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Bhutan's gross domestic product (GDP) was estimated at \$2.9 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,400. The annual growth rate of GDP was estimated at 5.3%. The average inflation

rate in 2002 was 3%. It was estimated that agriculture accounted for 45% of GDP, industry 10%, and services 45%.

## 21 LABOR

About 93% of the economically active population consisted of agricultural workers in 2002, with 5% employed in services and the remaining 2% in industry and commerce. There is a severe shortage of skilled labor. The salaried labor market is predominantly in government service. Most of the industrial sector consists of home-based handicrafts and privately owned small or medium-scale factories producing consumer goods.

As of 2002, Bhutan had a government-set minimum wage of approximately \$2.50 per day, which provided a decent standard of living for a family. The workday was set at eight hours per day, with one hour for lunch. In addition regular leisure days are required and overtime work is paid at a time-and-a-half rate. Although there is no minimum age for employment, the age of 18 was established "in all matters of the state." However, minors under the age of 18 frequently work in agriculture, perform chores on family farms and in shops during holidays and after school. While unions are not illegal, collective bargaining or the right to strike are not authorized by the law. Labor regulations do not provide a worker with the right to remove themselves from hazardous conditions without jeopardizing their employment. The government provides free medical care to workers and compensation in the event of partial or total disability, or in the case of death.

## 22 AGRICULTURE

Only about 3.5% of the land area, comprising 165,000 hectares (408,000 acres), was used for seasonal and permanent crop production in 2002. In 2003, agriculture contributed about 33% to GDP, and engaged 94% of the economically active population. Nonetheless, Bhutan's near self-sufficiency in food permitted quantities of some crops to be exported to India, in exchange for cereals. Since there is little level space available for cultivation, fields are generally terraced. Stone aqueducts carry irrigation water. The low-lying areas raise a surplus of rice; in 2004, output of paddy rice was estimated at 45,000 tons. Other crops include wheat, maize, millet, buckwheat, barley, potatoes, sugarcane, cardamom, walnuts, and oranges. Part of the crop yield is used in making beer and chong, a potent liquor distilled from rice, barley, and millet. Paper is made from the daphne plant, which grows wild. Walnuts, citrus fruits, apples, and apricots are grown in government orchards.

Agricultural holdings are restricted to 12 hectares (30 acres) per family; almost all farm families own their own land. Since the mid-1960s, the government has established demonstration farms, distributed fruit plants, and implemented irrigation schemes. High-yielding varieties of rice, wheat, and corn seeds have been introduced.

## 23 ANIMAL HUSBANDRY

Yaks, cattle, and some sheep graze in the lowland forests and, during the summer, in the uplands and high valleys. In 2004 there were an estimated 372,000 head of cattle, 41,000 hogs, 20,000 sheep, and 30,000 goats. Draft animals that year included 28,000 horses, 18,200 donkeys, and 9,900 mules. Meat production in 2004 was estimated at 6,900 tons, 74% of it beef. Wool has been in short supply since its importation from Tibet was stopped by the

government in 1960; sheep breeding is therefore encouraged. In 2004, 1,080 tons of cattle hides were produced.

## 24 FISHING

The government has established a hatchery and started a program of stocking Bhutan's rivers and lakes with brown trout. Freshwater fish are found in most waterways. The total catch was 300 tons in 2003.

## 25 FORESTRY

About 64% of Bhutan's land area was covered with forests in 2002. Although lack of transportation facilities has hampered forest development, timber has become a major export. Roundwood production in 2003 totaled 4.5 million cu m (160 million cu ft), about 99% of which was used for fuel.

## 26 MINING

The mineral industry of Bhutan was small and dominated by the production of cement, coal, dolomite, and limestone, and was insignificant to its economy. Estimated production totals, in metric tons, for 2004 were: limestone, 288,000; dolomite, 275,000; cement, 170,000; gypsum, 56,000; quartzite, 55,000; ferrosilicon, 20,000; and talc, 3,900. Marble and slate were quarried for use as a dimensional stone; production totals in 2004 were estimated at 4,000 and 9,000 sq m, respectively. Dolomite has constituted an important export to India since 1960, and almost all the ferrosilicon output is exported to India. For centuries, silver and iron have been mined in Bhutan for handicrafts. Deposits of beryl, copper, graphite, lead, mica, pyrite, tin, tungsten, and zinc have also been found. A graphite-processing plant was established at Paro Dzong.

## 27 ENERGY AND POWER

Electric power was introduced in Bhutan in 1962. By the mid-1980s, six hydroelectric and six diesel power stations were in operation. The 336-MW Chukha hydroelectric project, in southwestern Bhutan, was completed in early 1987 and is connected to the Indian power grid; the project was funded by India, which is to receive all the electrical output not used by Bhutan. As of 2002 the major hydroelectric project under construction was the 1,020 MW Tala plant, slated for completion in 2004/05. In 2002, Bhutan's electric power generating capacity totaled 0.442 million kW, of which 0.430 million kW was hydroelectric and 0.012 million kW thermal. In that same year, Bhutan produced a total of 1.880 billion kWh of electricity from hydroelectric sources and only 0.001 billion kWh from thermal sources. In 2002, electric power consumption totaled 0.277 billion kWh. Bhutan suffers frequent power outages and shortages.

## 28 INDUSTRY

The US Central Intelligence Agency (CIA) describes Bhutan's industrial sector as "technologically backward." However, great strides have been made in the country's hydroelectricity sector in the early 21st century. Most industrial production is craft-based, with homespun textiles—woven and embroidered cottons, wools, and silks—being the most important products. Other Bhutanese handicrafts include daphne paper; swords; wooden bowls; leather

objects; copper, iron, brass, bronze, and silver work; wood carvings; and split-cane basketry.

Larger development projects such as road building and hydroelectricity projects rely on financing from Indian investors, as well as Indian migrant laborers. The building of new power projects, however, also has led to growth in the transport and construction sectors, including a number of local cement operations. The country's first cement plant was completed in 1982 in Penden, a border town, by India, to which the bulk of its output is exported. Bhutan's first mega power plant, the 336-MW Chukha hydroelectricity project (CHEP), came on line in early 1987, having been first agreed to as a turn-key operation with India in 1961, on what has become a standard arrangement of 60% grant and 40% concessional loan. 70% of the power generated by the CHEP is exported to India, and by 1996 export receipts were sufficient to produce a trade surplus with India. It is estimated that only about 3% of Bhutan's hydroelectric potential has yet tapped, and even less of its industrializing potential.

The decade following the opening of the Chukha facility (1988–98) saw government resistance to industrialization. However, in 1988, in conjunction with the country's sixth economic plan (1987–1992), the Bhutan Development Finance Corporation was established to promote small- and medium-scale businesses. A second cement plant was established in Nanglam by the late 1980s, and another, in 1995, in the same town, by an Indian investor, along with several manufacturing plants producing carbide, particle board and other products destined for the Indian market.

A major project funded by India known as the 1020 MW Tala Hydroelectric Project was begun in 1998. It was expected to become fully operational in 2006, and with it, growth rates in GDP of 20% were anticipated. Plans for the even more ambitious Sunkosh Multipurpose Project (SMP), with installed capacity envisioned at 4,060 MW, were developed by the India's Central Water Commission in 1997. It is expected to take 10 years to complete. Two other projects that have been submitted to government of India for consideration are a 360 MW plant at Mangdue Chu and a 870 MW plant at Puna Tsangchhu.

There are a large number of small, privately owned sawmills throughout Bhutan since most of its domestic energy actually comes from firewood, not electricity. A sawmill with a furniture-making unit has been established in Thimphu. Industrial estates have been set up at Phuntsholing and Geylegphug, and the ninth five-year plan (2002–06) called for five to be located around the country.

Besides cement, there is a narrow range of other manufactures exported—ferro-alloys, calcium carbide, processed foods, and particleboard—which tend to rely on energy- and capital-intensive methods and expatriate labor. Bhutan Ferro Alloys Ltd., which makes ferrosilicon and exports to India and Japan, began operations at a new plant at Pasakha in April 1995. Calcium carbide is produced at several private dolomite-mining operations, as well a private and joint public-private limestone mining operations. It is likely that with the emphases in the ninth five-year plan on commercial and private sector development as means of achieving economic self-sufficiency and generating employment, manufacturing will continue to grow.

## 3<sup>9</sup> SCIENCE AND TECHNOLOGY

Royal Bhutan Polytechnic College, founded in 1974 in Deothang, offers courses in civil, mechanical and electrical engineering. The Royal Technical Institute in Phuntsholing offers courses in electronics, mechanics, and motor mechanics. Sherubtse Degree College, founded in 1983 in Tashigang, offers science courses.

## 3<sup>0</sup> DOMESTIC TRADE

About 90% of the population is employed in agriculture. Home-made handicrafts, cement, and food processing are the primary industries. Retail sales are carried out mainly in small, local bazaars. Bartering is common at the local level, with grains, butter, and cloth being the principal commodities of exchange, although Indian and Bhutanese currencies are increasingly being employed.

Indian traders sell imported articles and buy a number of handicraft items for export to India. The ninth five-year plan (2002–06) for the first time envisions plans for each of Bhutan's 201 localities or *geogs*. Through this approach, the government hoped to enhance rural connectivity and economic activity while putting a check on rural to urban movement.

## 3<sup>1</sup> FOREIGN TRADE

Bhutan's external sector has been almost exclusively oriented toward trade with India. With the completion in 2002 of the second hydroelectric power project financed by India—built largely with Indian migrant labor and designed to deliver the majority of its power outputs to India—India's dominance in terms of exports was about 85.6% in 2004. Import sources, however, have become increasingly diversified. In 2000, for instance, the main export destinations were India (94%) and Bangladesh, and the main import sources were India (77%), Japan, United Kingdom, Germany, and the United States. By 2004, the statistics on exports destinations revealed shifts, to India (85.6%), Bangladesh (6.7%), and Japan (4.3%). Imports that year came from Germany (41.8%), India (35.5%), Japan (9.2%), and Austria (4.3%).

Bhutan's merchandise trade balance has been persistently negative, although for three years, 1996, 1997, and 1998, the country registered a surplus in its trade with India due to the combination of power exports and the lack, until 1998, of major construction projects. With the start of construction on the Tala Hydroelectric

Project (THEP) in 1998, scheduled to be online with a 1020 MW capacity in 2006, Bhutan has incurred large and increasing trade deficits. As a percent of GDP, Bhutan's trade deficit increased from a low of 4.3% in 1996 to 40% by mid-2000 and 90% in 2004. The 2004 trade deficit was estimated at \$188 million for 2004/05 by the IMF, with \$123 million project for 2005/06.

Bhutan's principal exports include electric power (to India), cement, cardamom, timber, gypsum, dolomite, coal, handicrafts, fruit, vegetables, precious stones, spices, ferrosilicon, calcium carbide, particle board, some preserved food, alcoholic beverages, yak tails for fly whisks, and yak hair. The country's principal imports are fuel and lubricants, grain, machinery and parts, vehicles, fabrics, and rice.

The government has been trying to increase Bhutan's presence on the international trade scene in recent years. To this end, Bhutan joined the IFC in December 2003, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMST-EC) in February 2004 and held its first WTO working party meeting in November 2004. The IMF also noted that the financial sector was being upgraded through a series of measures in mid-2005.

## 3<sup>2</sup> BALANCE OF PAYMENTS

The IMF reported in 2005 that while steady inflows of aid helped Bhutan maintain a surplus in balance of payments. Although a trade deficit persists, the IMF calls the country's fiscal position "sustainable."

Foreign reserves grew in 2004 and 2005, and covered more than 18 months of import costs as of mid-2005.

The IMF reported that in 2003/04, Bhutan's exports totaled \$158 million, while imports totaled \$245 million, resulting in a trade deficit of \$73 million. Imports were projected to outpace exports in 2004/05 and 2005/06, as Bhutan brought in equipment and additional supplies in efforts to bring the Tala power plant on line by 2006.

## 3<sup>3</sup> BANKING AND SECURITIES

Bhutan's central bank is the Royal Monetary Authority, established in 1982 to manage currency and foreign exchange. There are in addition four other major financial institutions. The Bank of Bhutan was founded in 1968 as a joint venture with India. A second commercial bank, the Bhutan National Bank (BNB), was established in 1997 as a public corporation, though the government retains 51%. The BNB's operations are computerized and it is connected with major foreign banks, unlike the Bank of Bhutan, which still uses hand-written ledgers. The Bhutan Development Finance Corporation (BDFC) was set up in 1988 to finance small and medium enterprises. The small Royal Bhutan Stock Exchange (RBSE) currently trades about 13 companies.

In 2001 there was a reduction of interest rates in all lending categories and on large deposits. There are no ATMs, and banking hours are mostly restricted to 9 AM to 1 PM Monday to Friday, and 9 AM to 11 AM on Saturday, but there are some "evening banks" in Thimphu and Phuentsholing with hours between 1 to 5 PM Wednesday and Sunday, 1 to 3 PM on Monday, and closed on Tuesday. Gross foreign currency reserves reached \$300 million in 2001. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known

### Principal Trading Partners – Bhutan (1999)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	116.0	182.1	-66.1
India	109.5	136.0	-26.5
Bangladesh	4.9	0.7	4.2
Nepal	0.6	0.6	...
United States	0.6	0.5	0.1
Japan	0.1	6.1	-6.0
Netherlands	0.1	0.2	-0.1
Other Asian	0.1	0.7	-0.6

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

as M1—were equal to \$107.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$227.1 million.

### 34 INSURANCE

The Royal Insurance Corporation of Bhutan (RICB), founded by royal charter in January 1975, is the only insurance company in the kingdom and covers all classes of insurance. The government owns 39.25% while private and public shareholders own 60.25%. The RICB's 2000 shareholder are comprised primarily of civil servants and members of the business community. The Royal Insurance Corporation of Bhutan has reinsurance arrangements with ten companies in India, Japan, Thailand, Hong Kong, Nepal, Bangladesh, and Germany.

The use of insurance, however, is limited. In 2001, there were 15,259 policy holders of general insurance, and only 4,650 holders of life insurance, the latter figure up from 114 in 1975. Within the terms of its own business, the RICB has had a steady growth in profit and assets over its 27 years of operation, but it also manages, under a Memorandum of Understanding (MOU) with the government, the rural house insurance scheme which it operates as a social welfare program in accordance with the terms of the MOU. In 2001, the rural house insurance scheme covered 31,172 permanent rural houses and 21,407 semipermanent houses for fire, earthquake, flood, landslide, and storm, all of which are common events in Bhutan. The scheme was revised in January 2000 to give compensation of ₦100,000 (about us\$2,150) for a permanent house with an annual premium of ₦150 (about us\$3.23), and ₦40,000 (about us\$860) for a semipermanent house with an annual premium of ₦60 (about us\$1.30). Claims have increased considerably since the revision. In 1999, under the previously less generous scheme, claims were ₦2.425 million (about us\$52,000) against premiums of ₦1.77 million (about us\$25,312), where as by 2001 claims had risen to ₦11.292 million (about us\$243,000) against premiums of ₦5.98 million (about us\$128,000). The ratio of claims to premiums improved somewhat, from 2:1 in 1999 to 1.89:1 in 2001.

### 35 PUBLIC FINANCE

The largest category of annual current expenditure is public works, which presumably includes the maintenance of monasteries. Most of the annual budget deficit is covered by grants from India and from the UN and other international agencies. By 1996, Bhutan had achieved self-sufficiency in current expenses, thanks primarily to revenues from the Chhukha power project, Bhutan's largest hydro-electric plant.

The US Central Intelligence Agency (CIA) estimated that in FY95/96 Bhutan's central government took in revenues of approximately \$146 million and had expenditures of \$152 million. Revenues minus expenditures totaled approximately -\$6 million. Total external debt was \$245 million.

The International Monetary Fund (IMF) reported that in 2004, the most recent year for which it had data, central government revenues were ₦10,158.3 million and expenditures were ₦11,274.8 million. The value of revenues was us\$224 million and expenditures us\$249 million, based on an official exchange rate for 2004 of us\$1 = ₦45.317 as reported by the IMF. Government outlays by function were as follows: general public services, 25.2%; public

#### Public Finance – Bhutan (2004f)

(In millions of ngultrum, central government figures)

<b>Revenue and Grants</b>	<b>10,158.3</b>	<b>100.0%</b>
Tax revenue	3,092.5	30.4%
Social contributions	...	...
Grants	4,973.6	49.0%
Other revenue	2,092.2	20.6%
<b>Expenditures</b>	<b>11,274.8</b>	<b>100.0%</b>
General public services	2,839.6	25.2%
Defense	...	...
Public order and safety	538.3	4.8%
Economic affairs	3,807.9	33.8%
Environmental protection	...	...
Housing and community amenities	771.7	6.8%
Health	1,220.7	10.8%
Recreational, culture, and religion	183.2	1.6%
Education	1,913.4	17.0%
Social protection	...	0.0%

(...) data not available or not significant. f = forecasted or projected data.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

order and safety, 4.8%; economic affairs, 33.8%; housing and community amenities, 6.8%; health, 10.8%; recreation, culture, and religion, 1.6%; and education, 17.0%.

### 36 TAXATION

The corporate income tax (CIT), excises taxes, taxes on real estate income, and nontax revenues (particularly power tariffs on the export of electricity to India) were the main sources of domestic revenue in 2001. The power tariff, at Bhutan's insistence, was doubled to ₦1 (about \$0.028) per unit on 1 April 1997, and then raised 50% to ₦1.5 (about \$0.034) per unit 1 July 1999. The business income tax (BIT) accounted for only about 5% of revenue in 2001 because of the weakness of the private sector. In January 2003, the government introduced a personal income tax (PIT) for individuals with taxable incomes above ₦100,000. The PIT is expected to raise only ₦110 million (or about 1%) of the 2001–03 budget of ₦11,184.6, but at this stage the government considers the social benefits of the PIT—reducing income disparities and instilling a sense of responsibility—to be more important than its revenue contribution. In July 2002, the government launched the Pension and Provident Fund Plan, a scheme converting the social security system to a pension plan to provide retirement benefits for civil servants, corporate employees, and the armed forces.

External assistance continued to provide the bulk of Bhutan's development budget, but since 1996 domestic revenues have covered current expenses. In 2001, domestic revenues also covered a portion of the capital budget. A major goal of the ninth five-year plan (2002–06) is the increase of domestic revenue through taxes. In 2002–03, it is projected that for the first time tax revenues will exceed nontax revenues. Tax revenues are expected to come to 12% of GDP and nontax revenues to 8% of GDP.

### 37 CUSTOMS AND DUTIES

Under the Indo-Bhutanese Treaty of 1949, goods pass from one country to another without payment of customs duties. Bhutan

currently has observer status with the World Trade Organization (WTO). In 1999, the WTO accepted Bhutan's application for accession. However, as of December 2002, Bhutan had not provided the WTO with the required memorandum on its foreign trade regime, the next step in the process of negotiating an accession. In 2002, the government identified a site in Phuentsholing for the construction of a dry port to expedite export and import formalities and revised some of its more restrictive import rules.

### **38 FOREIGN INVESTMENT**

The CIA notes that Bhutan's isolationism hampers foreign investment. The kingdom's policies on industrial licensing, trade, labor, and finance are often overly detailed and subject to change.

Foreign investment comes primarily from India, and is carried out within the context of Bhutan's special relationship with India. Bhutan's first two five-year plans in the 1960s were 100% financed by India. Since then, Bhutan has relied on an increasingly diverse set of countries—Australia, Austria, Finland, Denmark, Japan, the Netherlands, Norway, Canada, Switzerland, Germany, Italy, New Zealand, Italy, New Zealand, Sweden, South Korea, South Korea, the United Kingdom, and the United States—and multilateral institutions—the United Nations (UN), the World Bank, and the Asian Development Bank (ADB)—to provide capital on a concessional basis, though India remains the dominant source.

On private foreign investment, the government's stance is that foreign direct investment (FDI) it is becoming increasingly necessary to meet the country's employment and self-sufficiency goals. FDI is now permitted in certain sectors, including tourism where joint ventures with international hotel and resort chains are being pursued.

### **39 ECONOMIC DEVELOPMENT**

One of Bhutan's greatest challenges will be creating jobs for its growing population of youths. Much of the educated workforce has been employed traditionally by the public sector; however, the IMF encourages the nation to encourage more private-sector development to avoid the potential of unemployment. Progress in this respect, however, may be slow. Bhutan lacks railroads, helicopters, domestic airlines, and modern conveniences like automated teller machines. What hydroelectricity it produces is mainly for export. In addition, Bhutan embarked on its ninth five-year plan in 2002 with a goal of seeking "gross national happiness," not gross national income, and while this strategy is in keeping with the country's Buddhist traditions, it does risk an economic crisis down the road. Bhutan's leaders remain cautious about future development; they have emphasized a maintenance of culture and protection of environment over modernization.

Bhutan also faces a public debt that was nearly as large as its entire GDP in late 2004/5. Much of the debt resulted from investments in hydropower, and is expected to be paid off through revenue that will come from exporting electricity to India.

Despite Bhutan's growth in the early 21st century, poverty in the country remains high. The nation conducted its first Poverty Analysis Report in 2004, and found that 32% of its population was living below the poverty line, which the IMF has tagged as a concern. Many of those who fall below the poverty line are residents of Bhutan but, because they are not ethnic Bhutanese, are not recognized as citizens of the kingdom. More than two-thirds of the

population lacks electricity, though a rural electrification effort was scheduled to bring electricity to the full country by 2020.

Structural reforms since 1998 showed promise of further moving Bhutan into a more modernized economy. The ninth fiscal year plan (2002–06) promised a continuation of the same moderate progress, with more intensive rural development. The prospect was for Bhutan to continue to proceed at its own restrained pace.

## **40 SOCIAL DEVELOPMENT**

There is no national social welfare system, although the government implemented a modest maternal and child welfare program in the early 1980s, including family planning. The sick, indigent, and aged are cared for within the traditional family structure.

Bhutan's culture does not isolate or disenfranchise women. Dowry is not practiced, and land is divided equally between sons and daughters. Girls receive nearly equal educational opportunities, and, while accorded a lower status than boys, they are cherished because they are the ones who care for parents in old age. As of 2004 women made up approximately 30% of the workforce. Polygamy is legal, but only with the consent of the first wife. The law clarifies the definition of sexual assault and imposes harsh penalties. There is no societal pattern of spousal or child abuse.

A pattern of discrimination against the minority Hindus of Nepalese origin exists. Nepali is no longer taught in schools, and national dress is required for official occasions. While this policy has led to the cultural repression of Hindus, it has also contributed to a growing number of Nepalese obtaining employment in the public sector and in government.

Although there were some improvements in 2004, human rights are restricted by the government. The king exercises control over the government, security forces, and the judiciary. Abuses include violence against Nepalese refugees and arbitrary arrest and detention.

## **41 HEALTH**

Bhutan suffers from a shortage of medical personnel with only 65% of the population having access to any form of medical care. In 2004, there were an estimated 5 physicians, 23 nurses, and 56 midwives per 100,000 people.

The average life expectancy in 2005 was only 52.7 years. The infant mortality rate was 100 per 1,000 live births for that year. Approximately 38% of children under five were underweight. It was estimated that 2% of married women (15–49 years) were using contraception. The fertility rate was reported as 5.2 per woman in 1999.

Immunization rates for children up to one year old were: tuberculosis, 81%; diphtheria, pertussis, and tetanus, 79%; polio, 77%; and measles, 82%. Although smallpox has been wiped out, malaria, tuberculosis, and venereal disease remained widespread. Bhutanese refugees in the eastern Nepal region have high rates of measles, cholera, tuberculosis, malaria, diarrhea, beriberi, and scurvy. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 100 people living with HIV/AIDS in the country.

## **42 HOUSING**

Though a small number of urban settlements have been developed over the past few years, most of the population (80%, 2001 est.)

lives in rural areas, many on small family farms. It is, however, expected that the urban population will grow by about 50% over the next two decades, an estimate that has the Beninese government taking a harder look at options for new and improved housing construction and utility services. As of 2002, the housing shortage has been most serious in urban areas, where most housing is rental property. It was estimated that in Thimphu alone, 600 new dwellings would need to be built each year in order to keep up with rapid population growth. In 2002, about 10% of the residents of Thimphu were living in hut villages and squatter settlements.

The Municipal Act of 1999 was established to decentralize control of housing and utilities, resulting in greater service and improved plans for the future. As part of the government's socioeconomic development policy, all homeowners are eligible for assistance through subsidized timber purchases and group fire insurance. The government has also established the National Committee on Human Settlements to oversee projects for urban development.

Traditional houses are built of stone set in clay mixed with small stones and made into blocks or layers. Roofs are gently inclined and formed of pine shingles kept in place by heavy stones. As of 2000, 80% of urban and 60% of rural dwellers had access to improved water supplies, while 65% of urban and 70% of rural dwellers had access to sanitation services.

### 43 EDUCATION

A modern educational system was introduced in Bhutan in the 1960s. Prior to that, education was provided only by monasteries. In the interim, more than 340 schools and institutions of higher education have been established, including over 150 community schools to serve remote rural areas. However, many of these schools have no sanitation facilities, electricity, or drinking water, and students may have to walk several hours a day to get to them. A growing number of children are attending school, but over 50% still do not attend.

Primary schooling covers a seven-year course of study followed by two years of junior high. This is followed by either a general secondary program (four years of high school) or a technical course of study (three years at a technical center). In 2001, about 88,000 students were enrolled in primary schools and 26,000 were enrolled in secondary schools. The student-to-teacher ratio for primary school was at about 38:1 in 2003; the ratio for secondary school was about 34:1. Efforts have been made to improve the education of women, and girls account for 45% of primary school enrollment. However, the overall literacy rate for women is still very low and lags far behind that for men.

Bhutan's estimated rate of adult illiteracy for the year 2000 stood at 52.7% (males, 38.9%; females, 66.4%). The official language is Dzongkha (written in the Tibetan script). However, English is widely used.

In 1991, Bhutan had 209 schools altogether, including 22 monastic schools, schools for Tibetan refugees, and six technical schools. There was at the highest-level one junior college, two teacher training colleges, and one degree college which was affiliated to the university at Delhi in India. Many teachers from India are employed in Bhutan.

### 44 LIBRARIES AND MUSEUMS

The largest library in Bhutan is the National Library at Thimphu. This library boasts of having one of the largest collections of Mahayana Buddhist literature in the world and also features a collection of over 10,000 xylographic or wood block prints. Jigme Dorji Wangchuck Public Library in Thimphu was the only public library in the country in 2005. Most of this library's 15,000-book collection consists of donated books from countries such as the United States. The vast majority of the books are in English. Located in Konglung, Sherbutse College Library holds 22,000 volumes. The National Institute of Education in Samtse, founded in 1968, holds 12,000 volumes, and the Royal Institute of Management in Thimphu holds 5,000 volumes. The Center for Bhutan Studies Library in Langjophakha has about 2,470 books. The India House Library contains about 7,000 volumes.

The National Museum of Bhutan opened to the public in 1968 at Paro Dzong, in a seven-story 17th-century fortress, featuring religious art objects reflective of Bhutan's unique Northern Buddhist culture, as well as historical objects. Some monasteries have valuable collections of Buddhist manuscripts and art objects.

### 45 MEDIA

International postal service was inaugurated in 1963; there are direct postal, telex, and microwave links to India. Telephone service is said to be very poor. In 2003, there were 25,200 mainline phones in use throughout the country. In 2005, there were an estimated 22,000 mobile phones in use.

In 2005, there was only one radio station, operated by the government-owned Bhutan Broadcasting Service (BBS). It includes broadcasts in Dzongkha, Nepali, English, and Sharchop. From 1989 to 1999, the government had imposed a ban on private television reception. Television broadcasting was reintroduced to the country in 1999. The same year, the government allowed for the licensing of cable companies. In there were three main television stations, one sponsored by BBS and two cable stations. In 2004, there were about 15,000 cable subscribers. Druknet, the nation's first Internet service provider was also established in 1999. By the end of 2003, there were about 15,000 subscribers, including Internet cafés in three major cities. In 1997, the country had an estimated 11 radios per 1,000 population.

A weekly government-subsidized newspaper, *Kuensel*, publishes simultaneous editions in Dzongkha, English, and Nepali, with a total circulation of about 15,000 as of 2004. This is the nation's only regularly published newspaper. Indian and other foreign publications are also available.

There are no legal provisions for the right of free expression in Bhutan; the government is said to restrict criticism of the King and government policies of the National Assembly.

### 46 ORGANIZATIONS

The Bhutan Chamber of Commerce and Industry is in Thimphu.

There are about 125 youth organizations throughout the country, which are affiliated through the Bhutan Youth Welfare Association (BYWA), established in 1985. The objectives of the BYWA are to preserve and promote the cultural and religious heritage of Bhutan and its national integration through the representation of youth to governmental authorities. Youth groups include Youths

and Students Alliance for Human Rights and Democracy in Bhutan (YSAHRDB) and the Youth Organization of Bhutan, both of which focus on interests of peace and human rights. Scouting programs are available through Bhutan Scout Tshogpa. There are also sports associations representing several different pastimes, including tennis, tae kwan do, badminton, and track and field.

The National Women's Association of Bhutan is one of the few nongovernmental organizations officially registered in Bhutan. Other women's organizations, such as Bhutan Women and Children Organization and Refugee Women and Children Welfare Society have formed in exile. All of these are focused on the promotion human rights.

#### **47 TOURISM, TRAVEL, AND RECREATION**

In 1974, Bhutan opened its door to tourists, but strict entry regulations, the remoteness of the country, and relatively limited transportation facilities have restricted the number of visitors. Tourists may only enter as a member of an established tour group. An approved visa along with a valid passport is required of all visitors to enter Bhutan. The beautiful Thimphu, Paro, and Punakha valleys, with their many monasteries, are accessible to tourists. Visitors may also enjoy the intricate weavings found in high eastern mountain regions; kayaking down the Mochhu; or the archery competitions held during festivals.

In 2003, there were 6,266 foreign visitors, including over 2,500 visitors from Europe. There were 1,239 hotel rooms with 2,366 beds, and an occupancy rate of 25%. Travelers stayed an average of eight nights.

In 2004, the US Department of State estimated the cost of staying in Bhutan at \$96.

#### **48 FAMOUS BHUTANESE**

Jigme Dorji Wangchuk (1928–72) instituted numerous social reforms during his reign as king of Bhutan. He was succeeded by his son Jigme Singye Wangchuk (b.1955).

#### **49 DEPENDENCIES**

Bhutan has no territories or colonies.

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# BRUNEI DARUSSALAM

Nation of Brunei, Abode of Peace

*Negara Brunei Darussalam*



**CAPITAL:** Bandar Seri Begawan

**FLAG:** On a yellow field extend two diagonal stripes of white and black, with the state emblem centered in red.

**ANTHEM:** National Anthem, beginning *Ya Allah lanjutkan usia* ("God bless His Highness with a long life").

**MONETARY UNIT:** The Brunei dollar (B\$, or ringgit) of 100 cents is valued at par with, and is interchangeable with, the Singapore dollar. There are coins of 1, 5, 10, 20, and 50 cents, and notes of 1, 5, 10, 50, 100, 500, 1,000, and 10,000 Brunei dollars. B\$1 = US\$0.59165 (or US\$1 = B\$1.6902) as of 2004.

**WEIGHTS AND MEASURES:** Imperial weights and measures are in common use, as are certain local units, but a change to the metric system is slowly proceeding.

**HOLIDAYS:** New Year's Day, 1 January; National Day, 23 February; Anniversary of the Royal Brunei Armed Forces, 31 May; Sultan's Birthday, 15 July. Movable holidays include the Chinese New Year and various Muslim holy days.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Brunei occupies 5,770 sq km (2,228 sq mi) on the northwestern coast of the island of Borneo. Comparatively, the area occupied by Brunei is slightly smaller than the state of Delaware. It comprises two small enclaves separated by the Limbang River Valley, a salient of the Malaysian State of Sarawak, which surrounds Brunei on the E, S, and W. Brunei's total boundary length is 381 km (237 mi).

Brunei's capital city, Bandar Seri Begawan, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

Brunei's western enclave contains most of the country's population, as well as the capital; the thinly populated eastern zone is mainly dense forest. The land generally consists of primary and secondary tropical rain forest, with a narrow coastal strip on the western enclave. The eastern enclave is more hilly, rising to 1,850 m (6,070 ft) in the nation's highest peak of Mt. Pagon in the extreme south. The longest river in the country is the Belait River which crosses through the western portion of the country; it has a length of 209 km (130 mi).

## <sup>3</sup>CLIMATE

The country has a tropical climate, with uniform temperatures ranging from 23–32°C (73–89°F). Humidity is high—about 80% all year round—and annual rainfall varies from about 275 cm (110 in) along the coast to more than 500 cm (200 in) in the interior. Rainfall is heaviest during the northeast monsoon season (landas), especially in November and December.

## <sup>4</sup>FLORA AND FAUNA

The country is largely covered by mangrove and peat swamp, heath, montane vegetation, and Dipterocarpaceae forest. The rain

forest and swampland are inhabited by a plethora of small mammals, tropical birds, reptiles, and amphibians. Mammals include both wild and domesticated buffalo, honey bear, deer, and monkeys. Insects are abundant and sometimes harmful, in particular the malarial mosquito and biting midge.

## <sup>5</sup>ENVIRONMENT

The nation has an extensive oil industry with reserves that are estimated to last 20 years. The forests, which account for about 79% of Brunei's land area, are strictly protected by the government. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 11 types of mammals, 25 species of birds, 4 types of reptiles, 3 species of amphibian, 6 species of fish, and 99 species of plants. Endangered species included the black-faced spoonbill, Sumatran rhinoceros, the Siamese crocodile, and the painted batagur. Brunei is a party to international agreements on ozone layer protection, endangered species, whaling, and ship pollution and has signed but not ratified the Law of the Sea.

## <sup>6</sup>POPULATION

The population of Brunei Darussalam in 2005 was estimated by the United Nations (UN) at 363,000, which placed it at number 166 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 108 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.9%, a rate the government viewed as satisfactory, although there was concern about the high percentage of immigrants (over 30% of the population is foreign-born). The projected

population for the year 2025 was 494,000. The population density was 63 per sq km (163 per sq mi).

The UN estimated that 74% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.78%. The capital city, Bandar Seri Begawan, had a population of 61,000 in that year. Other important towns are Seria, Kuala Belait, and Tutong.

## **7 MIGRATION**

There is little emigration except among the Chinese minority. The government is battling considerable illegal immigration, especially from Indonesia and Sarawak. In 2005, the net migration rate was estimated as 3.45 migrants per 1,000 population. In 2000 there were 104,000 migrants residing in Brunei, which was almost one-third of the total population.

Under Brunei's immigration law children born to Brunei women in Brunei with foreign fathers are stateless. According to *Migration News*, in November 2000 there were about 5,000 such stateless children in Brunei.

## **8 ETHNIC GROUPS**

Malays make up about 67% of the population. Minorities include an estimated 15% Chinese, 6% indigenous, and 12% designated as other. There is a small Caucasian minority, chiefly of English, Dutch, American, and Australian stock.

## **9 LANGUAGES**

Malay is the official language. English is also widely spoken, as is Chinese. The principal Chinese dialect is Hokkien, with Hakka, Cantonese, and Mandarin dialects also in use. Many native dialects are spoken as well.

## **10 RELIGIONS**

The Shafeite sect of Islam, the official religion, dominates nearly every aspect of public and private life. According to unofficial estimates, 67% of the population are Muslim. About 13% practice Buddhism, 10% are Christian, and 10% are tribal folk-religionists and members of other religious groups. Primary Christian denominations include Anglicans, Catholics, and Methodists.

Religious practice is controlled by the influential Religious Affairs Department. The constitution allows for the peaceful practice of other faiths, but non-Muslims, as well as non-Shafeite traditions, are restricted in practice. Religious groups are required to register even to have the right of assembly. Some zoning laws prohibit the use of private homes as places of worship. Proselytizing of non-Muslim faiths is prohibited. All students are required to study Islam in school, including students at private Christian mission schools, where Christian instruction is prohibited. The Melayu Islam Beraja concept, a national philosophy, discourages ecumenism and the general understanding of or openness to non-Muslim faiths.

## **11 TRANSPORTATION**

Two seaports, at Muara and Kuala Belait, offer direct shipping services to Hong Kong, Singapore, and several other Asian ports. However, wharf facilities at the deepwater port of Muara, though expanded to about 550 m (1,800 ft) in the mid-1980s, remain inadequate. In 2005, Brunei had 8 liquefied gas tankers with a total

capacity of 465,937 GRT. The Brunei River, which flows by the capital, is a major thoroughfare. However, the country's 209 km (130 mi) of navigable waterways are useable only by craft with a draw of under 1.2 m (3.9 ft).

In 2002, there were 1,712 km (1,063 mi) of main roads, of which 1,284 km (798 mi) were paved. Links between the capital and the other western towns are good. Road connections between Brunei and Sarawak are being built. Buses are inexpensive but unreliable. River taxis and cars are for hire. In 2003, the sultanate had 73,500 passenger cars and 15,550 commercial vehicles registered.

A 13-km (8-mi) railway is operated by the Brunei Shell Petroleum Co. In addition, there were two airports in 2004. As of 2005, only one had a paved runway and there were also three heliports. The national carrier, Royal Brunei Airlines, operates regular flights to Singapore, Hong Kong, Manila, Bangkok, Jakarta, Kuala Lumpur, and other cities. Some foreign airlines serve Brunei International Airport at Barakas, outside the capital.

## **12 HISTORY**

From the 14th to the 16th century, Brunei was the center of a powerful native sultanate occupying what are now Sabah and Sarawak and extending northward through the Philippines almost to Manila. By the 19th century, much of this empire had been whittled away by war, piracy, and the colonial expansion of European nations. In 1847, the sultan concluded a treaty with Great Britain for the suppression of piracy and furtherance of commercial relations. In 1888, Brunei became a British protectorate, and in 1906 a resident British commissioner was established. By a 1959 agreement (amended in 1971), Brunei was recognized as fully self-governing, with Britain retaining responsibility for defense and foreign affairs. Brunei's first elections, held in 1962, resulted in a victory for the Brunei People's Party, militant nationalists who denounced Brunei's entry into a proposed federation with Malaysia, which had attained independence in 1957. Prevented from taking office, the nationalists, with Indonesian backing, revolted against Sultan Omar Ali Saifuddin in December 1962; the revolt was quickly put down with British assistance, but the sultan decided against federation in any case. From that time on, the sultanate has ruled by decree under a national state of emergency. In 1967, Sultan Omar abdicated in favor of his son, Muda Hassanal Bolkiah. Sultan Omar, who after his abdication remained as defense minister and assumed the royal title of Seri Begawan, died in 1986.

During the 1970s, Brunei emerged as the richest state in Southeast Asia, profiting from its oil wealth and the steep increases in international oil prices. Much of this vast oil income was expended by the state on modernization and social services. Brunei renegotiated its treaty with the United Kingdom in mid-1978 and, on 7 January 1979, concluded a new treaty providing for independence within five years.

On 1 January 1984, the country attained full independence and was also proclaimed a member of the British Commonwealth. On 7 January 1984 Brunei joined the Association of South-East Asian Nations (ASEAN) and joined the United Nations in the same year. Brunei is also a member of the Organization of Islamic Conference.

In 1985 a new political party was formed, the Brunei National Democratic Party (BNDP), comprised predominantly of businessmen loyal to the Sultan. However, government employees

were forbidden by the Sultan to join. The Chinese community was also excluded from membership. In 1986 an offshoot of the BNDP was formed, the Brunei National United Party (BNUP), which emphasized greater cooperation with the government. The BNUP favored the establishment of an elected prime-ministerial system, however. The BNUP's membership was open to Muslims and non-Muslims, but still excluded Chinese. In 1986, Brunei was solicited by the US government to aid the Nicaraguan Contras, but the \$10 million donation was credited to the wrong bank account and never reached its intended destination. The donation was eventually traced and returned to Brunei with interest.

In 1988 the top two leaders of the BNDP, President Haji Abdul latif bin Abdul Hamid and Secretary-General Haji Abdul Latif bin Chuchu, were arrested as they were about to fly to Australia. They were held under the Internal Security Act, which allows detention for up to two years without charges being filed, and were detained until 1990. In May of that year, Haji Abdul latif bin Abdul Hamid died. In 1990 the government released six other political prisoners who had been detained since 1962.

Increasing emphasis on Melayu Islam Beraja (MIB) as a state ideology has resulted in the affirmation of traditional values due to increasing concern about an affluent and worldly younger generation. In 1991 the import of alcohol and the public celebration of Christmas were banned. His Majesty Sultan Haji Hassanal Bolkiyah Mu'izzaddin Waddaulah celebrated 25 years on the throne in October 1992. Once taken to be the richest man in the world, as of 2001, the Sultan was listed by *Forbes* magazine as one of the fifteen wealthiest individuals in the world, with US\$16 billion.

Brunei established diplomatic relations in 1993 with China, Vietnam, and Laos.

In 1998 Brunei's economy was hit simultaneously by falling oil prices, regional currency depreciation stemming from the region's economic crisis, and the collapse of the multibillion-dollar Amedeo conglomerate run by the Sultan's brother, Prince Jefri Bolkiah, who was removed from his post as the country's finance minister. However, tensions persisted between the Sultan and his brother, who fled to London. Upon his return in early 2000, the government sued him and dozens of other persons for misuse of public funds.

As the new century began, Brunei was looking for ways to diversify its heavily petroleum-dependent economy as its oil and gas reserves waned.

In November 1999, Brunei and the nine other members of the Association of Southeast Asian Nations (ASEAN), agreed informally to create a free-trade zone by eliminating duties on most goods traded in the region by 2010. When ASEAN met in November 2002, the Southeast Asian leaders and China began concrete talks to create what would be the world's largest free trade area, encompassing 1.7 billion people and trade valued at US\$1.2 trillion. The free trade area is expected to take 10 years to implement but tariffs on some agricultural products could be cut by early 2003. Products covered by the early package include live animals, meat, fish, dairy produce, other animal products, live trees, vegetables, fruit, and nuts. Talks for trade in goods, services, and investments were due to be held in 2003.

On 16 December 2002, the Sultan met with US president George W. Bush, to strengthen trade between the two countries and to coordinate antiterror efforts in the wake of the 11 September 2001



LOCATION: 4°2' to 5°3' N; 114° to 115°22' E. BOUNDARY LENGTHS: Malaysia, 381 kilometers (237 miles); South China Sea and Brunei Bay coastlines, 161 kilometers (100 miles). TERRITORIAL SEA LIMIT: 12 miles.

attacks on the United States. The terrorist attack on a nightclub in Bali, Indonesia, on 12 October 2002 was also a warning that the Southeast Asian region was susceptible to, and perhaps a breeding ground for, the activities of international terrorist organizations.

Brunei, along with the People's Republic of China, Vietnam, Malaysia, Taiwan, and the Philippines, is engaged in a regional dispute over claims to the Spratly Islands, situated in the South China Seas, which are strategically important and may have large oil and gas reserves. In one incident of friction, in August 2002, Vietnamese troops based on one of the Spratly islets fired warning shots at Philippines military planes. On the eve of the ASEAN summit held in November 2002, ASEAN leaders and China signed a declaration of conduct, agreeing not to attempt to occupy the Spratlys. The pact was not binding, but it was hoped that it would help ensure regional security.

In September 2002 Brunei's second-largest newspaper, *News Express*, closed. Publisher, Peter Wong Lik Young, was arrested for tax evasion as he attempted to flee Brunei with his wife, leaving behind debts of more than three million euros. The remaining pa-

per, the government controlled *Borneo Bulletin*, was then Brunei's only daily paper.

In September 2004 two significant events occurred: Crown Prince, Al-Muhtadee Billah Bolkiah, age 30, married 17-year-old Sarah Salleh before 2,000 guests; and, Sultan Hassanal Bolkiah reopened Brunei's parliament with minimal powers, 20 years after it was suspended. The latter was considered a tentative step toward giving some political power to the citizenry.

### **13 GOVERNMENT**

Brunei is an independent Islamic sultanate. The 1959 constitution (parts of which were suspended in 1962) confers supreme executive authority upon the sultan and provides for five Constitutional Councils: a Privy Council, Council of Cabinet Ministers, Legislative Council, Religious Council, and Council of Succession to assist him. The members of these bodies are appointed by the sultan. The chief minister (*mentri besar*) is also appointed by the sultan and is responsible to him for the exercise of executive authority.

The Legislative Council was from time to time re-constituted until a Cabinet-style Government was introduced for the first time in 1984. An elected Legislative Council was being considered as part of constitutional reform, but elections were considered unlikely for several years. In August 2000, the foreign minister confirmed that a review of the constitution had been submitted to the sultan for approval, and that "an element of an election" was in this report. On 25 September 2004, Sultan Hassanal Bolkiah reopened parliament, 20 years after it was disbanded. The new parliament had 21 members, all of them appointed. The Sultan later signed a constitutional amendment, allowing for a 45-seat council with the direct election of 15 members of the next parliament. Elections were last held in March 1962. Future election dates were not available.

At his 1992 Silver Jubilee celebration the sultan emphasized his commitment to preserving Brunei's political system based on the concept of Melayu Islam Beraja (MIB), or Malay Islam Monarchy, as the state ideology. MIB combines Islamic values and Malay culture within a monarchical political framework with the monarchy as defender of the faith.

### **14 POLITICAL PARTIES**

Parties were organized shortly after self-government was achieved in 1959. However, when the Brunei People's Party won 98% of the legislative seats in the country's only election, held in 1962, the sultan barred its candidates from office and outlawed all political parties under a continuing state of emergency. Political parties re-emerged in the 1980s, but in 1988 they were banned and many of their leaders were arrested. At that time, the political parties were: the Brunei National Democratic Party (BNDP), founded in 1985, and the Brunei National United Party (BNUP), founded in 1986 by an offshoot of the BNDP. In contrast to the BNDP, membership in the BNUP was open not to Brunei Malays only, but to other indigenous people, whether Muslim or not. The Chinese were left with the option of forming their own party. (Under Brunei's restrictive naturalization policies only 6,000 Chinese had been granted citizenship.)

In 1995, the Brunei National Solidarity Party (PPKB in Malay), one of the initial parties that had been banned in 1962, formally requested authorization to hold a convention and elected Ab-

dul Latif Chuchu, the former secretary-general of the BNDP, as its president. As of 2002, its president was Mohd Hatta bin Haji Zainal Abidin.

### **15 LOCAL GOVERNMENT**

There are four administrative districts: Brunei-Muara, Kuala Belait, and Tutong in the western enclave, and Temburong in the east. Government is centrally controlled, but allowance is made for local tribal customs. District officers responsible to the ministers of home affairs administer each district. As part of the MIB ideology, village consultative councils have been introduced, making direct elections unnecessary. Instead, popularly elected headmen would function as mediators between the people and the central government. In June 1993 the Sultan stated "Brunei will strictly adhere to the MIB concept without resorting to fruitless political culture."

### **16 JUDICIAL SYSTEM**

Brunei's judicial system is based on Indian penal code and English common law. There are five levels of courts with final recourse available through the Privy Council in London. Beginning with the courts of first instance, there are courts of Kathis that handle family matters such as marriage and divorce by applying Islamic law (Shariah). Lower courts called sultan's courts, presided over by magistrates, hear other ordinary cases involving minor disputes. Such cases may be appealed to the High Court, a court of unlimited original jurisdiction in both civil and criminal matters. The High Court is presided over by a chief justice and justices appointed by the sultan. Decisions of the High Court can be taken to the Court of Appeal, presided over by the president and two commissioners appointed by the Sultan. The Supreme Court consists of the High Court and the Court of Appeal.

In 1995, the right to appeal to the Privy Council in London was terminated in criminal cases. This final recourse remained available only for civil cases. In May 2002, a State Judiciary Department was established in Brunei, which is responsible for the administration of Brunei's judicial matters.

Certain provisions of the 1959 constitution have been suspended under the state of emergency since 1962.

### **17 ARMED FORCES**

The Royal Brunei Armed Forces in 2005 consisted of 7,000 active personnel. The Army had 4,900 active members, whose weaponry included 20 light tanks, 39 armored personnel carriers, and 24 artillery pieces. The Navy had 1,000 personnel, whose major units were over six patrol/coastal vessels and four amphibious landing craft. Air Force personnel totaled 1,100 and whose primary equipment included a single transport and six training aircraft, and five support and eighteen utility helicopters. Paramilitary forces included a Gurkha reserve unit estimated at over 2,000 and 1,750 members of the Brunei Royal Police. Brunei's defense budget in 2005 totaled \$357 million.

### **18 INTERNATIONAL COOPERATION**

Brunei was admitted to UN membership on 21 September 1984, and is a member of ICAO, IMF, IMO, ITU, WHO, WIPO, the World Bank, and WMO. It is also a member of the Commonwealth of Nations, ASEAN, APEC, G-77, and the Organization of the Islamic Conference (OIC). Brunei became a member of the WTO 1

January 1995. The country is part of the Nonaligned Movement. In environmental cooperation, Brunei is part of CITES, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea and Climate Change.

## 19 ECONOMY

Discovery of extensive petroleum and natural gas fields in the 1920s brought economic stability and modernization to Brunei. Today its economy, a combination of domestic and foreign entrepreneurship, government regulation, welfare programs, and village tradition, remained dependent on the oil and gas sector. This sector accounts for about 40% of GDP, almost 90% of exports, and about 90% of government revenues. Brunei's per capita GDP is one of the highest in Asia, estimated at US\$15,000 in 2004.

Oil production peaked in 1980 at an estimated 270,000 barrels per day. Production was deliberately cut back since then to preserve the country's oil reserves, which were estimated to last through at least 2015.

Brunei, aware that its reserves will not last indefinitely, pours much of its oil revenue into international investments in order to provide for its future generations. The sultanate also uses the revenues to finance government spending. Free health care, education through the university level, and rice and housing subsidies are among the benefits that Brunei's people receive.

However, the practice of using oil money to finance investments and government spending—coupled with the sultanate's reliance on oil production and exports—ties Brunei's economic health closely to the health of the world economy itself. As a result, worldwide slowdowns tend to hit the sultanate hard. Brunei was still recovering from the effects of the Asian financial crisis of 1997–98 in 2005, as well as the 1998 collapse of the Amedeo Development Corporation (Brunei's largest construction company), both of which caused the country to slip into recession in the late 1990s. Fluctuations in oil prices also affect Brunei's economic strength. Brunei posted GDP growth in 2003 of 3%. Although GDP growth slowed to 1.75% in 2004, it was projected to return to 3% in 2005.

In early 2001, decrees designed to make investment in Brunei more attractive were put into effect by the Brunei government following a scandal in which key members of the Brunei sultan's family were accused of misusing public funds. A government-owned business, Global Evergreen Corporation, settled debts and took over public building projects tied to the scandal in 2002. The government was increasing efforts to promote Brunei as a destination for upscale tourism and ecotourism. Meanwhile, attempts to diversify the economy have moved slowly.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Brunei Darussalam's gross domestic product (GDP) was estimated at \$6.8 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at US\$23,600. The annual growth rate of GDP was estimated at 3.2%. The aver-

age inflation rate in 2004 was 0.9%. It was estimated that agriculture accounted for 5% of GDP, industry 45%, and services 50%.

## 21 LABOR

In 2002, Brunei had a workforce estimated at 158,000 members, of which up to 40% were temporary residents, made up of foreign workers and members of the military. In 1999, (the latest year for which data was available), the government employed 48% of the workers, with 42% of employees in the production of oil, natural gas, services, and construction. The remaining 10% of workers were employed in agriculture, fishing, or forestry. The estimated unemployment rate in 2002 was 3.2%.

Although all workers including government employees can join and form trade unions (excluding military personnel, police officers and prison guards) the government neither facilitates or encourages the establishment of unions. In addition, collective bargaining has no legal basis in the country and strikes are illegal. The country's oil sector accounted for all three of Brunei's registered unions, of which 5% of the industry's workforce was unionized. However, all three unions were inactive. Wages and benefits were set by market conditions.

Children under the age of 18 may only work with parental consent and the approval of the Labor Commission. The law prohibits employment of children under the age of 16. There are no reports of violations of these child labor laws. Although there is no minimum wage, most employees earn a generous living wage. The workweek is limited to 48 hours of work for five days, with two mandatory 24-hour rest days. The more than 100,000 foreign workers in Brunei do not receive the same conditions and wages.

## 22 AGRICULTURE

Temporary and permanent crops are actively cultivated on an estimated 6,000 hectares (14,800 acres), which represent 2.5% of total land area. Agriculture accounts for 3% of GDP and employs some 2% of the work force. Rice production is low (only about 1,000 tons per year), and Brunei imports more than 80% of its requirements. Urban migration and more profitable jobs in the oil industry have led to a shortage in farm labor. An agricultural training center, sponsored by Brunei Shell and the Department of Agriculture, was established in 1978 to encourage young people to return to the land. Crops for home consumption include bananas, sweet potatoes, cassava, coconuts, pineapples, and vegetables.

## 23 ANIMAL HUSBANDRY

Cattle, buffalo, hogs, goats, and fowl are raised. In 1978, McFarm (a Mitsubishi subsidiary) set up a cattle-breeding station in order to reduce meat imports. The government owns a cattle station in Australia that is larger in area than Brunei itself. Livestock within Brunei in 2004 included 4,675 head of buffalo, 2,353 goats, 6,800 pigs, 1,200 head of cattle, and 12.5 million chickens. Meat production that year was estimated at 20,600 tons, with poultry meat accounting for 77% of the total. The government also encourages livestock production through the Mitsubishi Cattle Breeding Project.

## 24 FISHING

Traditional fishing declined during the late 1990s and into the mid-2000s, with only 60% of home consumption provided by lo-

cal fishermen. The Fisheries Department supplied a small trawling fleet, and continuing efforts were being made to develop both freshwater and saltwater aquaculture. Fish hatcheries were in operation on a six-hectare (15-acre) site near Muara. The annual fish harvest in 2003 totaled 2,157 tons, down from 7,405 tons in 1996.

## 25 FORESTRY

Forests cover an estimated 82% of the land area. Forest reserves constitute about 41% of the land area. Exports of timber are restricted. There is a small sawmill and logging industry for local needs. In 2003, Brunei produced about 229,000 cu m (8 million cu ft) of roundwood.

## 26 MINING

Brunei's mining industry was engaged primarily in the production and processing of crude oil and natural gas. Principal nonfuel mineral resources in 2003 were cement carbonate rocks, coal, kaolin, sand, gravel, and other varieties of stone. In 2000 construction started on a silica-processing plant to produce silica plates from the country's reserves of high-quality silica sands in Tutong District. In 2003, cement production totaled 235,000 metric tons.

## 27 ENERGY AND POWER

Commercial oil production, which began in 1929, dominates the economy. Production of crude oil in 2003 amounted to 196,000 barrels per day, of which 170,000 barrels per day largely consisted of low-sulfur crude oil. Output of liquefied natural gas (LNG) was about 26,000 barrels per day for that same year. As of 2002, exports of crude oil and natural gas accounted for 80–90% of all exports and more than 50% of gross domestic product (GDP). Exploratory drilling for new reserves continued, and capital expenditure on petroleum development remains high. As of 1 January 2004, proven reserves of oil totaled 1.35 billion barrels. After peaking at 240,000 barrels per day in 1979, crude oil production was deliberately lowered in 1988, through a self-imposed conservation quota of 150,000 barrels of oil per day, to extend the life of Brunei's reserves. There are seven offshore fields belonging to Brunei, of which the largest is the Champion field, with about 40% of the country's total reserves. Brunei opened its first deepwater drilling areas in 2001 and accepted bids by two international consortia. There were plans to expand LNG production by 4 million metric tons by 2008. Brunei continued to be a major supplier of liquefied natural gas to Japan under 20-year contracts, the last renewed in 1993 by the then-newly established Brunei Oil and Gas Authority. The LNG plant at Lumut, Brunei is one of the largest in the world.

Electric power and natural gas supplies are readily available at low cost. Installed electric power generating capacity was estimated, as of 1 January 2002 to be at 0.483 million kW, all of which used natural gas. In 2002, net electricity generation was estimated at 2.5 billion kWh. In the same year, consumption of electricity totaled 2.361 billion kWh. According to British Petroleum (BP), production of natural gas by Brunei in 2004, totaled 12.1 billion cu m. BP places the country's proven natural gas reserves at 0.34 trillion cu m (12.1 trillion cu ft), as of end 2004.

## 28 INDUSTRY

Industry is almost entirely dependent on oil and natural gas production. Brunei is the third-largest oil producer in Southeast Asia, after Indonesia and Malaysia, and the fourth-largest producer of liquefied natural gas.

Brunei Shell Petroleum (BSP), a joint venture owned by the Brunei government and Royal Dutch/Shell, is the country's main oil and gas production company, and is the largest employer after the government. It also operates Brunei's refinery. The refinery has a distillation capacity of 10,000 barrels per day, and generally fulfills petroleum product needs within the country.

Natural gas is mostly liquefied at a Shell Liquefied Natural Gas (LNG) plant, which opened in Brunei in 1972 and is one of the largest LNG plants in the world. Brunei sells about 90% of its liquefied natural gas to Japan, under a long-term agreement. In addition, Mitsubishi, a Japanese company, is a joint venture partner with Shell and the Brunei government in three companies: Brunei LNG, Brunei Coldgas, and Brunei Shell Tankers. Brunei also supplies liquefied natural gas to the Korea Gas Corporation.

Oil and gas exploration also are important industrial activities in Brunei, although deep water exploration activities have been on hold since 2003 because of a dispute with Malaysia. The French oil company ELF Aquitaine, which began petroleum exploration activities in Brunei in the 1980s, operates in the country as Total E&P Borneo BV.

Lagging the oil and gas industry considerably is Brunei's second-largest industry, construction. Since the collapse of Amedeo, a government-owned enterprise, Global Evergreen Corporation has taken over a number of projects, the Empire Hotel and Country Club, the Berakus Power Station, the DST Corporate Tower, and the Jerudong Marina. The construction industry was also stimulated by \$1 billion made available by the government for projects in late 2001 and early 2002.

Brunei's small manufacturing sector includes production for the construction sector, sawmills, and brick and tile factories. Government support of small-scale projects in food and beverage processing, textiles, furniture making, and specialist optics has had limited results. Brunei also may establish a "cyber park" to encourage development of an information technology industry, and has announced plans to encourage the establishment of offshore financial institutions and Islamic banks.

## 29 SCIENCE AND TECHNOLOGY

Advanced science and technology have been imported in connection with development of the oil industry. Foreign technology expertise is employed in communications and other infrastructural programs. The Ministry of Industry and Primary Resources conducts agricultural research. The University of Brunei Darussalam, founded in 1985, has a faculty of science. The Technological Institute of Brunei, located in Bandar Seri Begawan, and the Jefri Bolkaiah College of Engineering in Kuala Belair, offer engineering courses. Brunei hosted the sixth ASEAN (Association of Southeast Asian Nations) Science and Technology week in Bandar Seri Begawan in September 2001.

As of 2002, Brunei had 282 researchers per million people actively engaged in research and development.

### 30 DOMESTIC TRADE

Most food products and other consumer goods come from Singapore, Japan, and Malaysia. Most of Brunei's beef is supplied by a government-owned cattle ranch in Australia, which is larger than Brunei itself.

Although oil and gas dominate Brunei's industrial activity, the country does have some activity in agriculture, forestry, fishing, and banking. Eggs and chickens are produced locally. Agriculture and fisheries are among the industrial sectors that the government has selected for highest priority in its efforts to diversify the economy.

### 31 FOREIGN TRADE

Brunei's reliance on oil and gas production require it to import a wide array of goods. Nevertheless, the dollar value of its exports are considerably greater than its imports, which has allowed the country to maintain strong foreign reserves. Exports totaled us\$5.057 billion in 2004 and were projected to reach us\$5.994 billion in 2005. Of the exports total, us\$4.624 billion were oil and gas products in 2004; oil and gas exports were projected to total us\$5.626 billion in 2005. Major trading partners for exports in 2004 were Japan (38.1%), South Korea (14%), Australia (11.2%), the United States (8.6%), Thailand (7.9%), Indonesia (5.9%), and China (4.5%).

Imports totaled us\$1.338 billion in 2004 and were projected to rise to us\$1.458 billion in 2005. Key trading partners for imports in 2004 were Singapore (32.7%), Malaysia (21.2%), the United Kingdom (8.3%), and Japan (7.2%). However, these figures include trans-shipments; most of Brunei's imports pass through Singapore en route to the company and thus fall under Singapore's total even if the products do not actually originate in the city-state. Japanese products dominate local markets for motor vehicles, construction equipment, electronic goods, and household appliances.

### 32 BALANCE OF PAYMENTS

Foreign reserves totaled us\$534 million in 2004 and were projected to rise to us\$590 million in 2005. Brunei had a trade surplus of us\$3.769 billion in 2004; that figure was projected to grow to us\$4.621 billion in 2005.

Brunei's account surplus was estimated by the International Monetary Fund (IMF) at us\$4 billion in 2004, approximately 70% of GDP.

### 33 BANKING AND SECURITIES

The banking industry is controlled by the Association of Banks, in liaison with the government. In 1999, there were nine banks operating in Brunei. Of these, three were locally incorporated and six were foreign, among them the Hongkong Bank, Malayan Banking, Berhard, and Citibank. The International Bank of Brunei, in which the sultan has a 51% stake, is the larger of the local banks. The other, the National Bank of Brunei, was seized in 1986 by the government, which charged the majority shareholders with irregularities, and later closed in the early 1990s. Other banks are the Bairduri Bank, Sime Bank, the Development Bank of Brunei, the

#### Principal Trading Partners – Brunei Darussalam (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	4,144.3	1,243.6	2,900.7
Japan	1,697.6	124.4	1,573.2
Korea, Republic of	463.7	29.3	434.4
Thailand	390.7	50.5	340.2
Australia	346.4	37.0	309.4
United States	321.2	143.1	178.1
China	276.3	60.5	215.8
Singapore	185.2	250.3	-65.1
Malaysia	152.8	251.8	-99.0
Indonesia	105.8	33.2	72.6
New Zealand	96.7	1.9	94.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Overseas Union Bank, and the Standard Chartered Finance (Brunei) Berhad.

The managing director of the Brunei Investment Agency (BIA), Abdul Aziz Abdul Rahman, met France's Treasury director, Jean Lemierre, in mid-December, 1996 to discuss the possibility of opening a BIA office in Paris. BIA's French investments are currently managed from the agency's offices in London and Brussels. Approximately half of the country's revenue is now derived from the income from these investments.

The Brunei Investments and Commercial Bank, a subsidiary of the Brunei Investment Agency, acquired a 13.4% stake in the Australian Macquarie Bank in November 1996, making the BIA the largest single shareholder.

### 34 INSURANCE

In 2003, Brunei had four companies providing general and life insurance: American International Assurance Co. Ltd., BALGI Insurance, General Accident and Life Assurance, and Simi AXA Assurance Berhad.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2003 Brunei Darussalam's central government took in revenues of approximately us\$4.9 billion and had expenditures of us\$4.2 billion. Revenues minus expenditures totaled approximately us\$700 million.

### 36 TAXATION

Citizens of Brunei pay no income taxes and are the beneficiaries of generous welfare subsidies. However, Chinese, who make up an estimated 16% of the population, are excluded from citizenship, and these benefits. They are either stateless or hold British protected persons passports. Only corporations are subject to taxation. Taxation on petroleum income is subject to a 55% rate, while the standard corporate tax rate is 30% on earnings. There is a double-taxation agreement between Brunei and the United Kingdom, and with Indonesia. Exemption from taxes can be granted by the Sultan in Council to industries deemed essential for the country's development. By Income Tax Order 2001, companies granted a

Pioneer Certificate, foreign or domestic, are exempted from the 30% tax for two to five years, depending on the size of their capital investment, specified in round dollar terms with an obvious eye to outside investors: for less than \$250,000 the exemption is for two years; for \$250,000 to \$500,000, three years; \$500,000 to \$1 billion, four years; and above \$1 billion, five years. Pioneer and export industries are exempt from customs duties on imports of raw materials and capital goods.

### **37 CUSTOMS AND DUTIES**

Brunei levies tariffs ranging from zero to 30% on selected items including perfume, and has a single-column tariff structure. The country joined ASEAN in 1984 and has reduced trade barriers with member nations.

### **38 FOREIGN INVESTMENT**

The Brunei Investment Agency (BIA), which is part of the Ministry of Finance, manages the country's foreign reserves. Established in 1983, its mission is to increase the real value of the reserves through a diverse investment strategy. BIA offices in London and Brussels manage French and other European investments. Brunei in 2005 had holdings in the United States, Japan, Western Europe, and the Association of Southeast Asian Nations (ASEAN) countries.

The Brunei government encourages more foreign investment by offering tax incentives, and through its already attractive climate of requiring not personal income or capital gains taxes. However, foreign investors are encouraged to maintain some level of local participation in whatever enterprises they set up. At least half of the directors of any company must be residents of Brunei.

In late 2001, the government added \$1 billion to funds available for investment. In 2002, earnings from Brunei's investments abroad for the first time exceeded its earnings from exports from its oil and gas sector. In 2002, the first exploration rights in deep-sea parcels in Brunei's Exclusive Economic Zone (EEZ) were awarded.

The UN Conference on Trade and Development reported foreign direct investment (FDI) of US\$103 million in 2004. Although this was down sharply from the US\$2 billion in FDI reported to have flowed into Brunei in 2003, the country's foreign reserves remain healthy. FDI stocks stood at US\$7.548 billion in 2004 compared with US\$7.445 billion in 2003, and in 2004 comprised 135% of GDP. About US\$481 million in FDI funds left the country in both 2003 and 2004 for investments elsewhere.

### **39 ECONOMIC DEVELOPMENT**

Two major themes shape Brunei's economic development plans: careful use of its oil and gas resources to prolong the capacity of the reserves, and gradual diversification beyond the petroleum sector.

While Brunei has successfully managed its reserves and invested much of its excess revenue abroad, efforts to diversify the economy have been sluggish, at best. Out of an interest in diversifying its economy, the Brunei's Economic Development Board announced plans in 2003 to use proven gas reserves to establish industrial projects. Two projects in 2005 were in the works: a 500-megawatt (MW) power plant to provide power for an aluminum

smelting operation and a container hub at Brunei's Muara Port. Both projects depend on foreign direct investors.

Another challenge Brunei faces is balancing both its labor force and ownership of its businesses between its residents and foreigners. About 40% of the country's work force consists of foreigners, despite stringent immigration regulations set up to maintain the social cohesion of Brunei's society. One of the country's long-term goals is to encourage Brunei Malays to participate more in business leadership while at the same time maintaining its numerous relationships with multinational investors.

### **40 SOCIAL DEVELOPMENT**

A provident fund and a universal old age and disability pension system are available to all employees who are citizens or permanent residents. Foreign workers are not eligible. The state provides free medical care, and remote regions are served by mobile clinics and a flying doctor service; there is also a school health service. There is an employer liability system for workers' compensation.

A major social change has been the increasing influence of Islam as a way of life. The extent of spousal abuse is not known. Women are denied equal status with men in many areas, including divorce, custody of children, and inheritance. However, the number of female students at universities has increased. Females are strongly encouraged to wear traditional head covering.

### **41 HEALTH**

The state provides free medical care and remote regions are served by mobile clinics and a flying doctor service; there is also a school health service. There were eight hospitals, four of which are run by the government. In 2004, there were an estimated 101 physicians, 267 nurses, 14 dentists, and 27 pharmacists per 100,000 people. In 2005, the infant mortality rate was 13 per 1,000 live births. Life expectancy for that year was estimated at 74.8 years. Approximately 96% of the population had access to health care services and 90% had access to safe drinking water. Malaria has been eradicated from Brunei (although it remained a problem in adjacent Sarawak) and cholera is close to nonexistent. There is, however, still some risk of filariasis, tuberculosis, typhoid fever, and intestinal flu. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 200 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

### **42 HOUSING**

Since the mid-1970s, the government has supported an ongoing housing program through the National Development Plan to encourage and support homeownership for all citizens. As of 2000, interest-free home loans were available to all citizens (there was no personal income tax within the country either), however, this may change as the government reconsiders the sustainability of its oil-based economy. Through the Landless Indigenous Citizens Housing Scheme (LICS), the government has constructed at least eight housing project sites to offer affordable, modern housing

to low-income residents. In the period 1972–97, over 4,000 new homes were built through the LICs.

### 43 EDUCATION

The state provides free education from kindergarten up, including university training abroad. Education is compulsory between the ages of 5 and 12. Six years of primary school are followed by seven years of secondary education, the latter being divided into three years of junior secondary, two years of senior secondary, and two years of university preparation studies. The official policy is to promote bilingual education, Malay and English, in all government-supported schools. The academic year runs from August to May.

In 2001, about 44% of children ages three to five were enrolled in some type of preschool program. The same year, about 44,000 students were enrolled in primary schools and about 37,000 students were enrolled in secondary schools. The pupil-teacher ratio at the primary level was 13 to 1 in 2003; the ratio for secondary school was 11 to 1. In 2003, private schools accounted for about 35% of primary school enrollment and 11% of secondary enrollment. Foreigners generally attend private mission schools, the International School, and the Chinese School. Brunei Shell also funds several schools, and there are numerous religious academies.

There are two teacher-training colleges and five vocational technical schools, including an agricultural training center. Brunei also has a university, established in 1985, and institutes of education and technology. The University of Brunei Darussalam (founded in 1985) has faculties for education, arts and social sciences, science, and management and administration. In 2003, about 13% of the tertiary age population were enrolled in some type of higher education program. Many students, however, continue their education in foreign universities at government expense. The adult literacy rate for 2004 was estimated at about 92.7%, with 95.2% for males and 90.2% for females.

As of 2003, public expenditure on education was estimated at 4.4% of GDP, or 9.1% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The University of Brunei at Gadon holds 29,000 volumes, while the Brunei Museum houses 60,000 volumes. The Dewan Bahasa dan Pustaka Library, established in 1963, is the primary public system. It sponsors four district branch locations in the country and a mobile library with 43 service points in 2002.

Notable museums include the Brunei Museum, which exhibits ethnology and the history of Borneo Island; the Malay Technology Museum; the Royal Regalia Gallery, a fine arts museum opened in 1992; and the Royal Brunei Armed Forces Museum, which features the world's fastest patrol boat.

### 45 MEDIA

In 2002, there were 90,000 mainline telephones and 137,000 mobile cellular phones in use throughout the country. Telephone service is generally considered to be of excellent quality. The government-operated Radio Television Brunei broadcasts radio programs in English, Malay, and Chinese, and television programs in Malay and English. While there are no other television stations in the country, three Malaysian television channels can be accessed by

some viewers. Two satellite television networks are also available, offering about 28 different channels, including the Cable News Network, the British Broadcasting Corporation World News, and several entertainment and sports channels. As of 1998 there were 3 AM and 10 FM channels.

The only commercial daily newspaper serving Brunei is the English *Borneo Bulletin*, with a circulation of 25,000 in 2002. The government publishes the Malay weekly *Peilta Brunei* (2002 circulation 45,000) and a monthly English newsletter, *Brunei Darussalam* (14,000). There is one other Malay language press, the *Media Permata*, which circulates approximately 5,000 newspapers. The *Straits Times* of Singapore circulates widely in Brunei, as do Chinese papers from Sarawak.

In 2001 legislation took effect that places several restrictions on press freedoms. Editions of foreign newspapers or magazines with articles that were found to be objectionable, embarrassing, or critical of the Sultan, the royal family, or the government may be banned from the country. Journalists deemed to have published or written "false and malicious" reports may be subjected to fines or prison sentences. Magazine articles with a Christian theme have been censored. The government also retains the right to close down any newspaper without prior notice.

### 46 ORGANIZATIONS

There are four chambers of commerce in the country, including the International Chamber of Commerce and Industry in Bandar Seri Begawan. The Consumers' Association of Brunei (est. 2002) has worked to promote improvements in living conditions and legal rights of workers as well as serving as a consumer advocate group. There are some professional organizations, such as the Brunei Malay Teachers Association and the Women Business Council. There are also organizations promoting education and research in several fields, such as the Brunei Association for Science Education and the Medical Association in Brunei.

The powerful Religious Affairs Department permeates daily life; its activities include sponsoring Islamic pilgrimages and establishing village mosque committees. The Council of Women of Negara Brunei Darussalam, founded in 1985, strives to improve the economic, cultural, and social status of women. Nongovernmental youth movements in Brunei include the Brunei Youth Council, Boy Scouts, and Girl Guides. Sports facilities tend to be privately maintained, with some athletic groups sponsored through the Brunei Amateur Athletic Association. The Brunei National Olympic Committee coordinates activities for national youth sports federations.

There is a national chapter of the Red Crescent Society.

### 47 TOURISM, TRAVEL, AND RECREATION

Known for the abundance of flora and fauna in its rain forests and national parks, Brunei is growing as a unique tourism destination. Among Brunei's newest and most remarkable sights is the sultan's 1,788-room palace, built at a reported cost of US\$300 million and topped by two gold-leaf domes. Native longhouses and trips up the Brunei and Tutong rivers are also tourist attractions. Visas are

not required for stays of up to 90 days, but a valid passport and onward/return ticket are necessary.

In 2002, the US Department of State estimated the cost of staying in Brunei between us\$123 and us\$248 per day.

#### **48 FAMOUS BRUNEIANS**

Omar Ali Saifuddin (1916–86) was sultan from 1950 to 1967 and minister of defense from 1984 to 1986. His son, Muda Hassanah Bolkiah (Bolkiah Mu'izzuddin Waddaulah, b.1946), one of the wealthiest men in the world, has been sultan since 1967.

#### **49 DEPENDENCIES**

Brunei has no territories or colonies.

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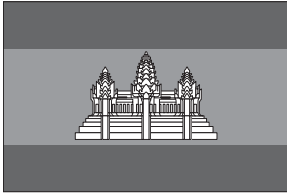
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# CAMBODIA

Kingdom of Cambodia

*Preahreacheanachakr Kampuchea*



**CAPITAL:** Phnom Penh

**FLAG:** The flag has a red center field with a white silhouette of the temple complex at Angkor Wat. The center field is bordered top and bottom by blue bands.

**ANTHEM:** *Nokoreach (Royal Kingdom)*

**MONETARY UNIT:** The new riel (CR) is a paper currency of 100 sen. CR1 = \$0.00024 (or \$1 = CR4,098) as of 2005.

**WEIGHTS AND MEASURES:** Both the metric system and traditional weights and measures are in general use.

**HOLIDAYS:** National Day, 9 January; New Year, April; Labor Day, 1 May; Feast of the Ancestors, 22 September; Independence Day, 9 November.

**TIME:** 7 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in the southwest corner of the Indochina Peninsula, Cambodia has an area of 181,040 sq km (69,900 sq mi), extending 730 km (454 mi) NE-SW and 512 km (318 mi) SE-NW. It is bounded on the NE by Laos, on the E and SE by Vietnam, on the SW by the Gulf of Thailand, and on the W, NW, and N by Thailand, with a total boundary length of 2,572 km (1,598 mi). Comparatively, the area occupied by Cambodia is slightly smaller than the state of Oklahoma. In 1982, Cambodia signed an agreement with Vietnam on their mutual maritime frontier. A treaty delineating the land border was signed in December 1985.

Cambodia's capital city, Phnom Penh, is located in the south-central part of the country.

## <sup>2</sup>TOPOGRAPHY

Cambodia is a country of forested mountains and well-watered plains. The central part of the country forms a gigantic basin for the Tonle Sap, or Great Lake, and the Mekong River, which flows down from Laos to the southern border with Vietnam. Between the Tonle Sap and the Gulf of Thailand lie the Cardamom Mountains and the Elephant Range, which rise abruptly from the sea and from the eastern plains. In the north, the Dangrek Mountains, 320 km (200 mi) long and 300–750 m (1,000–2,500 ft) high, mark the Thailand frontier. The short coastline has an important natural harbor, Kompong Som Bay (Chhâk Kâmpóng Saôm), where the port of Kompong Som (Kâmpóng Saôm, formerly Sihanoukville) is located.

The Mekong and the Tonle Sap dominate the life and economy of Cambodia. The Mekong overflows during the rainy season, deposits vast quantities of alluvial soil, and, backing toward the Tonle Sap, causes that lake to increase in size from about 2,590 sq km (1000 sq mi) to almost 24,605 sq km (9,500 sq mi).

## <sup>3</sup>CLIMATE

The climate is tropical, with a wet season from May through November and a dry season from December to April. Temperatures range from 10–38°C (68–97°F), and humidity is consistently high. Rainfall averages 127–140 cm (50–55 in) in the central basin to about 508 cm (200 in) in the southwestern mountains.

## <sup>4</sup>FLORA AND FAUNA

Cambodia, covered in its mountainous areas with dense virgin forests, has a wide variety of plant and animal life. There are palm, rubber, coconut, kapok, mango, banana, and orange trees, as well as the high sharp grass of the savannas. Birds, including cranes, pheasants, and wild ducks, and mammals such as elephants, wild oxen, panthers, and bears abound throughout the country. Fish, snakes, and insects also are present in abundance. As of 2002, there were at least 123 species of mammals and 183 species of birds in the country.

## <sup>5</sup>ENVIRONMENT

Deforestation and the resulting soil erosion cause significant environmental problems in Cambodia. By 1985, logging activities, the clearing of the land for agricultural purposes, and the damage from the Vietnam war resulted in the destruction of 116 square miles of forest land. Between 1983 and 1993, the nation's forest and woodland were reduced by an additional 11.3% to 11.7 million ha. In 1995, there were only 9 million ha. The nation has 121.6 cubic km of renewable water resources with 94% used for farming activity and 1% used for industrial purposes. Most rural dwellers do not have access to pure water.

Three-fourths of Cambodia's wildlife areas have been lost through the destruction of its forests, and strip mining for gems in the western part of the country poses an additional threat to the nation's biodiversity and wildlife habitats. Natural fisheries have been endangered by the destruction of Cambodia's mangrove

swamps. In 2003, about 18.5% of the total land area was protected. There are three Ramsar wetlands sites.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 23 types of mammals, 24 species of birds, 10 types of reptiles, 3 species of amphibians, 12 species of fish, and 31 species of plants. Endangered species in Cambodia include three species of gibbon (pileated, crowned, and caped), several species of wild dog and wild cat, leopard, tiger, Asian elephant, Sumatran rhinoceros, Thailand brow-antlered deer, kouprey, giant catfish, Indian python, Siamese crocodile, and estuarine crocodile.

## 6 POPULATION

The population of Cambodia (Kampuchea) in 2005 was estimated by the United Nations (UN) at 13,329,000, which placed it at number 66 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 37% of the population under 15 years of age. There were 94 males for every 100 females in the country. According to the UN, the annual population growth rate for 2005–10 was expected to be 2.2%, a rate the government viewed as too high. In 2004, the government launched a National Population Policy, aimed at educating the population on the connections between high fertility, high population growth, and poverty. The government reported that 30% of women of reproductive age wanted to plan their pregnancies, but lacked the information and resources to do so. The projected population for the year 2025 was 18,939,000. The population density was 74 per sq km (191 per sq mi).

The UN estimated that 15% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 5.18%. The capital city, Phnom Penh, had a population of 1,157,000 in that year. Other cities include Băttămbăng, Kămpóng Cham, Kămpôt, Siêmréab, Kămpóng Saôm, and Krâchéh. A great majority of the people live in rural areas, with 90% of the rural population living in the plains of the central third of the country.

Estimates of Cambodia's population vary with the assessment of the impact of the 1970–75 war and the millions killed in its tumultuous aftermath. At the war's end, in April 1975, the population of the capital, Phnom Penh, had swollen to nearly 3 million because of a mass influx of refugees. The new government immediately embarked on a forced evacuation of all urban areas, and by March 1976, only 100,000–200,000 were thought to remain in Phnom Penh. After the installation of the PRK in 1979, the population of Phnom Penh began to increase. As of 2005, Cambodia had one of the highest rates of HIV/AIDS infection in Asia.

## 7 MIGRATION

The first migration of persons in independent Cambodia took place during the 1950s and 1960s, when ethnic Chinese were permitted to settle in the mountainous and wasteland areas and cultivate land that otherwise would have remained unproductive. After 1970, about 200,000 Vietnamese living in Cambodia were repatriated to the Vietnam ostensibly as a security measure. With the insurgent victory in April 1975, most of the country's remaining Vietnamese were reported to have emigrated to Vietnam. In addition, thousands of refugees, including many former officials

and military personnel, fled across the Thai border or were evacuated by US aircraft.

The new government launched a sweeping nationwide resettlement program under which some 2.5–3 million persons were moved from Phnom Penh and other cities into the countryside, where they were organized into work brigades. The food shortage in rural areas was only slightly less critical than in the cities, and widespread starvation led to the deaths of an estimated one million people during the transition. After the installation of the new government in January 1979, continued fighting and political instability resulted in a new exodus of refugees. About 630,000 Cambodians left the country between 1979 and 1981, of which about 208,000 were able to resettle in other countries, including 136,000 in the United States. Most of the rest remained in camps on the border with Thailand, but they were repatriated to Cambodia in May 1993.

Between 1979 and 1987 there was a new migration of ethnic Vietnamese into Cambodia. Official sources insisted that the total number was under 60,000, and was comprised, for the most part, of residents who had left in the early 1970s; opposition groups contended that the number totaled over 500,000 and was intended to consolidate Vietnamese control over the country.

In 1997, the conflicts between government forces and the National Army of Democratic Kampuchea (Khmer Rouge) drove rural populations from their homes. In 1997 and 1998, the United Nations High Commissioner for Refugees (UNHCR) assisted up to 60,000 Cambodian refugees who had fled the fighting in northwest Cambodia. Also in 1997, the UNHCR helped several thousand ethnic Vietnamese fisher families return to their Cambodian homes after having camped on the Vietnam border. Following the peace settlement between the government of Cambodia and resistance forces in December 1998, the repatriation of approximately 36,000 refugees remaining in camps in Thailand was rapidly implemented. By April 1999, all of the camps were closed, and by June 1999 some 47,000 refugees had returned home. In 2000 there were 211,000 noncitizen residents living in Cambodia.

In Cambodia as of 2004, 382 people were registered as refugees and another 316 were registered as asylum seekers. Also in 2004, over 14,00 Cambodians sought refuge in France. The net migration rate for Cambodia in 2005 was estimated as zero. The government continued to view the emigration level as too high.

## 8 ETHNIC GROUPS

Over 90% of the entire population are ethnic Khmers, descendants of the original population in the area. The largest minority groups are the Vietnamese, estimated at 5% of the population, and the Chinese, estimated at 1%. Groups designated as other comprise the remaining 4% of the population. National minorities are the Cham and a number of small tribal groups.

## 9 LANGUAGES

Khmer, the national language, is spoken by about 95% of all inhabitants. Unlike Thai or Vietnamese, Khmer is a nontonal language; most words are monosyllabic. French, the second language, is often used in commercial and official circles. The Vietnamese

and the Chinese use their own languages, as do other minorities. English is also spoken.

## **<sup>10</sup>RELIGIONS**

Buddhism has been the state religion since 1989. About 93% of all inhabitants practice either Hinayana or Theravada Buddhism. It is believed that most people also practice some forms of animism. The Chinese and most Vietnamese in Cambodia practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, ancestor worship, and animism. In 2004, there were about 700,000 Muslims, representing the four branches: Shafi, Wahhabi, Iman-San, and Kadiani. The ethnic Chams are predominantly Muslim. Less than 1% of the population is Christian, with over 100 separate organizations represented. There are also small groups of the Vietnamese Cao Dai religion and Baha'is.

In 1975, the government virtually abolished Buddhism, defrocking some 70,000 monks and turning pagodas into warehouses. Islamic spokesmen have claimed that 90% of Cambodia Muslims were massacred after 1975. Of some 6,000 Roman Catholics left in Cambodia at the time of the revolution, only a few survived. All mosques and Catholic churches were razed. The PRK regime that came to power in 1979 permitted the return of religious practice, and hundreds of pagodas were reopened. In insurgent areas controlled by the Khmer Rouge, Buddhism was allowed after 1979, and in non-Communist resistance camps there reportedly was full freedom of religion.

The constitution provides for freedom of religion and the government reportedly respects this right in practice. All religious groups register through the Ministry of Cults and Religious Affairs in order to build places of worship and freely conduct religious activities.

## **<sup>11</sup>TRANSPORTATION**

Land transport facilities suffered wholesale destruction during the 1970–75 war. Cambodia's first railway, a 385-km (239-mi) single track from Phnom Penh to Paoy Pet, was badly damaged in the fighting; moreover, a just-completed 262-km (163-mi) line from Phnom Penh to Kampong Sam was also disabled. The line to Kampong Sam was restored in November 1979, and a Phnom Penh-Battambang railway was reopened in February 1980. Rail service has been periodically disrupted by guerrilla operations. In 2004, rail trackage totaled 602 km (374 mi) of 1,000-m narrow gauge track.

All major cities and towns are connected with Phnom Penh by highway, and from there roads connect to Vietnam, Laos, and Thailand. The US-built 214-km (133-mi) Khmer-America Friendship Highway links Phnom Penh with Kampong Sam. As of 2002, Cambodia had an estimated 35,769 km (22,226 mi) of main roads, of which only 4,165 km (2,588 mi) were paved; most are in poor condition.

The Mekong is the most important inland waterway. Total length of navigable waterways is 3,700 km (2,300 mi) for craft drawing 0.6 meters, but only 282 km (175 mi) for craft with a draft of 1.8 meters. The river port of Phnom Penh has been upgraded. Until 1975, Saigon was the major transshipment point for outgoing and incoming Cambodian goods; the opening of the deepwater port of Kompong Som made Cambodia largely independent of Vietnam for oceangoing shipping. In 2005, Cambodia's mer-

chant fleet totaled 479 ships (1,000 GRT or over) with a capacity of 1,913,910 GRT.

As of 2004, Cambodia had an estimated 20 airports, of which 6 had paved runways, and two heliports (as of 2005). The main airport is at Phnom Penh; there are regular flights between Phnom Penh, Hanoi, Vientiane, and Ho Chi Minh City. In 2003, airline passenger traffic totaled about 116,000 passengers.

## **<sup>12</sup>HISTORY**

Most Cambodians are descendants of the Khmers, who in the 6th century established the Indian-influenced Angkor Empire, and for the next 900 years ruled the area of present-day Cambodia. According to legend, the founder of the Khmer dynasty was Kampu Svayambhuva, from whose name "Kampuchea" derives. From the 10th to the 14th century, after years of military expansion, the Khmers reached their apogee. Their empire extended over most of Southeast Asia (from central Vietnam south-west into the Malay Peninsula, and from Thailand north to the border of Burma, now known as Myanmar). Angkor, the capital city, was a flourishing complex of great temples, palaces, and shrines. In the subsequent centuries, however, continuing attacks by the Thai (who captured Angkor in 1431) and the Vietnamese weakened the empire, and by the end of the 18th century much of Cambodia had become a Thai and Vietnamese condominium. In 1863, the king of Cambodia placed the country under French protection. The French, joining Cambodia to Laos and Vietnam to form French Indochina, ruled the protectorate until the end of World War II. Cambodian nationalism received its greatest impetus during the World War II period, while Japan controlled Indochina. King Norodom Sihanouk, who had ascended the throne in 1941 and had been held a virtual prisoner under the Japanese occupation, proclaimed Cambodia independent in 1945, but yielded before a temporary resumption of the French protectorate, enforced by Allied troops, which occupied Phnom Penh. Cambodia became a constitutional monarchy on 6 May 1947, and was granted nominal independence within the French Union on 9 November 1949. King Sihanouk, meanwhile, had assumed leadership of Cambodia's growing nationalist movement. On 17 October 1953, during the height of the Franco-Indochinese war, he was granted full military control of his country by France. Sihanouk, a skilled politician, abdicated in March 1955 in favor of his father and mother, King Suramarit and Queen Kossamak, and then emerged as prime minister with the unanimous support of the national legislature. King Suramarit died on 31 April 1960, but Prince Sihanouk, although retaining the title of chief of state, did not return to the throne. During the Franco-Indochinese war, Communist-controlled Viet-Minh troops from Vietnam operated in Cambodia (1954), and gave support to a small Khmer Communist movement.

The Geneva agreements of July 1954, which ended the Franco-Indochinese war, secured the withdrawal of French and Viet-Minh troops from Cambodia and the surrender of most of the Khmer rebels. During the next 15 years, Sihanouk sought to keep Cambodia neutral in the deepening Vietnam conflict. This proved increasingly difficult, however, as the National Liberation Front (also known as the Viet-Cong) used Cambodian border areas as bases from which to launch attacks on the Republic of Vietnam (RVN, or South Vietnam), and as the United States in 1969 launched an undeclared air war against the guerrilla sanc-

tuaries. On 18 March 1970, Marshal Lon Nol, prime minister and army chief, overthrew the chief of state, Prince Sihanouk, while the prince was on a visit to the USSR; the right-wing coup ended 1,168 years of rule by Khmer monarchs. Sihanouk thereupon took up residence in Beijing, where, on 5 May, he announced formation of the Royal Government of National Union of Kampuchea (GRUNK) under the political auspices of the National United Front of Kampuchea. In the interim, on 30 April, US president Richard M. Nixon announced an "incursion" into Cambodia of 30,000 US and 40,000 Vietnamese troops, with the object of destroying their opponents' strongholds along the Vietnam border. The operation was terminated on 30 June with its military objectives apparently unfulfilled, and bombing of the region continued, to devastating effect on Cambodia's economy.

Formal diplomatic relations with the United States, severed by Sihanouk in 1965, were resumed on 2 July 1970, and Sihanouk was condemned to death (in absentia) three days later. On 9 October, the Lon Nol government in Phnom Penh abolished the monarchy and changed Cambodia's name to the Khmer Republic. In elections held during June 1972, Lon Nol was elected president of the republic. Pressures from GRUNK insurgents continued to mount, especially following the conclusion of a cease-fire in Vietnam in January 1973 and the withdrawal of the last US troops from that country in March. US aid to the Lon Nol government had been substantial, totaling \$1.18 billion in military supplies and \$503 million in economic assistance for the whole of the 1970–75 period, but with most of the aid concentrated in the early years of direct involvement. With the reversal of US policy in Vietnam, however, support for the Khmer Republic began to taper off, and by the start of 1975, the Lon Nol government was plunged into a struggle for survival. In January, GRUNK military forces, generally referred to as the Khmer Rouge, launched a major offensive aimed at gaining control of the Mekong River and isolating Phnom Penh. Fierce and costly fighting ensued over the next three months, with the United States undertaking a massive airlift to Phnom Penh in February to fend off starvation and military collapse. On 1 April, the strategic Mekong ferry crossing at Neak Luong fell to the insurgents, clearing the way to a direct, final assault on the capital. On that day, Lon Nol fled the country, to be followed by much of the ruling hierarchy. On 17 April, the Khmer Republic government officially capitulated to GRUNK forces, commanded by Khieu Samphan.

The GRUNK government reported in March 1976 that the war had resulted in one million casualties, including 800,000 killed. On 5 January 1976, the country was officially renamed Democratic Kampuchea (DK). On 20 March, the first general elections were held for a new 250-member People's Assembly. The Assembly on 14 April named Khieu Samphan chairman of the State Presidium, replacing Prince Sihanouk, who had returned to the country in September 1975, as head of state. Pol Pot was named prime minister. Even before these political reforms were undertaken, the GRUNK government had undertaken a massive—and perhaps unprecedented—reorganization of the country's economic and social life. As an initial step, the new government ordered the near-total evacuation of Phnom Penh, where food, shelter, and medical resources had been stretched to the limit by the press of some 2.5 million refugees. The country was thereupon plunged into almost complete isolation, even from its neighbors in Vientiane

and Hanoi. Currency was abolished, social relations completely overhauled, religion almost eradicated, education suspended, and families divided. From two million to three million people may have died from starvation, exhaustion, disease, or massacre under the Pol Pot (Cambodian Communist leader Saloth Sar) regime.

Meanwhile, tensions with Vietnam (traditional enemy of Cambodia until 1976 and again after 1989) were growing, and there were border clashes during 1977 and 1978. In December 1978, Vietnam invaded Cambodia with a force of more than 100,000 troops; by January 1979, they had installed a pro-Vietnamese government, the People's Republic of Kampuchea (PRK), headed by Heng Samrin, a former division commander in the GRUNK army. The PRK had to contend with resistance from the very beginning, and the Khmer Rouge rebels, who had fled to the jungles in the west and south, continued to harass the government despite Vietnamese counteroffensives. In order to improve its international standing, the Khmer Rouge began in 1981 to pursue a united-front strategy; Pol Pot, branded with the 1975–79 atrocities, reportedly withdrew into the background, and Khieu Samphan, supposedly the most moderate of the Khmer Rouge leaders, emerged as chief spokesman. In 1982, the Khmer Rouge formed the Coalition Government of Democratic Kampuchea (CGDK), with two noncommunist factions led by Prince Sihanouk and a former politician, Son Sann. The fighting during 1982–83 reflected a pattern of PRK and Vietnamese dry-season offensives alternating with an upsurge of guerrilla operations during the wet season. Militarily, the PRK and Vietnam appeared firmly in control at the end of 1987; diplomatically, however, the PRK had won recognition only from Vietnam, the former USSR, and their allies, with most nations joining the United States and China in giving qualified support to the CGDK. In March 1986, an eight-point plan to settle the Cambodian conflict was issued by the leaders of the coalition.

Progress towards a peaceful settlement had an uneven course in 1988. Prince Sihanouk resigned, retracted his resignation, and resigned again as president of the Democratic Kampuchean Government-in-exile. Informal meetings in Indonesia, one in July shunned by Prince Sihanouk and the other in October ignored by the Khmer Rouge, made no progress on peace plans. However, a subsequent announcement supported the creation of an international peacekeeping force. A conciliatory statement made in August 1988 indicated the Khmer Rouge was ready to reduce its armed forces to the level of the other Cambodian factions. Vietnam announced the repatriation of 50,000 troops from Cambodia in 1988 and the complete withdrawal of troops by late 1989, or early 1990. In January of 1989 Heng Samrin pledged that, if a political settlement could be achieved, all Vietnamese troops would be repatriated by September. Further encouraging gestures were made by Vietnam, China, and Thailand: Thai and Vietnamese officials met in Hanoi; Vietnamese and Chinese ministers met in Beijing; and, Thailand abandoned its policy of isolating the Heng Samrin government and invited talks with them. In 1989 Prince Sihanouk resumed leadership of the Democratic Kampuchean Government-in-exile, later resigning from leadership of the National Front for an Independent, Neutral, Peaceful and Co-operative Cambodia (FUNCINPEC). In protest of Thailand's contact with the Heng Samrin government, Sihanouk refused to attend a second "informal meeting" in Jakarta. This meeting still failed to resolve two outstanding major issues: the make-up of an in-



LOCATION: 102°31' to 108° E; 10° to 15° N. BOUNDARY LENGTHS: Laos, 541 kilometers (336 miles); Vietnam, 1,228 kilometers (763 miles); Gulf of Thailand coastline, 443 kilometers (275 miles); Thailand, 803 kilometers (499 miles). TERRITORIAL SEA LIMIT: 12 miles.

ternational force to oversee troop withdrawals and the composition of an interim government before elections. As a further sign of its commitment to change, in April 1989 an extraordinary session of Cambodia's National Assembly ratified amendments to the Constitution: the name of the country was changed to the State of Cambodia (SOC), a new national flag, emblem and anthem were introduced; Buddhism was reinstated as the state religion; and the death penalty abolished. Hun Sen met in Bangkok with the Thai prime minister who appealed for a cease-fire among the four Cambodian factions [The government of the Kampuchean People's Revolutionary Party (KPRP) installed by the Vietnamese (the Heng Samrin government), and three antigovernment groups that comprised the umbrella organization, the national Government of Cambodia (NGC): FUNCINPEC, the Khmer Rouge, and the Khmer People's National Liberation Front (KPNLF)]; the Khmer Rouge rejected this suggestion. In July 1989 Hun Sen and Prince

Sihanouk met in Paris prior to the Paris International Conference on Cambodia (PICC). In September 1989 Vietnam completed the timely withdrawal of its forces from Cambodia. Throughout 1988 and 1989 the Khmer Rouge forces continued to make military gains in Cambodia. The UN adopted a resolution supporting the formation of an interim government that included the Khmer Rouge, although past atrocities of the Khmer Rouge were alluded to indirectly.

In January 1990 the UN Security Council approved an Australian peace initiative—UN monitored cease-fire, the temporary assumption of executive powers by the UN secretary-general, formation of a national supreme council, and the holding of internationally supervised elections. Prince Sihanouk resigned as Supreme Commander of the High Council of National Defense and leader of the resistance coalition, but retained his position as President of Democratic Kampuchea. In February 1990 the Govern-

ment-in-exile of Democratic Kampuchea was formally renamed by Sihanouk as the National Government of Cambodia and restored the traditional flag and anthem. This change distanced the coalition from association with the Khmer Rouge's former regime, Democratic Kampuchea (DK). (The DK had been named the Khmer Rouge by Sihanouk.) In a third meeting held in Jakarta in February the four Cambodian factions as well as representatives of Vietnam, Laos, ASEAN, France, and Australia met and agreed to the main principles of the UN plan. Prince Sihanouk resumed the presidency of the resistance coalition in May and in June he and Hun Sen signed a conditional cease-fire in Bangkok. In June a meeting in Tokyo was attended by representatives of all four Cambodian factions including Hun Sen and Prince Sihanouk. The Khmer Rouge, however, refused to sign a cease-fire agreement and proposed that each faction should have equal representation on a supreme national council. Prince Sihanouk offered support for the Khmer Rouge proposal, despite his previous agreement with Hun Sen; the discussions collapsed. In June and July reformist political allies of Hun Sen were dismissed or arrested for alleged attempts to establish a new party. Supporters of conservative Chea Sim, Chairman of the National Assembly, replaced them. Also in July the United States withdrew its support for the National Government of Cambodia's occupation of Cambodia's seat at the UN and indicated willingness to provide humanitarian assistance for the Phnom Penh regime. The UN Security Council in late August endorsed a plan for a comprehensive settlement in Cambodia: UN supervision of an interim government, military arrangements for the transitional period, free elections, and guarantees for the future neutrality of Cambodia. In addition, a special representative of the UN secretary-general would oversee the proposed United Nations Transitional Authority in Cambodia (UNTAC). The UN would also assume control of government ministries. Both China and the former USSR subsequently pledged to cease providing supplies of military equipment to their respective allies, the Khmer Rouge and the Phnom Penh regime. In reversals of previous policy the United States announced it would hold talks with the Phnom Penh regime, and the USSR declared that it would hold talks with Prince Sihanouk. The four Cambodian factions accepted the UN proposals at an "informal meeting" in Jakarta in September 1990. In addition, they agreed to the formation of the Supreme National Council (SNC), with six representatives each from the National Government of Cambodia and Phnom Penh regime. The SNC was to occupy the Cambodian seat at the UN General Assembly. At its first meeting in September the SNC failed to elect a chairman. The Khmer Rouge heightened military action in the northern provinces. Even as the final draft of the peace plan was prepared by the UN Security Council the Phnom Penh regime continued to oppose the principal provisions of the plan. In December all 12 members of the SNC attended another meeting of the PICC and all factions endorsed most components of the UN plan.

The SOC replaced three of its six SNC members in February 1991. In May a temporary cease-fire was agreed upon by the four factions in order to facilitate discussions. In June the Khmer Rouge refused to discuss SNC leadership issues, requiring the Phnom Penh regime's prior acceptance of the full terms of the UN peace plan, and the Khmer Rouge refused to comply with a proposed extension of the temporary cease-fire. Prince Sihanouk

became an ordinary member of the SNC chairing a meeting in Thailand where all four factions resolved several issues: implementation of an indefinite cease-fire, pledges not to receive further foreign military aid, approval of a flag and anthem for the SNC, and establishment of Phnom Penh as the headquarters for the SNC. Prince Sihanouk was elected to the chairmanship of the SNC and resigned as leader of the resistance coalition and as president of the National Government of Cambodia. His replacement in both positions was Son Sann. From August through October the SNC worked out the details of the armed forces reduction and election procedures. Elections would be held to establish a constituent assembly comprised of 120 seats, which would subsequently become a legislative assembly. The electoral system would be proportional representation based on the 21 provinces. The constituent assembly would be empowered to adopt a new constitution. In October the SOC released hundreds of political prisoners including associates of Hun Sen arrested in 1990 for starting a political party. The Kampuchean (or Khmer) People's Revolutionary Party (KPRP), the communist party aligned with the Vietnamese communist movement, changed its name to the Cambodian People's Party (CPP), removed the hammer and sickle from the party emblem, and replaced Heng Samrin as Chairman of the Central Committee with the conservative Chea Sim. Reformist Hun Sen was elected vice-chairman of the CPP.

On 23 October 1991 what was hoped to be an end to 13 years of war in Cambodia was achieved with the signing of the Comprehensive Political Settlement for Cambodia by the 4 Cambodian factions and 19 participating countries. The agreement called for the creation of a United Nations Transitional Authority in Cambodia (UNTAC) to carry out the peacekeeping operations which included the demobilization of 70% of each faction's army and enforcement of a cease-fire; verifying the withdrawal of foreign forces; administering the country until an election in 1993 by taking over certain portfolios; assuring that human rights were maintained; and the repatriation of 600,000 refugees and internally displaced people. In November a threat to the tenuous peace process occurred when a mob attacked Khmer Rouge leaders Khieu Samphan and Son Sen in a Phnom Penh villa. The SNC government's response was slow, and it was alleged that Hun Sen sanctioned this incident and that Vietnamese officials were involved in it. In December violent student demonstrations protesting against high-level corruption and in support of human rights were suppressed by the armed forces and in later demonstrations several protestors were killed. Several high-level government officials were dismissed based on the corruption charges.

In January 1992 the four factions approved the formation of political associations and the promotion of freedom of expression. However, on 22 January, Tea Bun Long, minister for religious affairs and an outspoken critique of corruption, was killed. On 28 January, Oung Phan, organizer of a new political party emphasizing anticorruption, was shot but survived. These and other arrests, threats, and disappearances were viewed as intimidation by the secret police geared at undermining the peace process and free elections, and served to intimidate government critics. Yasushi Akashi, the Japanese UN Under Secretary-General for Disarmament Affairs, was appointed as the UN Special Representative to Cambodia in charge of UNTAC. The UN Security Council authorized mine clearing operations, the dispatch of a 22,000 member

peace keeping force to establish UNTAC, at an estimated cost of \$2 billion.

In September 1991 approximately 5% of the Cambodian population was in refugee camps along the Thai-Cambodian border, 340,000 refugees in border area camps, and another 190,000 refugees within Cambodia. The plan was to move refugees to transit camps in Thailand, then on to six reception centers in Cambodia, and finally to villages. In October the Khmer Rouge began to forcibly repatriate tens of thousands of civilians in UN refugee camps to areas under its control in Cambodia. International reaction prevented the Khmer Rouge from forcibly repatriating inhabitants of the Khmer Rouge controlled camp, Site 8, just one of the eight refugee camps. The UNTAC refugee repatriation program began in March, in spite of cease-fire violations between the Khmer Rouge and the State of Cambodia forces. Throughout 1992 the Khmer Rouge denied free access to the zones it controlled, refused to comply with the disarmament phase, violated the cease-fire agreement, played upon long-standing racial/ ethnic tensions by contending that Vietnamese soldiers were concealed in Cambodia, complained that the UN peacekeepers were not impartial to them, failed to attend meetings, and demanded the dismantling of the Phnom Penh regime as a precondition for the implementation of the peace accords, amongst other demands.

In May 1992 the Khmer People's National Liberation Front (KPNLF), the political and military party formed by Son Sann for the purpose of resisting the Vietnamese, was transformed into a political party called the Buddhist Liberal Democracy Party (BLDP) and still headed by Son Sann. FUNCINPEC also became a party, headed by Prince Ranariddh. At a Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia held in Tokyo in June, the application of economic sanctions against the Khmer Rouge was considered and 33 donor nations and 12 nongovernmental organizations attending the conference pledged \$880 million to finance the peacekeeping operation. In August Akashi, the head of UNTAC, approved elections, and the registration of parties began. He also affirmed that the elections would proceed without the participation of the Khmer Rouge if it continued to refuse to co-operate. The demands of the Khmer Rouge were impossible to meet and were viewed as efforts to gain territory in order to increase its representation in the proposed national assembly, perhaps with as much as 35% of the population (a tactic laid down by Pol Pot in a 1988 speech). In September the Khmer Rouge made two new demands: the resignation of Akashi and a redrawn border between Cambodian and Vietnam. This latter demand referred to territory allegedly annexed by Vietnam that would make the elections incomplete if not returned to Cambodia. The Khmer Rouge protested an electoral law drafted by UNTAC that enfranchised citizens aged more than 18 years whose parents or grandparents were born in Cambodia, effectively permitting Vietnamese immigrants to take part in the election.

October 1992 UNTAC began voter registration. The Khmer Rouge boycotted voter registration and escalated destruction of bridges and roads, effectively cutting off its territory in the north-east from the rest of the country. The UN Security Council set a November deadline for the Khmer Rouge's compliance with the terms of the peace accord, but eventually extended the deadline to 31 January 1993 as the Khmer Rouge's last chance to participate in the elections. The Security Council also approved an em-

bargo on supplies of petroleum products to the Khmer Rouge and a ban on timber exports (a principal source of income for the Khmer Rouge). The Khmer Rouge announced the formation of the Cambodian National Unity Party to contest the elections on the day the UN resolution was adopted. Ethnic and racial tensions were increasing as the Khmer Rouge incited and escalated actions against the Vietnamese based on deep-rooted Cambodian sentiments towards the Vietnamese. In December the KPNLF joined the Khmer Rouge in the ethnic cleansing of the "Vietnamese germs." Six members of the UN peacekeeping forces were seized and held for a few days by the Khmer Rouge in December 1992.

In January 1993 Prince Sihanouk ceased cooperation with UNTAC and suggested that a presidential election be held prior to the legislative election, but in February he reversed his position. Voter registration was completed in February; registered voters numbered 4.5 million and 20 political parties were registered. The election was set for May 23-25, 1993. The CPP intimidated its political rivals with attacks and stopped the gradual expansion of the Khmer Rouge into Phnom Penh government territory. In a dry season offensive the SOC attacked three of four of the Khmer Rouge's most important zones.

In early 1993 the Khmer Rouge refused to disarm and attacked UN offices, cars, helicopters, and personnel. In addition to the Khmer Rouge's accusations of collusion between UNTAC and the SOC, the presence of the UN forces was a source of growing tension and dissatisfaction in Cambodia. Inflation, official corruption, and crime were increasing and UNTAC's presence and policies were blamed. The Khmer Rouge issued their own currency, thus emphasizing steps toward further partition. In a secret speech a year earlier (6 February 1992), Pol Pot had set out an incremental approach by which the Khmer Rouge could gain popular strength which he considered more important than land: develop local autonomy; set up a money economy with their own banks which would hold the surplus earnings of farmers (projected to be 30% of earnings); distribute land, sell land in order to support the army, and continue to fight the *yuon* (savage), or Vietnamese. As the Khmer Rouge again refused to disarm and take part in the elections, it appeared to follow this program as it also increased attacks on Vietnamese fishermen and their families, killing 34 and injuring 29 in March at the floating village of Chong Kneas. Furthermore, citing its allegations that UNTAC colluded with the Vietnamese aggressors and rubber stamped the Vietnamese occupation, the Khmer Rouge refused to cooperate with the peace process. The UN goal was to have all refugees back in Cambodia by mid-April for elections. By 19 March, some 330,000 refugees were repatriated. A cash inducement had been added as incentive (\$50 for adults and \$25 for children) and this rapidly accelerated the process. Roughly 87% had taken the cash option, nearly one-third going to Phnom Penh; 80-85% of the returnees chose areas under Phnom Penh government (Hun Sen) control, (about 85% of the country's) territory; 10% chose areas controlled by the Khmer People's National Liberation Front; 2% chose zones controlled by forces loyal to Prince Sihanouk; and 1% chose Khmer Rouge areas. In April the Khmer Rouge closed its office in Phnom Penh and slipped out of the city; it pledged to prevent the planned elections. A Japanese UN worker was killed and eventually 30 of the 460 volunteers for the election work resigned. In May the Khmer Rouge mounted its boldest offensives yet with targets defined for

maximum political impact including major cities; they took briefly the Siem Reap airport. Under these pressures UNTAC abandoned 400 of its 1800 polling places.

The election took place 23–28 May 1993; four million Cambodians or 85% of those registered voted. FUNCINPEC won the election with 45% of the vote, or 58 of 120 seats in the constituent assembly; the CPP took 38% of the votes, or 51 seats in the assembly; the BLDP had over 3% of the votes, which gave them 10 seats; and, MOULINAKA (Movement for the Liberation of Kampuchea, a pro-Sihanouk group formed in 1979 by Kong Sileah, considered an offshoot of FUNCINPEC) took one seat. The constituent assembly had three months within which to draft a constitution and form a new government. To the CPP its political defeat was an unacceptable surprise and it demanded a revote and threatened riots; the Khmer Rouge denounced the CPP for contesting the election. The CPP's 51 assemblymen were technocrats and education officials (people who never wielded power within the party); this supported the belief that the CPP paid only lip service to constitutional arrangements as it maintained its grip on power. The CPP's two leaders, hardliner Chea Sim and reformer Hun Sen, were foci of an internal struggle. In a move towards cooperation FUNCINPEC leader Prince Norodom Ranariddh and CPP Primer Minister Hun Sen served as co-chairmen of the government, and control of the major ministries was divided, with FUNCINPEC getting the finance and foreign affairs portfolios while the CPP retained the Information Ministry. The CPP had 200,000 armed forces and 40,000 national police; FUNCINPEC's armed forces numbered 5,000. In August for the first time the three government factions, royalist FUNCINPEC, former Phnom Penh ruling regime CPP, and the BLDP, agreed to joint military operations. The Khmer Rouge would not be allowed to enter the political mainstream until it agreed to unconditionally join the unified armed forces and open up areas under its control, estimated to be 20% of Cambodia.

Cambodia's new constitution was adopted on 21 September 1993. Prince Norodom Sihanouk was crowned king, resuming the title first bestowed on him in 1941. In an attempt to restore central control of the economy to the government on December 28 the National Assembly passed a national budget and financial laws. These new laws stripped individuals of the power to collect taxes independently and by law all revenue would be channeled to the national treasury. Minister of Economics and Finance, Sam Rainsy, set about to root out official corruption and centralize Cambodia's budget. The entrenched businesses protested, but Rainsy received the backing of Sihanouk and international lending institutions. The two co-prime ministers, First Premier Norodom Ranariddh and Second Premier Hun Sen, asked King Sihanouk for sanction to fire Rainsy, but instead received a statement praising Rainsy, who was becoming a popular hero. King Sihanouk also urged the government to grant total freedom to the domestic and foreign press.

Within the SOC there was significant difference of opinion on how to deal with the Khmer Rouge. FUNCINPEC's Ranariddh counted on diplomacy to isolate the Khmer Rouge while using development aid and investment for poverty reduction and infrastructure improvement. On the other hand, many of his counterparts in Hun Sen's CPP sought a military solution to the Khmer Rouge problem. There was consensus, however, that Cambodia

should look to Malaysia's experience with the Malayan Communist Party, which consisted of marginalizing the Malaysian communists. UNTAC's failure to disarm the Khmer Rouge was a burden for the new government. The Khmer Rouge was emerging with its prestige enhanced, territory expanded, and weaponry intact. Cambodia had been critical of the role Thailand played in supporting the Khmer Rouge, and renewed its appeals to Thai neutrality. The Khmer Rouge presence benefited Thailand by aiding in securing its border, and with lucrative trade in gems, timber, and armaments. The Khmer Rouge radio station was located inside Thai territory.

The government captured Pailin, official headquarters of the Khmer Rouge on 19 March 1994, but the Khmer Rouge retook it one month later. The dry season campaign by the government against the Khmer Rouge was a failure. Both sides were scheduled to resume peace negotiations during 2–7 May. The Khmer Rouge looked to its military successes as leverage for a power sharing compromise with the government; Sihanouk sought to make deals that gave the Khmer Rouge some key posts in return for laying down its arms and opening areas under its control. One year after the elections major problems were security, corruption, and the economy. Corruption included national assembly members keeping their seats while serving in other branches of government; parties swelling the number of senior officers and civil servants as they vied to match each other in number and in rank; and the National Assembly voting themselves a raise equal to 100 times that of a typical soldier. The economy was undermined by continuing military activity, and privatization was stalled by lack of capital and skilled workers, and political instability.

On 3 July 1994 there was a coup attempt. Less than 300 troops were involved and it was directed against FUNCINPEC, and possibly Hun Sen as well, by hard line figures at the highest levels of the CPP attempting to take over the government. After the coup attempt the National Assembly voted to outlaw the Khmer Rouge and seize its assets, a move that was partly directed at Thailand. The Khmer Rouge's response was to announce the formation of a parallel government, with its headquarters in northern Cambodia and Khieu Samphan as president.

In July 1994, it was estimated that 55,000 Cambodians were again fleeing Khmer Rouge attacks in the western provinces. For the first time since the 1970s, the United States provided military aid to Cambodia. The need to remove the land mines infesting the fields of Cambodia became a high priority. Mines may have inflicted more wounds than any other weapon, and Cambodia has the world's highest percentage of physically disabled persons. As foreign advisors sought to strengthen the country's human rights laws, ethnic considerations were raised. Cambodia's constitution fails to guarantee basic rights for racial groups other than ethnic Cambodians. The definition of Cambodians does include ethnic minority Chams and Chinese, but excludes ethnic Vietnamese.

The Khmer Rouge began to weaken in 1995, with mass defections of guerrilla fighters. The government remained worried by the hard core of dedicated Khmer Rouge rebels and their leaders, who remained at large in northern and western strongholds. Tensions continued within the fragile coalition government, with the CPP fighting off royalist political movements wherever they cropped up. There were also factional disputes within each of the coalition parties. Sam Rainsy's role as an opponent of foreign aid

to Cambodia's "undemocratic" government earned him the condemnation of FUNCINPEC and the CPP. The Khmer National Party, formed by Sam Rainsy, was officially unrecognized. Internal rivalries essentially disbanded the government's third partner, the Buddhist Liberal Democratic Party.

Marginalization of the Khmer Rouge continued in 1996, as the group split between the leadership of ailing Pol Pot and a break-away faction headed by Ieng Sary. In late 1996, Ieng Sary received a royal pardon, and his force became the object of courtship by CPP and FUNCINPEC. The government parties sought the votes and arms of Ieng Sary's supporters, plotting against each other in the process. This jockeying for position, accompanied by political violence and rumors of coups, continued into 1997.

In February 1997, FUNCINPEC's Ranariddh began an alliance with Sam Rainsy in strong opposition to Hun Sen's CPP. Hun Sen announced in March that he would seek to amend the constitution to prevent members of the royal family from involvement in politics, a direct hit at Ranariddh, Prince Sihanouk's son. Hints of negotiations between Ranariddh and the Khmer Rouge fueled Hun Sen's fears about his government "partner." A demonstration on 30 March, by Sam Rainsy's supporters, was attacked with hand grenades, which killed several protesters and wounded scores. The violence and tensions came to a head on 2 July, with open fighting between forces loyal to FUNCINPEC and CPP. A brief coup d'état set up Hun Sen as the sole power in charge. Ranariddh fled Cambodia and Hun Sen's forces killed many of Ranariddh's party leaders and supporters in the days immediately following the coup.

Hun Sen moved to establish CPP legitimacy, with the party winning a flawed national election in July 1998 with 41.4% of the vote to FUNCINPEC's 31.7%. Ranariddh was able to return as an opposition leader, and he, along with Sam Rainsy, whose party gained 14.3% of the vote, condemned the election as rigged. Foreign aid, suspended due to the coup, resumed. Throughout 1998, the Khmer Rouge continued to disintegrate, as Pol Pot, the architect of their genocidal regime, died on 15 April and other leaders surrendered or were captured.

With the entire top echelon of living Khmer Rouge leaders in custody, Cambodian government concerns from 1999 through 2001 centered on how to bring them to justice. Hun Sen's preference was for a series of trials conducted within Cambodia's own legal system, while the UN, fearing mere "show trials," called for an international tribunal. Compromises involving foreign judges participating in the Cambodian trials were proposed.

In August 2001, King Sihanouk signed legislation creating a special tribunal to prosecute the Khmer Rouge members responsible for the deaths of an estimated 1.7 million people through execution, torture, starvation, and hard labor. The trials were to be presided over by three Cambodian judges and two foreign judges, but further negotiations with the UN were necessary to finalize the details of the court. The UN insists that international standards of justice are met for the Khmer Rouge leaders living freely in Cambodia. In February 2002, the UN concluded that the independence, impartiality, and objectivity of the proposed court could not be guaranteed, and pulled out of the negotiations. The Cambodian government indicated it would proceed with plans for the tribunal, with or without support from the UN. The issue of the trials was divisive in Cambodia, with some fearful that they would reopen old wounds and set the country back on the path

of civil war. In December 2002, the UN passed a resolution authorizing negotiations on the tribunal to begin again, and in 2004 an agreement between the UN and the Cambodian government on a tribunal system was formalized. UN members pledged \$38 million to fund the trials in August 2005.

### <sup>13</sup> GOVERNMENT

Cambodia was a constitutional monarchy from 6 May 1947 until 9 October 1970, when Marshal Lon Nol formally established the Khmer Republic. On 30 April 1972, a new constitution was passed by a national referendum. It provided for a directly elected president and a bicameral legislature consisting of an elective 126-member National Assembly and 40-member Senate. Upon the surrender of the Lon Nol government to insurgent forces on 17 April 1975, rule by the Royal Government of National Union of Kampuchea (Gouvernement Royal de l'Union Nationale de Kampuchea—GRUNK) was installed in Phnom Penh, with Prince Norodom Sihanouk as titular head of state. A new constitution, effective 5 January 1976, provided for a unicameral, 250-member People's Assembly, elected for a five-year term by universal suffrage of citizens over age 18. The PRK government, installed in January 1979, enacted a new constitution in June 1981. Under this constitution, an elected National Assembly was the supreme organ of state power; it was headed by a 7-member Council of State, which the Assembly elected from among its own members.

On 23 October 1991 the UN peace accord was signed by Cambodia's four factions. From 23–28 May 1993, a six-day election, the first multiparty election in more than 20 years, was held to determine the 120 members of the National Assembly. FUNCINPEC took 45.5% of the votes amounting to 58 seats in the assembly; the Cambodian People's Party (CPP), formerly the Kampuchean People's Revolutionary Party (KPRP), received 38.2% of the votes equaling 51 assembly seats; and Buddhist Liberal Democratic Party (BLDP) had 3% of the votes giving them 10 seats; and Moulinaka (Movement for the Liberation of Kampuchea, a pro-Sihanouk group formed in 1979 by Kong Sileah, considered an offshoot of FUNCINPEC) took one seat. This newly elected National Assembly was authorized to draft a constitution. In June 1993 FUNCINPEC and the Cambodian People's Party agreed to joint control of the defense and interior ministries, while FUNCINPEC controlled the foreign and finance ministries; Hun Sen and Prince Ranariddh served as co-chairmen of the interim government. The National Assembly ratified a new constitution on 21 September 1993. The monarchy was reestablished and commitments to liberal democracy, the rule of law, and women's rights were included. Prince Norodom Sihanouk ratified the constitution and again became King of Cambodia. The government of the State of Cambodia was an extremely fragile coalition after the elections, with enormous rivalries between Hun Sen's CPP, and Ranariddh's FUNCINPEC, as well as opposition from Sam Rainsy's unrecognized Khmer Nation Party. Much of the tension centered on attempts to win over factions of the Khmer Rouge, which were "coming out of the cold" en masse, their fighters and votes up for grabs by the rival political parties. In July 1997 Hun Sen's forces defeated FUNCINPEC in a brief but violent coup d'état. In 1998, the number of seats in the National Assembly was increased to 122 (as of 2003, it stood at 123). July 1998's national election legitimized Hun Sen's CPP dominance of the nation, but FUNCINPEC won a high percent-

age of seats as well, and Ranariddh became Speaker of the National Assembly. The CPP took 64 seats, FUNCINPEC held 43, and the Sam Rainsy Party (SRP) took 15 seats in the National Assembly.

In March 1999, amendments to Cambodia's 1993 constitution allowed the formation of an unelected 61-seat Senate. Two Senate seats are appointed by the king, two elected by the National Assembly, and 57 are elected by "functional constituencies." Members serve five-year terms.

## 14 POLITICAL PARTIES

Under Sihanouk, the People's Social Community Party (Sang Kam) was the most important political group. In the 1955, 1958, 1962, and 1966 elections, with a platform of nonalignment, economic aid, and development, it captured all seats in the National Assembly. Exiled in Beijing following his overthrow by Lon Nol in March 1970, Sihanouk allied himself with Cambodia's leftist insurgents under a group called the National United Front of Kampuchea (Front National Uni de Kampuchea—FNUK). Under the Khmer Republic government headed by Lon Nol, five political groups came to the fore. The Socio-Democratic Party (SDP), Lon Nol's own group, was quickly established as the most powerful political organization. Centrist opposition groups included the Republican Party and the Democratic Party. In the presidential elections held in June 1972, Lon Nol, the SDP's candidate, won by a relatively narrow margin of 55%.

With the victory of their forces in April 1975, leaders of the pro-communist FNUK became the dominant political power in Kampuchea. The leading element in FNUK was the Khmer Communist Party (KCP), founded in 1951 and now dominated by radicals Pol Pot (previously known as Saloth Sar) and Khieu Samphan. Khieu Samphan was named prime minister of the new regime, while Pol Pot remained party head. During the next few years the Pol Pot faction systematically purged all suspected pro-Vietnamese members of the party organization. In late 1978, opposition elements, headed by Heng Samrin, formed the Kampuchean National United Front for National Salvation (KNUFNS) in an effort to overthrow the Pol Pot regime. Following a Vietnamese invasion in December, Heng Samrin became the head of the pro-Vietnamese PRK government installed in January 1979. In 1981, the KNUFNS was renamed the Kampuchean United Front for National Construction and Defense, the primary mass organization in the PRK. Popularly known as the Khmer Rouge, the movement allied during the 1980s with two non-Communist factions, the Sihanoukists and Son Sann's KPNLF.

The Coalition Government of Democratic Kampuchea (CGDK), the tripartite, anti-Vietnamese resistance group formed in June 1982, changed its name to the National Government of Cambodia (NGC) in 1990. Autonomous coalition members were the Sihanoukist FUNCINPEC, the KPNLF, and the Khmer Rouge. Prince Sihanouk's main political organization, formed in 1981, was known as the National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia, or its French acronym, FUNCINPEC; he resigned as its head in 1989. In 1992 the Front was registered as a political party for the 1993 elections and Prince Norodom Ranariddh was elected president.

In 1992 the Khmer People's National Liberation Front (KPNLF), headed by Son Sann, formed the Buddhist Liberal Democratic Party (BLDP), also headed by Son Sann. The military wing of the

KPNLF was the KPNLAF, the Khmer People's National Liberation Army formed under Son Sann in 1979. Although it boycotted the elections and attempted to undermine the peace process, the Khmer Rouge had also formed a party to contest the elections, the Cambodian National Unity Party, headed by Kieu Samphan and Son Sen.

The Kampuchean People's Revolutionary Party (KPRP), the Communist Party originally installed by Vietnam in 1979 as the People's Republic of Kampuchea (PRK), was also known as the Heng Samrin Government in the late 1980s. In 1991 the KPRP dropped the word "Revolutionary" from the party name, becoming the Khmer People's Party or Cambodian People's Party (CPP). Hun Sen remained chairman of the Council of Ministers of the government of the State of Cambodia a position he had held since 1985. At an extraordinary party congress, 17–18 October 1991, Chea Sim was elected party president, replacing Heng Samrin, and Hun Sen was elected party vice president; these events signaled a shift from hardline communist ideology to a reformist position prior to the UN-supervised elections. Chea Sim remained president of the National Assembly.

In the coalition government following the 1993 election, Hun Sen was made second premier, and FUNCINPEC's Ranariddh became first premier. Hun Sen was able to push Ranariddh out of that position with 1997's brutal coup d'état, and the CPP won enough seats in the 1998 election to establish Hun Sen as sole prime minister.

Perennial opposition leader and anticorruption crusader Sam Rainsy transformed his unrecognized Khmer Nation Party into the eponymous Sam Rainsy Party, which won significant assembly seats in the 1998 election. Sam Rainsy has repeatedly stooped to race-baiting directed against Cambodia's Vietnamese population during his political career. At the same time, he is an eloquent spokesman for increased democratization and openness in Cambodia, and a persistent antiauthoritarian thorn in Hun Sen's side. When his parliamentary immunity was stripped by the National Assembly in February 2005, he fled the country in fear of arrest for defamation. Within months he had returned to Cambodia, assured by the CPP that he would not be arrested.

In May 2002, Prince Ranariddh's half-brother formed a new party, the Prince Norodom Chakrapong Khmer Soul party, to contest the national elections in July 2003, in which the CPP won the most votes and eventually formed a coalition government with FUNCINPEC. Hun Sen continued as prime minister. Violence again marred the election, with more than a dozen political killings during the campaign and voting.

In December 2002, Prime Minister Hun Sen declared that he wished to rule for another 10 years. He was the sole candidate for prime minister of the CPP following the 27 July 2003 general election. The next general election was scheduled to take place in 2008. FUNCINPEC and the CPP formed an alliance in September 2005 for mutual support in the 2008 general election, with CPP potentially backing Prince Ranariddh as prime minister. In October 2005, following controversy over a border pact with Vietnam, Hun Sen launched a sudden, severe crackdown on dissent, with arrests and arrest warrants targeting government critics, journalists, trade unionists, and opposition political figures.

King Sihanouk abdicated the throne in October 2004, after a 60-year reign. Prince Norodom Sihamoni (not previously in-

volved in politics) was chosen as the new monarch of Cambodia by a Throne Council, becoming King Norodom Sihamoni on 29 October 2004.

## 15 LOCAL GOVERNMENT

Under the Lon Nol government, Cambodia was divided into 20 provinces (*khet*), 7 sub-provinces (*anoukhet*), 147 districts (*srok*), and more than 1,200 townships (*sangkat* or *khum*) and villages (*phum*). Under the Pol Pot regime, administration was essentially decentralized into several major regions. Regions were divided into 41 districts, and the population as a whole was organized in massive rural communes. Under the PRK regime, the pre-1975 system of administration has been restored. Based on the People's Republic of Kampuchea's new constitution of June 1981 Local Assemblies, popularly elected by the respective localities—province, district, sub-district, ward—were instituted with the number of representatives fixed by law, and People's Revolutionary Committee's chosen by the respective assemblies. In 1987 Cambodia was divided into 18 provinces, two special municipalities (*krong*), and Phnom Penh and Kâmpóng Sâôm, which were under direct central government control. The provinces were subdivided into about 122 districts, 1,324 communes, and 9,386 villages. Municipalities were subdivided into wards (*sangkat*). The same system of assemblies and committees remains in place. The new constitution of the State of Cambodia was adopted on 21 September 1993. People's Committees established in all provinces, municipalities, districts, communes, and wards were responsible for local administration, public security, and local order. Within this system provincial officials and the governor effectively controlled the armed forces and security services, tax collection, civil service—and through them 80% of the Cambodian population. The country's provinces remained under the sway of the Cambodian People's Party (CPP) and responded to the old political loyalties rather than the central authority of the State of Cambodia. To alter this system the National Assembly passed laws to secure central control of the economy. Effective 1 January 1994 a national budget and financial laws were enacted to try to ensure that all revenues came totally and directly to the national treasury. Provincial corruption and lawlessness remain severe problems, as communications and infrastructure are extremely underdeveloped within Cambodia and smuggling is rife.

In February 2002, Cambodia held its first local elections in 23 years. The CPP claimed victory in all but 23 of the 1,621 communes. FUNCINPEC won only seven of the village communes. At least 20 political activists, mostly from opposition parties, were killed in the run-up to the elections. The proportion of female candidates in the elections was 16%.

As of October 2005, there were 20 provinces (*khet*) and 4 municipalities (*krong*).

## 16 JUDICIAL SYSTEM

The 1993 constitution of the Kingdom of Cambodia provides due process protections such as presumption of innocence and also guarantees an independent judiciary. Efforts are still being made to train judicial personnel to implement these principles, and to ensure basic human rights for Cambodians.

Prior to 1989, the constitution of 1976 provided for a supreme judicial tribunal whose members were to be appointed by a Peo-

ple's Assembly. Because of the civil and military turmoil, however, this system was never fully implemented. The judicial system that was outlined in the constitution of 1989 provided for provincial court judges named by state officials. In practice, the judiciary was controlled by the government.

The legal system consists of lower courts, an appeals court and a Supreme Court. There is also a military court system. The 1993 constitution provides for a Constitutional Council, and a Supreme Council of Magistrates, which appoints and disciplines judges. With low revenues and high crime rates plaguing Cambodia, the justice system is burdened by substandard police procedures. Many serious crimes, notably political killings, go unsolved. Judicial and police corruption and abusive imprisonment conditions remain endemic.

## 17 ARMED FORCES

Cambodia in 2005, had 124,300 active personnel in the armed forces. The Army consisted of 75,000 personnel with over 150 main battle tanks, more than 20 light tanks, an undisclosed number of reconnaissance vehicles, 70 armored infantry fighting vehicles, over 190 armored personnel carriers, and more than 428 artillery pieces. The Navy numbered around 2,800, including 1,500 naval infantry personnel. Equipment included 10 patrol/coastal craft. Cambodia's Air Force in 2005 totaled 1,500 personnel with 24 combat capable aircraft that included 14 fighter aircraft. Provincial forces number some 45,000. There is a paramilitary of 67,000 police including gendarmerie. The defense budget in 2005 totaled \$73.8 million.

## 18 INTERNATIONAL COOPERATION

Cambodia has been a member of the United Nations since 14 December 1955 and participates in ESCAP and several nonregional specialized agencies. Cambodia was admitted to the WTO 13 October 2004. Cambodia is also a member of the Asian Development Bank, the World Federation of Trade Unions, and G-77. Cambodia was accepted as the tenth member of the Association of Southeast Asian Nations (ASEAN) in May 1998. The country is part of the Nonaligned Movement and a member of the Permanent Court of Arbitration. In environmental cooperation, Cambodia is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on Climate Change, and Desertification.

## 19 ECONOMY

Cambodia's economy has been based traditionally on agriculture. About 85% of the cultivated area is devoted to the production of rice, while rubber trees account for a major part of the remainder. Prior to the war years, Cambodia's rice crop was usually ample enough to permit exports. The Tonle Sap is one of the major fishing reservoirs in Asia, and its products have played a key role in the Cambodian economy and diet. Cattle breeding is another important source of income. During the 1970–75 period, Cambodia's economy came to rely critically on US assistance, as the expansion of the war caused widespread damage and limited economic activity. The Pol Pot regime, which came to power in April 1975, was determined to emphasize the growth of agriculture and restore

national self-sufficiency. The entire population was mobilized in a mass labor campaign to improve agricultural production through massive irrigation projects in the countryside. The cities were virtually emptied, and industrial production drastically declined. Private ownership of land was disallowed, and landholdings were transferred to the state or to state-organized cooperatives. All industrial enterprises were similarly transferred to state ownership. Sparse food supplies were distributed through a system of government food rationing and other forms of allotment.

When the PRK government took over in 1979, it was faced with a major challenge in restoring the national economy. The first problem was to end the threat of famine. A massive international campaign to feed the population took place during 1979–82. In the meantime, similar efforts were undertaken to stimulate the industrial sector and expand exports in order to obtain needed foreign exchange. Reliable sources note that the infrastructure was so severely degraded that it had only 40–50% of prewar capacity. By the mid-1980s, the economy had essentially returned to the level of the pre-1975 period, although the regime was still vitally dependent on foreign aid, chiefly from Vietnam and the former USSR. In July 1986, the PRK issued an emergency appeal to international organizations for rice.

Rule by the Khmer Rouge, 20 years of civil war, economic isolation, and a centrally planned economy imposed heavy burdens on Cambodia. Serious damage to basic infrastructure, industrial and agricultural production, and human resources required massive rehabilitation and reconstruction. Market-oriented reforms have been introduced which dismantle the centrally planned economy. Since 1989 Cambodia passed legislation to restore the right to own and inherit property, freed prices, passed a liberal foreign investment code, began to privatize state assets, and property, decontrolled the official exchange rate, and liberalized foreign trade. Reforms generated increased agricultural production and foreign investment. Phnom Penh and other urban areas received the greatest benefit from this economic activity.

In the 1990s Cambodia remained predominantly agricultural with more than 80% of workers employed in agriculture. Inflation rose steadily, the price of domestic commodities increased at least 140% in 1990, but by only 15% in 1998. In 1991 Cambodia halted the free trade of gold as part of an effort to stabilize the value of the currency, the riel. Triple-digit inflation made currency worthless in 1992 and it was pulled from circulation. In 1994 the riel was stabilized at 2,400–2,600 riel to one US dollar. In 1991–1993, the transition period from a command to a market-driven system, the presence of 22,000 UN personnel aided the Cambodian economy, although the growth was mainly urban, barely affecting rural areas. Western consumer goods such as motor vehicles, tinned food, alcohol, and cigarettes, were readily available in Phnom Penh and other cities. On 4 January 1992 President Bush announced the lifting of the US trade embargo against Cambodia shortly after the signing of the Paris Peace Agreement on Cambodia in 1991.

One outcome of the May 1993 elections was a division of government portfolios between the winning party, FUNCINPEC, and the surprised runner-up, the Cambodian People's Party (CPP). FUNCINPEC took over the financial and economic portfolios. An aggressive campaign was mounted to restructure tax, investment, banking and currency laws. As part of the battle against official corruption some contracts signed by the previous government

were revised or abrogated. The government moved to strengthen the currency and provide new banking legislation. Effective 1 January 1994 were Cambodia's national budget and financial structure laws aimed at establishing central control of the economy. In August 1994, the government adopted a new liberalized foreign investment law with protections against nationalization and guarantees of national treatment except in matter of land ownership. The economy propelled into a period of strong growth, with real GDP increasing at an average annual rate of 7.2% 1993–97. The peak was reached in 1995, when real growth reached 8.4%. Inflation was only 3% in 1995, falling from 17.9% in 1994. During the next year two years, real growth declined, to 3.5% and 3.7%, respectively, while inflation rose, to 9% for both years. A more serious slowdown occurred in 1998 the Asian financial crisis; drought, civil violence, and political squabbles all conspired to slow growth to a barely discernable 1%, while inflation surged to 13.5%.

Cambodia's admission into ASEAN (Association of Southeast Asian Nations), scheduled for 1998, ended up being delayed until April 1999 due to a breakdown into factional violence in July 1997. The after-effects of the Asian financial crisis were also felt, reducing GDP growth to 1% in 1998, and spiking inflation to 12.6%. Recovery in 2000 was propelled by a 29% growth in industrial production, but moderated by a contraction in agricultural output of -2.7% due to the worst flooding in 70 years. Services grew 3.1% in 2000, producing an overall GDP growth rate of 5.4%. Inflation was completely eliminated as prices showed a slight decline of -0.8%. Flooding continued to be a problem in 2001, keeping agricultural growth to 4.4%, while growth in services slumped to 2.4% primarily due to a decline in tourism. Industrial growth was again the main propellant, growing 12.5%, producing an overall GDP growth of 5.3% in 2001. Estimates for 2002 were a 3% growth in GDP with 3% inflation, up from a -0.6% rate in 2001. In November 2001, Cambodia was removed for the US list of Major Drug-Transit Countries by executive action of President George W. Bush because of lack of evidence in recent years of any heroin transiting Cambodia coming to the United States.

Economic growth has been steady in previous years, the GDP registering growth rates of 5.4% in 2002 and 2003, and 4.8% in 2004; in 2005, the economy was expected to experience a slight recession, with a growth rate of only 1.9%. Inflation and unemployment remained at unthreatening levels. The economy environment remained fragile, Cambodia still being dependent on donor aid and having more than 75% of its population engaged in subsistence farming. Another problem for the country was its skewed demographics—more than 50% of its population is 20 year old or younger, for which proper jobs have to be created.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Cambodia's gross domestic product (GDP) was estimated at \$28.7 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,200. The annual growth rate of GDP was estimated at 4%. The average inflation

rate in 2005 was 4.3%. It was estimated that agriculture accounted for 32.9% of GDP, industry 29.2%, and services 37.9%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$138 million or about \$10 per capita and accounted for approximately 3.3% of GDP. Foreign aid receipts amounted to \$508 million or about \$38 per capita and accounted for approximately 12.5% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Cambodia (Kampuchea) totaled \$3.41 billion or about \$254 per capita based on a GDP of \$4.1 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.4%. It was estimated that in 2004 about 40% of the population had incomes below the poverty line.

## 21 LABOR

In 2003, Cambodia's workforce was estimated at seven million, of which 75% were estimated in 2004 to be in the agricultural sector. The estimated unemployment rate in 2000 was 2.5%.

Although Cambodia's labor law provides the right for workers to form unions and bargain collectively, civil servants such as military personnel, judges and teachers are excluded, along with household servants. In addition aviation and maritime transport industry personnel are limited as to coverage, but can form unions. Enforcement of labor laws is spotty and with the exception of government employees, wages are set by the market place. Forced or compulsory labor is also prohibited, but again, enforcement is inadequate and involuntary overtime is widespread. It is estimated that unions account for less than 1% of the country's labor force and are concentrated in the footwear and garment industries.

By law, the minimum legal working age was 15 years, with 18 as the minimum age for hazardous work. Minors between 12 and 15 can participate in light work that is not dangerous to their health and does not affect school attendance. However, enforcement once again remains inconsistent. Of all minors between the ages of 5 and 17, more than half (53%) were employed, of which one-third were over 14. About 71% were employed in the agricultural or forestry sectors, 21% in services or sales and 7% in production.

A 48-hour workweek and minimum safety and health standards are provided by law. However, these rules are not effectively enforced. Separate minimum wages are established for each sector of the economy but average wages are so low that second jobs and subsistence agriculture are usually necessary. The minimum wage in the garment industry is \$45.00 per month. Many children are engaged in work activity, generally within the agricultural sector.

## 22 AGRICULTURE

Because of the lack of natural resources and the primitive industrial base in Cambodia, agriculture is the key sector in the economy. Arable land amounted to 3,807,000 hectares (9,007,000 acres) in 2002, or 22% of the total land area. In 2004, agriculture accounted for 36% of GDP and engaged 69% of the economically active population.

Rice provides the staple diet and prior to 1970 was Cambodia's major export, along with rubber. Production peaked at 3,200,000

tons in 1968; it began falling because of the expansion of the war and by 1974 had declined to 635,000 tons, but had risen back to 2,155,000 tons in 1990. Production in 2004 totaled 4,170,000 tons from 2,094,000 hectares (5,174,000 acres).

Upon coming to power in April 1975, the Pol Pot regime embarked on a major rice production program, but the highest output achieved was only 1,800,000 tons in 1976 and in 1977; civil war, holocaust, and the Vietnamese invasion lowered the rice harvest in 1979 to one million tons. During the 1980s, rice production gradually increased, from about 1,564,000 tons in 1980–81 to an estimated 1,680,000 tons in 1985/86. During the mid-1980s the Khmer Rouge government attempted to stimulate production by delaying its plans for collectivization of the countryside. In 1989, the new government returned agricultural land to the tiller, which significantly boosted food production; average annual production in 1989–91 was 2,524,000 tons.

Rubber has traditionally been the second most important agricultural crop. However, rubber plantings, which covered 48,000 hectares (119,000 acres) in 1969, were almost completely destroyed by the end of 1971. Production, up to 51,100 tons in 1969, declined to virtually nil in 1971, recovering to about 16,000 tons in 1974. The Pol Pot and Khmer Rouge governments continued efforts to revive the rubber industry, the latter with aid from the former USSR and GDR. Recovery has been uneven and slow, however, and reached 46,000 tons in 2004. Other crops, with 2004 production levels, were coconuts (71,000 tons), corn (256,000 tons), soybeans (39,000 tons), sweet potatoes (34,000 tons), beans (24,000 tons), cassava (140,000 tons), tobacco (7,400 tons), and peanuts (10,000 tons).

## 23 ANIMAL HUSBANDRY

Livestock, raised primarily by private households, traditionally supplied an important supplement to the Cambodian diet. The Pol Pot regime placed heavy stress on cattle and poultry breeding, but thousands died during the chaotic years of the late 1970s. Estimated livestock levels in 2004 were cattle, 3,000,000 (as compared with 700,000 in 1979), and pigs, 2,180,000 (as compared with 100,000 in 1979). Cambodia also had 625,000 head of buffalo, 14.5 million chickens, and 7 million ducks in 2004. In 2004, Cambodia produced an estimated 193,550 tons of meat, with pork accounting for 53%; poultry, 8% beef, 28%; and other meats, 11%.

## 24 FISHING

Production of freshwater fish, the main protein element in the Cambodia diet, traditionally ranked next to rice and rubber in the national economy. About half of Cambodia's freshwater catch came from the Tonle Sap. Offshore fishing grounds present a potential resource not yet fully exploited.

Marine fishing developed significantly during the 1980s; the saltwater catch totaled 3,015 tons in 1982 and 64,021 tons in 2003. In 2003, inland fishing amounted to 326,636 tons, up from 72,640 tons in 1994.

## 25 FORESTRY

About 53% of the country was forested in 2000. Forestry has been limited because of transportation difficulties and damage from war. The main products of the forest industry are timber, resins,

wood oil, fuel, and charcoal. Production of roundwood, averaging about 4 million cu m (141 million cu ft) in the late 1960s, fell off sharply during the 1970–75 war, but increased to almost 9.7 million cu m (342 million cu ft) in 2003. Exports of sawn wood were valued at \$14 million. Fuel wood production was 9.6 million cu m (337 million cu ft) in 2003.

## 26 MINING

Cambodia's mineral resources, though limited, had not been extensively explored and developed in the past two decades because of war, internal conflict, and the lack of appropriate legislation and policy to attract foreign investors. The mining sector, the smallest in the economy, contributed 0.3% to the country's GDP in 2004 and employed about 11,000 people in that year. In 2004, the country produced aggregates, laterite blocks (estimated at 230,000 metric tons), phosphate rock, quartz sand (1,000 metric tons in 2003), salt (estimated at 40,000 metric tons), sand (estimated at 500,000 metric tons), gravel (estimated at 10,000 metric tons), and stones (estimated at 600,000 metric tons). Other metallic minerals identified in the country were antimony, bauxite, chromium, copper, lead, manganese, molybdenum, silver, tin, tungsten, and zinc. In addition, Cambodia had resources of such industrial minerals as carbonate rocks, fluorite, quartz, silica sand, and sulfur. Iron deposits and traces of gold, coal, copper, and manganese have been reported in the Kampong Thum area. Substantial deposits of bauxite, discovered in the early 1960s north of Băttâmbâng and southeast of Phnom Penh, have yet to be worked. Potter's clay was common, and deposits of phosphates, used for fertilizer, existed in southern Kâmpôt province and near Phnom Sampou. Precious gems were mined in the Pailin area and smuggled to Thailand. High-quality cornflower-blue sapphires are highly valued gemstones and high-quality rubies also have been found. It was unlikely that exploitation of the nation's mineral resources could be undertaken without continued removal of landmines.

## 27 ENERGY AND POWER

Several new power-generating facilities were installed in the mid-1960s, but total capacity was reduced by about one-third in the course of the 1970s war, reaching 41,000 kW by 1973/74; in that period, production stood at 150 million kWh. Total generating capacity was 35,000 kW in 2002, with output for that same year at 0.108 billion kWh, of which 67.5% was from fossil fuels and 32.5% from hydropower. Electricity consumption was 0.101 billion kWh in 2002.

Offshore oil was reportedly discovered by a French firm in August 1974 in the vicinity of the Wai Islands. In 1995 a total of 17 foreign companies submitted bids to explore for oil and gas both onshore and offshore; the offshore areas are near Sihanoukville on the Gulf of Thailand.

## 28 INDUSTRY

Industrial activity has traditionally centered on the processing of agricultural and forestry products and on the small-scale manufacture of consumer goods. Rice milling has been the main food-processing industry. Industrial expansion came to a virtual halt in 1970 with the outbreak of war. A few sectors (such as textiles and beverages) enjoyed a short wartime boom due to military orders, but losses in territory and transport disruptions had caused a rapid

decline in activity by 1973. The Pol Pot government placed all industries under state control in 1975. In the course of the next four years, some 100 industries were abolished or destroyed. When the PRK took over in 1979, industrial plants began to reopen. By late 1985 there were a reported 60 factories in the state sector producing household goods, textiles, soft drinks, pharmaceutical products, and other light consumer goods. Most plants operate below capacity because of poor management and shortages of electricity, raw materials, and spare parts. There is little information on the small Cambodian private sector. The overall value of local and handicrafts industries in 1984 was estimated at about 50% of the output value in state industry.

Efforts at recovery continued in the early 1990s, but were hampered by dilapidated equipment and shortages that continued to affect industrial production, principally textiles and rubber production. For instance, following the cutback of assistance from the former Soviet Union in 1990, Cambodia's primitive industrial sector suffered from raw material shortages; three of six government-owned textile mills shut down because of shortages of cotton. When major Soviet oil supplies were depleted local companies imported oil, but the cash-strapped state companies suffered electricity brownouts daily. Major industries include rice milling, fishing, wood and timber products, rubber (largely abandoned since 1975), cement, and gem mining. Cambodia has significant mineral deposits of gold, silver, iron, copper, marble, limestone and phosphate, and a gem industry. Construction in urban areas boomed with the signing of the Paris peace accords in 1991. After Cambodia opened oil fields to foreign investors in February 1991, sixteen companies expressed interest in oil exploration. In January 1994 it was reported that five oil companies were conducting offshore oil and gas exploration.

In 1996, clothing industry exports more than doubled. Some 36 factories employed around 20,000 people. The average annual industrial growth rate for 1988 through 1998 was 8.5%, but growth slumped to 7.7% in 1998 due to the effects of the Asian financial crisis, civil, drought, and political disruptions. However, recovery was rapid in the industrial sector as it posted growth output of 12%, 29%, and 12.5% for 1999 to 2001. The garment industry grew by 50% during this period. In 2000, industry constituted 20% of total GDP.

By 2002, the industrial production growth rate was 22%, well above the overall rate of growth of the economy. In 2004, industry made up 30% of the economy, but it employed only a fraction of the working population; agriculture was by far the biggest employer and an important contributor to the economy—35%.

## 29 SCIENCE AND TECHNOLOGY

Since 1979, foreign technicians have been helping to revive the economy. Aside from a School of Medicine and Pharmacy, there is virtually no opportunity within Cambodia to pursue scientific training or research. In 1987–97, science and engineering students accounted for 13% of college and university enrollments.

## 30 DOMESTIC TRADE

Phnom Penh has traditionally been Cambodia's principal commercial center. Formerly, most wholesale and retail business was in the hands of French, Chinese, and Vietnamese. In April 1975 all

private shops in the country were closed and virtually all domestic trade fell under the control of the state. Official currency was abolished in favor of barter. Following the installation of the PRK, currency was reestablished and some private trade resumed with official encouragement. After 1983, private shops resumed operation in Phnom Penh. Most of these shops are owned directly or subsidized by wholesalers. Goods are also sold from traveling vans or through newspaper advertisements.

In 1986, the government began collecting license fees, rents, and utility fees from private businesses and substantially increased their taxes. In the early 1990s the Heng Samrin government fell behind in its payments to government troops and bureaucrats, printing more money to meet these obligations. Without revenue this vicious cycle peaked in triple-digit inflation by 1992, when the currency was rendered worthless and pulled from circulation. Market prices rose as the currency value dropped meaning poorer Cambodians could not afford their staple food, rice. The United Nations Transitional Authority in Cambodia (UNTAC) introduced imported rice and sold it at a fixed price in an effort to halt the inflationary spiral.

Despite the economic benefits of the UN presence, political disruptions, and violence in 1997 and 1998 reversed economic growth. In Cambodia depressed economic output is supplemented by goods smuggled in from Thailand and Singapore. Economic reforms became in earnest in 1999, which marked the first full year of peace for the nation in about 30 years.

As of 2001, about 80% of the population was employed in agriculture; however, the service sector is beginning to grow as the nation attempts to expand tourism. The economy was still heavily reliant on international aid.

### 3<sup>1</sup> FOREIGN TRADE

Cambodia has traditionally been an exporter of primary products and an importer of finished goods. The country's normal trade patterns virtually disintegrated during the war as exports declined, and Cambodia was largely sustained by US-subsidized imports. Under the Pol Pot regime, foreign trade virtually ceased. According to Western estimates, total trade (excluding trade with China) was \$3 million in exports and \$22 million in imports in 1977. With the installation of the PRK government, foreign trade began to rise in volume. The value of total exports rose from an estimated \$3–4 million in 1982 to approximately \$10 million in 1985; imports in that year came to about \$120 million. The main import categories were food, vehicles, fuels, and raw materials. Cereal imports dropped from 223,000 tons in 1974 to 60,000 tons in 1985. Foreign trade is legally restricted to licensed private-sector firms and government agencies, although there is considerable smuggling between Cambodia and Thailand. In 1985, Cambodia and Vietnam signed an agreement to double their mutual trade in 1986.

In 1986 major export and import trading partners with Cambodia were Vietnam, the USSR, Eastern Europe, Japan, and India. Assistance to Cambodia from the USSR ceased in 1991, when that country broke apart. The US trade embargo against Cambodia was lifted in January 1992 by President George H. W. Bush. As of 1992 Cambodian exports were mostly agricultural, comprised of timber mainly and rubber. Logging is a ready source of badly needed export revenues for both the government and the other political

factions. The United Nations Development Program (UNDP) estimated that the forest cover had fallen to as little as 40% of the land area by 1992. Cambodia's own forestry department figured that in 1969 forests covered 73% of the country's land area. The UNDP concluded that deforestation was a major threat to Cambodia's development.

In 2000, major export commodities were timber, garments, rubber, rice, and fish. Major import commodities were cigarettes, gold, construction materials, petroleum products, machinery, and motor vehicles.

In 2004, exports reached \$2.3 billion (FOB—free on board), while imports grew to \$3.1 billion (FOB). The bulk of exports went to the United States (55.9%), Germany (11.7%), the United Kingdom (6.9%), Vietnam (4.4%), and Canada (4.2%). Imports included petroleum products, cigarettes, gold, construction materials, machinery, motor vehicles, and pharmaceutical products; these mainly came from Thailand (22.5%), Hong Kong (14.1%), China (13.6%), Vietnam (10.9%), Singapore (10.8%), and Taiwan (8.4%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

Cambodia's balance-of-payments position showed a deficit every year during the period 1954–74. Payments transactions with other countries virtually ceased under the Pol Pot regime, when China conducted Kampuchea's external financial dealings. From 1979, Kampuchea continued to run a substantial trade deficit, much of which had been financed by grant aid and credits extended by the USSR and Vietnam. The current account deficit, which stood at 11.5% of GDP in 1999, was mainly financed by official development assistance grants and loans, and foreign direct investment. The country's official reserves at the end of 1999 were able to cover the equivalent of 3.5 months of imports.

In 2000, the country's foreign debt stood at approximately \$1.3 billion, the majority of which it owed to Russia; as of that date, it

#### Balance of Payments – Cambodia (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-155.2</b>
Balance on goods		-549.3
Imports	-2,595.6	
Exports	2,046.2	
Balance on services		132.1
Balance on income		-183.1
Current transfers		445.1
<b>Capital Account</b>		<b>-6.0</b>
<b>Financial Account</b>		<b>184.7</b>
Direct investment abroad		-9.7
Direct investment in Cambodia		87.0
Portfolio investment assets		-7.7
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-184.5
Other investment liabilities		299.6
<b>Net Errors and Omissions</b>		<b>-10.7</b>
<b>Reserves and Related Items</b>		<b>-12.8</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

had yet to reach agreement with the Russia on repayment of the debt.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Cambodia's exports was \$1.05 billion while imports totaled \$1.4 billion resulting in a trade deficit of \$350 million.

The International Monetary Fund (IMF) reported that in 2001 Cambodia had exports of goods totaling \$1.38 billion and imports totaling \$1.73 billion. The services credit totaled \$257 million and debit \$244 million.

Exports of goods and services reached \$3.2 billion in 2004, up from \$2.6 billion in 2003. Imports grew from \$3.0 billion in 2003, to \$3.7 billion in 2004. The resource balance was consequently negative in both years, reaching -\$400 million in 2003, and -\$500 million in 2004. The current account balance was also negative, deteriorating from -\$105 million in 2003, to -\$262 million in 2004. Foreign exchange reserves (including gold) grew to \$890 million in 2004, covering less than three months of imports.

### **33 BANKING AND SECURITIES**

All banking institutions were nationalized by the Sihanouk government on 1 July 1964. The National Bank of Cambodia, a semi-autonomous government agency functioning as the sole currency authority, was charged with central banking responsibilities, including the control of credit. The decision by then Premier Lon Nol to permit foreign banks to do business in the country in early 1970 was a factor leading to his break with Prince Sihanouk and to the latter's overthrow in March 1970.

In April 1975, the Pol Pot government assumed control of the National Bank, and virtually all banking operations in Kampuchea were liquidated. The PRK government reintroduced a money economy, and by 1983 the National Bank of Cambodia (NBC) and a Foreign Trade Bank had been established. In 1991 the government created a state commercial bank to take over the commercial banking operations of the national bank. Banks in Cambodia include the Cambodian Commercial Bank, Cambodian Farmers Bank, and the Cambodian Public Bank. There were at least 50 commercial banks operating in 2001. The NBC has implemented new regulations for licensing banks, causing two banks to be closed. There is no securities trading in Cambodia.

The riel resumed its fall against the dollar in January and February of 1997 after briefly strengthening in December of 1996. It fell about 2% against the dollar in 2000 alone, trading at about 3,916.3 riels per dollar in 2001. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$155.7 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$562.7 million.

### **34 INSURANCE**

All insurance companies were "Cambodianized" in 1960; 16 companies were in operation prior to 1975. Under the Pol Pot govern-

ment, normal insurance operations were suspended. No current information is available concerning insurance in Cambodia.

### **35 PUBLIC FINANCE**

All government budgets of the two decades preceding 1975 were marked by an excess of expenditures over domestic revenues; foreign aid and treasury reserves made up the difference. There probably was no domestic public finance system during 1975–78; any public funds in that period came from China. During the 1980s, public expenditures were financed by the former USSR, either directly or through Vietnam. From 1989–91, the public deficit nearly tripled as a result of falling revenue collection. As assistance from the Soviet bloc ceased after 1990, monetary expansion soared to cover the deficit. By the middle of 1992, with hyperinflation imminent, the government began a series of stabilization efforts to halt the fiscal deterioration. With only limited international aid, however, public expenditures for the necessary reconstruction and development of Cambodia have been restricted.

The US Central Intelligence Agency (CIA) estimated that in 2005 Cambodia's central government took in revenues of approximately \$559.4 million and had expenditures of \$772 million. Revenues minus expenditures totaled approximately -\$212.6 million. Total external debt was \$800 million.

### **36 TAXATION**

Until 1975, indirect taxes were the most profitable source of domestic revenue, especially such monopoly excises as the sales tax on salt. Other indirect taxes included those on alcohol, tobacco, sugar, radios, and livestock. Taxes ceased to exist with the abolition of currency during the Pol Pot regime and were replaced by payments in-kind. In 1984, the PRK introduced an agricultural tax to soak up profits earned by private farmers. The tax reportedly amounted to about 10% of total output. In 1986, taxes on private business were increased, which forced some shopkeepers out of business. In 2002, there was a general corporate tax of 9%, except for in the fields of resource exploitation.

### **37 CUSTOMS AND DUTIES**

Cambodia has simplified its tariff system in recent years and eliminated most nontariff barriers to trade. Customs duties are now divided into four simple categories. Luxury goods, such as automobiles, alcohol, tobacco, and cosmetics have a rate of 70%. Finished products such as electronics, paint, and furniture carry a tariff of 35%. Machinery and capital equipment have a rate of 15%, and raw materials carry a tariff of 7%. A few products, such as agricultural equipment and pharmaceutical products, are exempt from import tariffs, but are still subject to the 10% value-added tax (VAT). The United States resumed diplomatic ties with Cambodia in September 1993. Cambodia joined ASEAN in 1998.

### **38 FOREIGN INVESTMENT**

There was little private foreign capital in pre-1975 Cambodia. French capital in rubber plantations represented more than half of the total investment. Foreign investment was prohibited under the Pol Pot regime and was not resumed under its successor, the People's Republic of Kampuchea (PRK). As part of Cambodia's

economic reforms the July 1989 Foreign Investment Law and the regulations implementing the law contained in the May 1991 sub-decree on foreign investment created a favorable foreign investment climate in Cambodia. From 1989 to 1991 there were over 200 investment applications, 20 being granted and 70 given tentative approval. Foreign investors from Thailand, Singapore, Taiwan, Hong Kong, France, and the United States accounted for over half these applications; overseas Khmers accounted for 30%, and 10% were from local investors. By 1993 it was reported that final contracts had been signed for 45 of these 200 applications. The value of these proposals is small, \$1–5 million, and the proposals are concentrated in services, tourism, and textiles. The most visible projects are the 380-room Cambodiana Hotel in Phnom Penh, a satellite earth station project that provides international direct dial service, and a cellular telephone system in Phnom Penh. The primary hindrance to foreign investment is the lack of infrastructure—roads are in dismal condition, bandits roam, power outages are common, and phone service is inadequate.

The new foreign investment law was adopted by the National Assembly on 4 August 1994. It guarantees that investors shall be treated in a nondiscriminatory manner, except for land ownership; that the government shall not undertake a nationalization policy which adversely affects private properties of investors; that the government shall not impose price controls on the products or services of an investor who has received prior approval from the government; and that the government shall permit investors to purchase foreign currencies through the banking system and to remit abroad those currencies as payments for imports, repayments on loans, payments of royalties and management fees, profit remittances, and repatriation of capital.

In October 1999, the government entered into a three-year IMF-monitored program that included as a priority goal, making the country more attractive for foreign direct investment. In February 2000 this program was complemented by a World Bank program aimed at revising Cambodia's 1994 Law on Investment (LOI). Foreign investment commitments averaged over \$800 million in the period 1996 to 1998, but fell to \$482 in 1999. Actual foreign investment in 1999, the latest data available, was \$160 million. In 2002, over 100 US companies and companies representing US products and services were active in Cambodia. Inflows of foreign capital have receded in subsequent years, reaching \$77 million in 2003 and \$83 million in 2004.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Until 1975, Cambodian governments sought aid from public and private foreign sources and attempted to improve the climate for private foreign capital investment, although the volume of investment was small. Both Sihanouk and Lon Nol also increased local control of economic activities within the country. Aliens were prohibited from engaging in 18 professions or occupations, including those of rice merchant and shipping agent. The Sihanouk government promoted economic development through two five-year plans designed to improve the nation's light industrial sector and its educational and technological infrastructure. Progress was mixed. Strained economic conditions were a factor leading to the overthrow of Sihanouk in 1970. The outbreak of war following his fall brought almost all major production to a halt. The economic objectives of the 1975–79 Pol Pot regime were centered

almost entirely on agriculture and the improvement of the irrigation network. Self-sufficiency was stressed, and foreign aid was almost nil except for an estimated \$1 billion from China. When the PRK government took over, it inherited a shattered economy and a depleted population. The 1986–90 five-year plan stressed growth in the agricultural sector, the restoration of light industry (which faces shortages of raw materials and electrical supply), gradual socialist transformation of ownership, dependence upon the former USSR and its allies for foreign assistance, and an increase of economic cooperation with its Indochinese neighbors. The PRK signed a number of aid, trade, and cooperation agreements with the former USSR and other Eastern European countries and was receiving substantial technological aid from neighboring Vietnam. Development assistance from the CMEA bloc totaled an estimated \$700 million between 1980 and 1984.

The PRK moved slowly on its plan to transform the Cambodian economy to full socialist ownership, in recognition of the relatively low socialist awareness of the population. A small private manufacturing and commercial sector was recognized by the constitution in 1981, and farmers were being introduced to collectivization through the formation of low-level "solidarity groups" which combined socialist and private ownership. PRK plans were to advance more rapidly toward socialist transformation during the 1990s. However, since the mid-1980s the emphasis has been placed on private sector economic activities. Newly introduced market-oriented reforms dismantled the old central planning regime. However, the structural underpinnings of a capitalist system—legal, financial, and institutional—exist only in rudimentary form.

Many of Cambodia's nationalized industries were allowed to operate with limited autonomy from the state planning system, but the lack of capital and management expertise, as well as institutionalized corruption and bureaucratic red tape have mired this recovery process. In 1991 at the Tokyo Conference on the Rehabilitation and Reconstruction of Cambodia, \$880 million in assistance was pledged to Cambodia by donor countries and multilateral institutions. An additional \$80 million in aid was pledged by the Asian Development Bank, and the World Bank planned a \$75-million assistance program. Under Sam Rainsy, Minister of Finance and Economy, the national assembly passed a budget and new Financial Structure Laws effective 1 January 1994. The government's aim was to establish central control of the economy and at the same time strike out at corrupt practices. About 48% of the budget was made up of international assistance; there was no land or income taxes with tax revenues providing only 6% of GDP, and customs duties provided 54% of total revenue.

In October 1999, after the disruptions caused by civil unrest and the Asian financial crisis, the government entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF). The program focused on bank restructuring; reform of the Foreign Trade Bank; reform of forestry policy; and strengthening the public sector accounting and expenditure management. Concurrently, a Structural Adjustment Credit (SAC) loan program under the World Bank was approved in February 2000. The SAC program included conditionals related to the pilot military demobilization program, public expenditure management, forestry policy and revisions to the 1994 Law on In-

vestment (LOI). Development in Cambodia is inextricably linked to the government's ability to maintain peace.

The economy has expanded at impressive rates in the late 1990s and early 2000s. This growth was fueled by a strong manufacturing sector, especially the garment industry; a textiles factory opened in 1996. However, the fact that the economy seems to be pulled ahead by just one engine (the textiles industry, since agriculture suffered a recess due to droughts in 2004), it seemed unlikely that these growth rates would be sustained.

#### **40 SOCIAL DEVELOPMENT**

The Sihanouk and Lon Nol governments enacted limited social legislation regulating hours of work, wages, and workers' compensation. During the Pol Pot period, the social fabric of the country was severely damaged. Although installation of the PRK government brought an end to the wide-ranging trauma of 1975–79, overall social conditions in Cambodia remained among the worst in Southeast Asia. Unstable conditions have also limited improvement in the standard of living, still one of the lowest in the region.

Cambodia's constitution provides equal rights for women in areas including work and marriage. Women have property rights equal to those of men and have equal access to education and certain jobs. However, traditional views of the roles of women act to prevent women from reaching senior posts in government and business. Domestic violence against women remained a widespread problem. Domestic abuse victims rarely issue formal complaints. Trafficking in women and children for prostitution continued both domestically and across the nation's borders.

Cambodia's human rights record includes a number of abuses, including extrajudicial killings, and other uses of excessive force by security forces. Impunity for such abuses remained a problem. Discrimination against the ethnic Vietnamese persists.

#### **41 HEALTH**

One of the most impoverished countries in Southeast Asia, Cambodia is prey to the health problems that arise from malnutrition and inadequate sanitation, including diarrhea, respiratory infections, and dengue fever, as well as those that could be prevented by an adequate vaccination program, such as tuberculosis. The 1970–75 war and the 1975–79 upheaval exacerbated many of these problems. Malnutrition became widespread among the millions driven to Phnom Penh in the wake of the fighting and who were driven out of that city when the Khmer Rouge took over. Tens of thousands died from shortages of food and medical facilities and supplies. Cambodia had only 50 physicians in 1979.

In 1995 the government mapped out a new public health program, which was only partly implemented as of 2000. Total health care expenditure was estimated at 6.9% of GDP.

Life expectancy in Cambodia in 2000 was 54 years, and increased to 71 years by 2005. In that year the infant mortality rate was still high at an estimated 58 per 1,000 live births. Dysentery, malaria, tuberculosis (in 1999, 560 reported cases per 100,000 people), trachoma, and yaws are widespread. In 2000, 30% of the population had access to safe drinking water and only 18% had adequate sanitation. Prior to 1975 there were 3 hospitals, with 7,500 beds (about 1 bed for every 893 persons). During 1979–81, 7

large hospitals and 3 pharmaceutical factories opened. As of 2004, there were an estimated 16 physicians, 61 nurses, 2 dentists, and 4 pharmacists per 100,000 people.

AIDS spread rapidly in Cambodia during the latter half of the 1990s. The HIV/AIDS prevalence was 2.60 per 100 adults in 2003. As of 2004, there were approximately 170,000 people living with HIV/AIDS in the country. There were an estimated 15,000 deaths from AIDS in 2003. Eighty percent of the urban population and only 50% of the rural population had access to health services. As of 2000, an estimated 53% of children under five were malnourished. The immunization rates for children up to one year old were diphtheria, pertussis, and tetanus, 49%, and measles, 55%.

#### **42 HOUSING**

Cambodia's housing traditionally compared favorably with that of other countries in Southeast Asia. The most common type of dwelling consists of one or more rooms raised on mangrove piles some 3 m (10 ft) above the ground; it is generally crowded. Some homes in more remote rural areas consist simply of a conical roof-like structure which reaches almost to the ground, leaving an entrance opening. Many houses in the cities are larger and of better quality.

Mass emigration from the cities during the period 1975–76 resulted in many dwellings being left vacant, in contrast to the dire overcrowding that occurred in the last years of the war. In the countryside, meanwhile, the waves of new migrants placed inordinate pressures on existing facilities, with much of the transplanted population forced to reside in improvised shelters. By the early 1980s, this pattern had been reversed somewhat and Phnom Penh was once again experiencing population growth.

In 1998, there were about 2,188,663 households with an average of 5.2 people per household. According to a 2004 intercensal survey, there were about 2.3 million dwellings in the country; 2.03 million of which were located in rural areas. Only 11% of all homes had access to all three of the basic amenities: safe drinking water, electricity, and an in-home toilet. Nationwide, only 44% of the population have access to safe drinking water, 17% have electricity in their home, and 5% have indoor toilets. Firewood and charcoal are the primary heating fuels. About 93% of all dwellings are owner occupied. Only 26.9% of the total population live in permanent structures; in urban areas, only 66% of the population have permanent housing.

#### **43 EDUCATION**

Under the Pol Pot regime, education was virtually abolished, as all children were sent to work in the fields; education was limited to political instruction. Most of the educated class had been killed by 1979. According to PRK sources, only 50 of 725 university instructors and 307 of 2,300 secondary-school teachers survived the Pol Pot era.

Currently, the educational system is being rebuilt and is recovering. All schooling is public, and six years of primary education (ages 6–12) is compulsory. Following this, children may go through six years of secondary education, of which only the first three are compulsory. The academic year runs from October to July. The primary language of instruction is Cambodian.

In 2001, about 7.4% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 93% of age-eligible students; 96% for boys and 91% for girls. The same year, secondary school enrollment was about 24% of age-eligible students; 30% for boys and 19% for girls. It is estimated that about 80% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 56:1 in 2003; the ratio for secondary school was about 24:1.

Institutes of higher education include the University of Phnom Penh, the Institute of Technology of Cambodia, the Royal University of Agriculture, Royal University of Fine Arts, and Mahari-shi Vedic University. In 2003, about 3% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 73.6%, with 84.7% for males and 64.1% for females. Many students continue their higher education at foreign universities.

As of 2003, public expenditure on education was estimated at 1.8% of GDP, or 14.6% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

The National Library is located in Phnom Penh and holds about 103,635 volumes in a variety of languages, including Khmer, French, English, Russian, Vietnamese, and Thai. The national document collection comprise 8,327 documents. Also in the capital is the Buddhist Institute (25,000 volumes), which contains collections on religion, philosophy, literature, linguistics, history, and art. The École Française de l'Extrême-Orient, which previously had charge of all archaeological research in the country, also had its own research library in Phnom Penh. The Hun Sen Library of the Royal University of Phnom Penh (RUPP) opened in January 1997 and now houses a collection of at least 50,000 items in Khmer, English, and French. The Toshu Fukami Library of the University of Cambodia is open to the public, offering over 30,000 volumes.

Cambodia, in effect, is a museum of the cultural achievements of the Khmer Empire. Surviving stone monuments, steles, temples, and statuary attest to a formidable and unique artistic heritage. Particularly imposing are the world-famous temple of Angkor Wat and the Bayon of Angkor Thom. In the chaotic years of the 1980s and early 1990s, there were many press reports of pillaging of these historic sites. The PRK government established museums in what it portrayed as GRUNK death camps, with exhibits on atrocities committed during 1975–79. The National Museum of Phnom-Penh (1917), an excellent repository of national art, has an extensive collection of Khmer art from the 5th through 13th centuries.

#### 45 MEDIA

As of 2002, the telephone service was said to be adequate for government needs and for residents of Phnom Penh and other main provincial cities. Rural areas generally had very little access to land-line phone service. In 2003, there were an estimated three main-line telephones for every 1,000 people. The same year, there were approximately 35 mobile phones in use for every 1,000 people.

TV-Kampuchea began color transmission in 1986. In 2004, there were seven television stations, all of which were controlled

by the government. In 2003, there were 2 AM and 17 FM radio stations. Foreign radio broadcasts are received from neighboring countries. In 2003, there were an estimated 113 radios and 8 television sets for every 1,000 people. The same year, there were 2.3 personal computers for every 1,000 people and 2 of every 1,000 people had access to the Internet. There were two secure Internet servers in the country in 2004.

There are two daily newspapers, *Rasmei Kampuchea* (2002 circulation 15,000) and *The Cambodia Daily* (2,000). The *Phnom Penh Post* is a weekly publication. There are over 50 newspapers in all, including weeklies, bi-weeklies, and monthlies, mostly in the Khmer language. The official news agency is the Agence Khmer de Presse (AKP). Most newspapers are nominally independent, but many receive significant funding from political parties and the government. English language weeklies were launched in July 1997.

The constitution provides for freedom of speech and press, but the government is said to sometimes limit the press in practice. The intimidation of journalists is said to be declining. The government, political forces and the military dominate the broadcast media.

#### 46 ORGANIZATIONS

There is a Chamber of Commerce in Phnom Penh. The Cambodian Federation of Employers' and Business Associations was established in 2000. Other major worker organizations include the Free Trade Union of Workers of the Kingdom of Cambodia, Workers' Union for Economic Development, Cambodian Union Federation, Cambodian Federation of Independent Trade Unions, and the National Independent Federation Textile Union of Cambodia. There are professional organizations, including the Cambodia Medical Association.

The Khmer Youth Association, founded in 1992, has been very active in promoting education and job training, as well as the championing the rights of women and children. There is an organization of Girl Guides in the country and well as an independent national scouting groups that are partly affiliated with political parties. Several sports associations are present as well, representing such pastimes as tennis, badminton, weightlifting, and track and field.

The Cambodian Human Rights and Development Association, established in 1991, promotes respect for human rights and the rule of law by providing legal services and educational materials to the public.

There are national chapters of the Red Cross Society, Caritas, UNICEF, and Habitat for Humanity. Volunteer service organizations, such as the Lions Clubs International, are also present.

#### 47 TOURISM, TRAVEL, AND RECREATION

Until the encroachments of war in the late 1960s, Angkor Wat and other remains of the ancient Khmer Empire were the major attractions for visitors to Cambodia. Under the Pol Pot regime, tourism was nonexistent, and it was not substantially revived under Vietnamese occupation. However, since the 1992 UN peace plan, tourism rebounded, spurred by the opening of hundreds of new facilities and scores of new diplomatic missions. Tourists are attracted to the Independence Monument and National Museum

in Phnom Penh. The beaches of Sihanoukville and the temples of Preah Vihear and Banteay Chhmar are also popular. A valid passport and visa are required for visitors from all countries except Malaysia and the Philippines. Visa applications are distributed on the airplane and can be processed upon arrival at the Phnom Penh and Siem Reap International Airports. Visas are valid for one month after arrival in Cambodia.

In 2003, about 701,000 tourists visited Cambodia and tourist receipts totaled \$441 million. There are two government-run tourist agencies and a number of private tour groups. Dozens of hotels have opened in the capital. As of 2002, the country had 11,426 hotel rooms with 19,398 beds and an occupancy rate of 50%.

In 2005, the US Department of State estimated the cost of staying in Phnom Penh at \$162. Travel expenses in Sihanoukville were estimated at \$103 per day.

#### **48 FAMOUS CAMBODIANS**

Foremost among ancient heroes were Fan Shihman, greatest ruler of the Funan Empire (150–550), and Jayavarman II and Jayavarman VII, monarchs of the Khmer Empire who ruled between the 10th and 13th centuries. Prince Norodom Sihanouk (b.1922), who resigned the kingship and won Kampuchea's independence from France, is the best-known living Cambodian. In exile in China during 1970–75, he founded the GRUNK government, from which he resigned in April 1976. In July 1982, he became president of the CGDK. In 1993, he once again became king, until his abdication in 2004. Sihanouk was succeeded by his son Norodom Sihamoni (b.1953). Khieu Samphan (b.1931), a former Marxist publisher and leader of the insurgency in Kampuchea, was named chairman of the State Presidium in the GRUNK government in April 1976, replacing Sihanouk as chief of state. The de facto head of the GRUNK regime during 1975–79 was Pol Pot, the nom de guerre of Saloth Sar (1925–98), who presided over the drastic restructuring of Kampuchean society that left as many as 2–3 million dead in its wake. Heng Samrin (b.1934) became president of the Council of State of the PRK in 1979; he lost his position in 1992. Photographer Dith Pran (b.1943), whose ordeal with the Khmer Rouge was portrayed in the film *The Killing Fields*, helped chronicle the atrocities of the Pol Pot regime.

#### **49 DEPENDENCIES**

Cambodia has no territories or colonies.

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# CHINA

People's Republic of China  
*Zhonghua Renmin Gongheguo*

**CAPITAL:** Beijing (Peking)

**FLAG:** The flag is red with five gold stars in the upper left quadrant; one large star is near the hoist and four smaller ones are arranged in an arc to the right.

**ANTHEM:** *March of the Volunteers.*

**MONETARY UNIT:** The renminbi, or "people's money," denominated in yuan (¥), is equivalent to 10 jiao or 100 fen. There are coins of 1, 2, and 5 fen, 1, 2, and 5 jiao, and 1 yuan, and notes of 1, 2, and 5 fen, 1, 2, and 5 jiao, and 1, 2, 5, 10, 50, and 100 yuan. ¥1 = \$0.12210 (or \$1 = ¥8.19) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some Chinese units remain in common use.

**HOLIDAYS:** New Year's Day, 1 January; Spring Festival (Chinese New Year), from the 1st to the 3d day of the first moon of the lunar calendar, usually in February; International Women's Day, 8 March; May Day, 1 May; Army Day, 1 August; Teachers' Day, 9 September; and National Day, 1–2 October.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The People's Republic of China (PRC), the third-largest country in the world after the former USSR and Canada and the largest nation in Asia, claims an area of 9,596,960 sq km (3,705,406 sq mi), including Taiwan, which the PRC claims as a province; the major administrative divisions, excluding Taiwan and the offshore islands, cover 9,444,292 sq km (3,646,448 sq mi). Comparatively, the area occupied by China is slightly larger than the United States. If the area of Taiwan is excluded, China is the fourth-largest country in the world, after Russia, Canada, and the United States. The mainland has an extension of 4,845 km (3,011 mi) ENE–WSW and 3,350 km (2,082 mi) SSE–NNW. The mainland's 5,774 km (3,588 mi) coastline, extending from the mouth of the Yalu River in the northeast to the Gulf of Tonkin in the south, forms a great arc, with the Liaodong and Shandong peninsulas in the north protruding into the Yellow Sea and the Leizhou Peninsula in the south protruding into the South China Sea. China's territory includes several large islands, the most important of which is Hainan, off the south coast. Other islands include the reefs and islands of the South China Sea, extending as far as 4° N. These reefs and islands include Dongsha (Pratas), to which Taiwan has also laid claim. China's claims to the Xisha (Paracel) and Nansha (Spratly) archipelagoes are also in dispute. In 1986, the United Kingdom agreed to transfer Hong Kong to the PRC in 1997; in March 1987, the PRC and Portugal reached an agreement for the return of Macau to the PRC on 20 December 1999.

China is bordered on the N by Mongolia (Mongolian People's Republic–MPR) and Russia; on the NE by the Democratic People's Republic of Korea (DPRK); on the E by the Yellow and the East China seas; along the southern border are Hong Kong, Macau, the South China Sea, the Gulf of Tonkin, Vietnam, and Laos; on the SW by Myanmar, India, Bhutan, and Nepal; on the W by India, Jammu and Kashmir (disputed areas), Pakistan (west of the

Karakoram Pass), and Afghanistan; and on the NW by Tajikistan, Kyrgyzstan, and Kazakhstan. China's total boundary length, including the coastline (14,500 km/9,010 mi) is 36,647 km (22,771 mi). China's capital city, Beijing, is located in the northeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

China may be divided roughly into a lowland portion in the east, constituting about 20% of the total territory, and a larger section consisting of mountains and plateaus in the west. The principal lowlands are the Manchurian (Dongbei) Plain, drained by the Songhua (Sungari) River, a tributary of the Amur (Heilongjiang), and by the Liao River, which flows to the Yellow Sea; the North China Plain, traversed by the lower course of the Yellow (Huang He) River; the valley and delta of the Yangtze (Chang Jiang) River; and the delta of the Pearl (Zhu) River surrounding Guangzhou (Canton). West of these lowlands, the country's topography rises to plateaus of 1,200–1,500 m (about 4,000–5,000 ft): the Shanxi and Shaanxi loess plateaus, in central China, and the Mongolian Plateau, in the north.

Beyond lie the high plateaus of Tibet, with an average elevation of 4,600 m (15,000 ft), and the great mountain ranges. The highest mountains are the Kunluns and the Himalayas. North of Tibet are two plateau basins of Central Asia, the Tarim and the Junggar, which are separated from each other by the Tian Mountains. The Chinese portion of the Tian range, which also extends into the former USSR, rises above 7,000 m (23,000 ft).

The great rivers of China flow eastward toward the Pacific. In the northeast, the Amur drains a great part of the Manchurian Basin as it winds along its 4,350 km (2,719 mi) course. Other northeastern rivers include the Liao, the Tumen, and the Yalu, the last two both rising in Mt. Paaktu, flowing respectively northeast and southwest, and forming the boundary between China and the

DPRK. The main river of north China, and the second-largest in the country, is the Yellow River (Huang He). From Gansu it winds about 4,671 km (2,903 mi) eastward to Shandong Province, where it empties into Bo Hai (Gulf of Zhili, or Chihli). The valley of the Yellow River covers an area of 1,554,000 sq km (600,000 mi).

Central China is drained mainly by the Yangtze and its tributaries. The largest river in China, the Yangtze travels 5,525 km (3,434 mi) and drains 1,808,500 sq km (698,300 sq mi) of land. As China's only long river with no natural outlet, the Huai River, flowing between the Yangtze and the Yellow (Huang He) and roughly parallel to them, is subject to frequent flooding. To the southwest are the upper courses of the Mekong (Lancang) and Brahmaputra (Yarlung Zangbo) rivers.

Northern China is in a major earthquake zone with some of the most destructive earthquakes on record. On 28 July 1976, a tremor measuring 7.5 on the Richter scale struck the city of Tangshan (145 km/90 mi east of Beijing), causing widespread devastation and the deaths of over 650,000 people. On 3 February 1996, a 6.6 magnitude quake occurred at Yunnan causing death for 322 people and injury to over 16,000. About 358,000 homes were completely destroyed and over 654,000 others were damaged. On 24 February 2003, a 6.4 magnitude quake in Southern Xinjiang killed at least 260 people and injured 4,000. It was recorded as the deadliest earthquake of the year worldwide.

### **3 CLIMATE**

Although most of China lies within the temperate zone, climate varies greatly with topography. Minimum winter temperatures range from  $-27^{\circ}\text{C}$  ( $-17^{\circ}\text{F}$ ) in northern Manchuria to  $-1^{\circ}\text{C}$  ( $30^{\circ}\text{F}$ ) in the North China Plain and southern Manchuria,  $4^{\circ}\text{C}$  ( $39^{\circ}\text{F}$ ) along the middle and lower valleys of the Yangtze, and  $16^{\circ}\text{C}$  ( $61^{\circ}\text{F}$ ) farther south. Although summer temperatures are more nearly uniform in southern and central China, with a July mean of about  $27^{\circ}\text{C}$  ( $81^{\circ}\text{F}$ ), northern China has a shorter hot period and the nights are much cooler.

Rain falls mostly in summer. Precipitation is heaviest in the south and southeast, with Guangzhou receiving more than 200 cm (80 in), and diminishes to about 60 cm (25 in) in north and northeast China, and to less than 10 cm (4 in) in the northwest. Approximately 31% of the total land area is classified as arid, 22% as semiarid, 15% as subhumid, and 32% as humid.

### **4 FLORA AND FAUNA**

Much of China's natural vegetation has been replaced or altered by thousands of years of human settlement, but isolated areas still support one of the world's richest and most varied collections of plants and animals. Nearly every major plant found in the tropical and temperate zones of the northern hemisphere can be found there. In all, more than 7,000 species of woody plants have been recorded, of which there are 2,800 timber trees and over 300 species of gymnosperms. The rare ginkgo tree, cathaya tree, and metasequoia, long extinct elsewhere, can still be found growing in China. Among flowering plants, 650 of the 800 known varieties of azalea occur in China, while 390 of the 450 known varieties of primrose and about 230 of the 400 known varieties of gentian are

also found there. The tree peony, which originated in Shandong Province, appears in 400 varieties.

The richest and most extensive needle-leaf forests occur in the Greater Hinggan Ling (Khangai) Mountains of the northeast, where stands of larch, Asian white birch, and Scotch pine flourish, and in the Lesser Hinggan Ling (Khangai) Mountains, with stands of Korean pine and Dahurian larch. In the Sichuan (Szechuan) Basin, vegetation changes with altitude to embrace a variety of conifers at high levels, deciduous trees and cypresses at middle elevations, and bamboo in lower elevations. Farther south, in subtropical Fujian and Zhejiang provinces, broadleaf evergreen forests predominate. Forests give way to natural grasslands and scrub in drier western and northwestern areas, especially in the semiarid regions of Shanxi and Shaanxi, in the steppes of Inner Mongolia, and along the desert margins of the Tarim and Junggar basins.

China's most celebrated wild animal is the giant panda, a rare mammal now found in the wild only in remote areas of Sichuan, Gansu, and Shanxi provinces; as of 1994, just over 500 wild pandas were still in their natural state. Other fauna unique to China include the golden-haired monkey, found in remote parts of Shaanxi, Gansu, Sichuan, Guizhou, and Yunnan; the northeast China tiger, found in the Lesser Hinggan Ling and Changbai mountains along the Korean border; the Chinese river dolphin and Chinese alligator, both found along the middle and lower Yangtze River; the rare David's deer and the white-lipped deer, the latter found mainly in Qinghai Province and Tibet; a rare kind of white bear found in Hubei Province; and the lancelet, an ancient species of fish representing a transitional stage between invertebrate and vertebrate development, now found only in Fujian Province. In addition, more than 1,000 species of birds have been recorded. Among the rarer kinds are the mandarin duck, the white-crowned long-tailed pheasant, golden pheasant, Derby's parakeet, yellow-backed sunbird, red-billed leiothrix, and red-crowned crane.

### **5 ENVIRONMENT**

It is estimated that China has lost one-fifth of its agricultural land since 1957 due to economic development and soil erosion. Since 1973, China has taken significant steps to rectify some of the environmental damage caused by rampant use of wood for fuel, uncontrolled industrial pollution, and extensive conversion of forests, pastures, and grasslands to grain production during the Cultural Revolution. Reforestation, including construction of shelter belts, has emphasized restoration of the erosion-prone loesslands in the middle reaches of the Yellow River. In 1979, the Standing Committee of the Fifth National People's Congress adopted an Environmental Protection Law and a Forestry Law. In 1989, China began a nationwide program called the Great Green Wall of China which began to accelerate the rate of reforestation. In 2000, about 17.5% of the total land area was forested.

Water supplies are limited—per capita consumption in China's cities is about 34 gallons a day, less than half that in many developing countries—and conservation, reclamation, and redistribution of water constitute major national priorities. Safe drinking water is unavailable to much of the population (as much as one-third, according to some estimates). By 1989, 436 of 532 rivers were polluted. In 1994, the World Health Organization reported that Chinese cities pollute water supplies more than those of any other country in the world. Legislation provides for the protection of



LOCATION: (not including islands south of Hainan): 18°9' to 53°34' N; 78°38' to 135°5' E. BOUNDARY LENGTHS: Afghanistan, 76 kilometers (47 miles); Bhutan, 470 kilometers (292 miles); Myanmar, 2,185 kilometers (1,358 miles); Hong Kong, 30 kilometers (19 miles); India, 3,380 kilometers (2,100 miles); Kazakhstan, 1,533 kilometers (953 miles); North Korea, 1,416 kilometers (880 miles); Kyrgyzstan, 858 kilometers (533 miles); Laos, 423 kilometers (263 miles); Macau, 0.34 kilometers (0.21 miles); Mongolia, 4,673 kilometers (2,904 miles); Nepal, 1,236 kilometers (768 miles); Pakistan, 523 kilometers (325 miles); Russia (NE), 3,605 kilometers (2,240 miles); Russia (NW), 40 kilometers (25 miles); Tajikistan, 414 kilometers (257 miles); Vietnam, 1,281 kilometers (796 miles); total coastline, 14,500 kilometers (9,009 miles).

TERRITORIAL SEA LIMIT: 12 miles.

aquatic resources, including water quality standards for farmland irrigation and fisheries.

To alleviate water shortages in the heavily populated Beijing-Tianjin region, a massive water transfer project began in 1994 by construction of the Three Gorges Dam on the Yangtze River. The project aroused considerable controversy. Project managers faced technological problems and higher-than-expected costs. Completion of the project (scheduled for 2009) will create a reservoir that will flood prime farm land and leave the ecology of the river area damaged. By early 2005, one million people had already been dis-

placed by construction. An additional 900,000 people were expected to be displaced by completion of the project.

The use of high-sulfur coal as a main energy source causes air pollution and contributes to acid rain. In the mid-1990s, China had the world's second-highest level of industrial carbon dioxide emissions, totaling 2.67 billion metric tons per year, a per capita level of 2.27 metric tons per year. In 2000, the total increased to 2.7 billion metric tons. Investment in pollution-reducing technology is required of all industrial enterprises. Penalties are imposed for noncompliance and incentives, in the form of tax reductions and higher allowable profits, are available for those enterpris-

es that meet environmental standards. Beijing has implemented programs for controlling discharges of effluents, smoke and soot emissions, and noise pollution. Special success has been claimed for the recovery of oil from effluents of the Daqing oil field in Heilongjiang, refineries, and other oil-processing establishments; use of electrostatic precipitators and bag collectors by the cement and building industries; recovery of caustic soda and waste pulp from effluents of the pulp and paper industries; introduction of non-polluting processes into the tanning and depilating of hides; use of nonmercuric batteries; recovery of fine ash from coal-burning power plants for use in the manufacture of bricks, tiles, cement, and road-surfacing materials; and development of new methodologies for recycling coal wastes and marine oil discharges.

To protect the nation's botanical and zoological resources, a program was adopted in 1980 to establish 300 new reserves, with a total area of 9.6 million ha (23.7 million acres). That goal was achieved by the end of 1985, one year ahead of schedule. In 2003, about 7.8% of the total land area of China was protected. The largest reserve, covering 800,000 ha (1,980,000 acres), is the Changbai Mountain Nature Reserve, in the northeast. Others include the Wolong reserve in Sichuan Province, covering 200,000 ha (494,000 acres) and famous for its research on the giant panda; the Dinghu Mountain reserve in Guangdong Province, where a subtropical evergreen broadleaf monsoon forest that has remained virtually untouched for four centuries provides opportunities for ecological studies; and the Nangun River area in Yunnan Province, where the principal focus of protection is the tropical rain forest. There are 30 Ramsar wetland sites and eight natural and mixed properties designated as UNESCO World Heritage Sites.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 80 types of mammals, 82 species of birds, 31 types of reptiles, 86 species of amphibians, 47 species of fish, 1 type of mollusk, 3 other invertebrates, and 443 species of plants. Endangered species in China include Elliot's pheasant, Cabot's tragopan, yarkand deer, Shansi sika deer, South China sika, North China sika, the Chinese alligator, the Amur leopard, Javan rhinoceros, Thailand brow-antlered deer, the white-lipped deer, Bactrian camel, the giant panda, and the Siberian white crane. There are about nine extinct species, including the Yunnan box turtle and the wild horse.

## 6 POPULATION

The population of China in 2005 was estimated by the United Nations (UN) at 1,303,701,000, which ranked first in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 22% of the population under 15 years of age. There were 106 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.6%, a rate the government viewed as satisfactory. The government has emphasized family planning since the 1970s, and has accomplished a significant reduction in population growth. The projected population for the year 2025 was 1,476,000,000. The population density was 136 per sq km (353 per sq mi), but the distribution of the population throughout China is extremely uneven. The most densely populated areas near the coast have a population density of more

than 154 people per sq km (400 per sq mi), while the western plateaus are sparsely populated.

China, as the most populous country in the world, accounts for 21% of the estimated world population. Until 2001, it was also the only country to have attained the status of demographic billionaire, but in March that year, India also reached a one billion population. The government policy, launched in the 1990s calling for an extensive family planning program to limit population growth, has been successful.

The UN estimated that 37% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.79%. Government policy has sought to limit the growth of the large eastern cities, especially the capital city, Beijing (Peking), Shanghai, and Tianjin, and to promote the growth of smaller cities away from the coast. China has over 60 metropolitan areas with populations greater than 750,000. As of 2005, the largest urban centers were Shanghai, 12,665,000; Beijing, 10,849,000; and Tianjin, 9,346,000. Other large metropolitan areas included Wuhan, 6,003,000; Chongqing, 4,975,000; Shenyang, 4,916,000; Guangzhou, 3,881,000; Chengdu, 3,478,000; Xi'an, 3,256,000; Changchun, 3,092,000; Harbin, 2,898,000; Dalian, 2,709,000; Jinan, 2,654,000; Hangzhou, 1,955,000; and Qingdao, 1,452,000.

## 7 MIGRATION

The overseas migration of millions of Chinese reached its peak in the 1920s when thousands of farmers and fishermen from the southeastern coastal provinces settled in other countries of Southeast Asia. Chinese constitute a majority in Singapore, are an important ethnic group in Malaysia, and make up a significant minority in the Americas. In 1949, after the Communist victory, some two million civilians and 700,000 military personnel were evacuated to Taiwan.

Since in many places abroad the Chinese population has been growing at a rate faster than that of the local non-Chinese population, most countries have been trying to curtail the entrance of new Chinese immigrants. Emigration from China under the PRC government was once limited to refugees who reached Hong Kong, but is now denied only to a few political dissidents, if the state is reimbursed for postsecondary education costs. Immigration is for the most part limited to the return of overseas Chinese. At the end of 1999, the United Nations High Commissioner for Refugees (UNHCR) reported 285,000 Vietnamese refugees in China, 91% of whom are of Chinese ancestry.

During the Cultural Revolution of the 1960s and 1970s, more than 60 million students, officials, peasant migrants, and unemployed were sent "down to the countryside" in a gigantic rustication movement. The goals of this program were to relocate industries and population away from vulnerable coastal areas, to provide human resources for agricultural production, to reclaim land in remote areas, to settle borderlands for economic and defense reasons, and, as has been the policy since the 1940s, to increase the proportion of Han Chinese in ethnic minority areas. Another purpose of this migration policy was to relieve urban shortages of food, housing, and services, and to reduce future urban population growth by removing large numbers of those 16–30 years of age. However, most relocated youths eventually returned to the cities.

Efforts to stimulate “decentralized urbanization” have characterized government policy since the late 1970s. Decentralized urbanization and the related relocation of industries away from established centers has also been promoted as a way for China to absorb the increasing surplus labor of rural areas, estimated at 100 million in 2000. However, China’s economic boom of the 2000s led to rapid growth of coastal provinces attracting inland rural males for construction and females to work in factories. This contrast extends to how children are perceived. Urban parents call their only child “little sun” (as in “center of the universe”), compared with rural parents, who call their child or children “left behind,” (with their grandparents, as parents travel distances for work). For rural areas another split has developed: migrant work for the young and farming for the old.

On 1 July 1997, the sovereignty of Hong Kong reverted back to China. As of 1999, some 1,562 refugees and screened-out nonrefugees still remained in the Hong Kong Special Administrative Region (SAR). In 2004, there were 299,305 refugees living in China, all but 135 in camps. In addition, 44 people sought asylum in China. The main countries to which Chinese emigrated in 2004 were the United States, Canada, South Africa, France, and the United Kingdom. Chinese sought asylum in India, the United States, Germany and Canada. In 2005, the net migration rate for China was estimated as -0.4 migrants per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

According to the latest estimates, the largest ethnic group, accounting for 91.9% of the total population, is the Han. The Han form a majority in most of the settled east and south but remain a minority, despite continuing immigration, in the west.

The remaining 8.1% of the population is comprised of minority groups. Because of their predominance in strategically sensitive border areas, they hold a political and economic importance disproportionate to their numbers. The largest minority, at last estimate was the Zhuang, a Buddhist people, related to the Thai, who are primarily concentrated in Guangxi, Yunnan, and Guangdong. Other large minorities were the Manchu, concentrated in Heilongjiang, Jilin, and Liaoning; the Hui, a Chinese-speaking Muslim people concentrated in Ningxia, Gansu, Henan, and Hebei; the Uygur, a Muslim Turkic people of Xinjiang; the Yi, formerly called Lolo, a Buddhist people related to the Tibetans and concentrated in Yunnan, Sichuan, and Guizhou; the Miao, in Guizhou, Hunan, Yunnan, and Guangxi; and the Tibetans, concentrated in Xizang (Tibet), Qinghai, and Sichuan. Other minority nationalities, with estimated populations of more than one million, included the Mongolians; Tujia; Buyi; Koreans; Dong; Yao; Bai; Hani; Li; and the Kazaks, concentrated in Xinjiang, Gansu, and Qinghai.

## 9 LANGUAGES

Chinese, a branch of the Sino-Tibetan linguistic family, is a monosyllabic tone language written by means of characters representing complete words. The Chinese script is not phonetic and remains constant throughout China, but the spoken language has regional phonetic differences. Spoken Chinese falls into two major groups, separated roughly by a northeast-southwest line running from the mouth of the Yangtze River to the border of Vietnam. North and west of this line are the so-called Mandarin dialects, based on the

Beijing dialect and known as *putonghua* (“common language”). The most important dialect south of the linguistic divide is that of Shanghai, the Wu dialect spoken in the Yangtze River Delta. Hakka and Hokkien are dialects of the southeastern coastal province. Cantonese, the Yue dialect spoken in southern China, is the language of the majority of Chinese emigrants. Others include the Minbei or Fuzhou dialect, the Xiang, and Gan dialects. Mandarin Chinese was adopted as the official language of China in 1955.

To communicate in written Chinese, thousands of Chinese characters must be memorized. Since the establishment of the PRC in 1949, reform of the written language has been a major priority. A simplified system of writing, reducing the number of strokes per character, has been adopted, and the language restructured so that anyone familiar with the basic 2,000–3,000 characters is functionally literate (defined as being able to read a newspaper).

A number of systems have been developed to transcribe Chinese characters into the Latin alphabet. The principal romanization scheme was the Wade-Giles system until 1979, when the PRC government adopted Pinyin, a system under development in China since the mid-1950s. Inside China, Pinyin is used in the schools to facilitate the learning of Chinese characters, in minority areas where other languages are spoken, and on commercial and street signs. Pinyin has replaced the Wade-Giles system in all of China’s English-language publications and for the spelling of place names. In general, pronunciation of Pinyin follows standard American English, except that among initial sounds, the sound of *q* is like the sound of *ch* as in *chart*, the sound of *x* like the sound of *sh* as in *ship*, and the sound of *zh* like the sound of *j* as in *judge*, and among final sounds, the sound of *e* is like the sound of *oo* as in *look*, the sound of *eng* like the sound of *ung* as in *lung*, the sound of *ui* like the sound of *ay* as in *way*, and the sound of *uai* like the sound of *wi* as in *wide*.

Of the 55 recognized minority peoples in China, only Hui and Manchus use Chinese as an everyday language. More than 20 minority nationalities have their own forms of writing for their own languages. Minority languages are used in all state institutions in minority areas and in all newspapers and books published there.

## 10 RELIGIONS

Three faiths—Confucianism, Buddhism, and Taoism—have long been established in China and the religious practice of the average Chinese traditionally has been an eclectic mixture of all three. Confucianism has no religious organization but consists of a code of ethics and philosophy; filial piety, benevolence, fidelity, and justice are among its principal virtues. Taoism, a native Chinese religion that evolved from a philosophy probably founded in the 6th century BC by Laozu (Laozi), and Buddhism, imported from India during the Han dynasty, both have elaborate rituals. Tradition-minded Chinese base their philosophy of life on Confucianism, but such old habits of thought came under strong attack during the Cultural Revolution.

Suppression of religion and the introduction of programs of antireligious indoctrination began in 1949 and intensified, with the closure of temples, shrines, mosques, and churches, from the mid-1960s through the mid-1970s. Overt antireligious activity eased in 1976, and the government reactivated its Bureau of Religious Affairs. The constitution of 1982 provides for freedom of belief and worship; however, the government restricts religious practices and

maintains a great deal of control over the growth of various religious organizations. The State Administration for Religious Activities and the United Front Work Department monitor religious organizations and supervise the implementation of government regulations for religious groups and activities. All groups are required to register with the government in order to legally participate in worship. Many groups refuse to register, however, either out of protest for government policies and control over religion or from fear of providing the names of religious leaders to government authorities.

As of 2004, the country had five officially recognized religions, Buddhism, Taoism, Islam, Catholicism, and Protestantism. About 8% of the population were Buddhists, 1.4% were Muslims, 1.2% were Protestants, and less than 1% were Catholics. Nearly all of the nation's Muslims are members of the ethnic minority nationalities; most belong to the Sunni branch, but the Tajiks are Shias. The tiny Jewish minority has virtually disappeared through emigration and assimilation. A majority of the population does not claim official religious affiliation.

"House churches," a term that typically applies to unregistered Christian groups that meet in homes or businesses for prayer meetings and Bible studies, are somewhat common. Small groups of a dozen or so members are usually allowed to gather without registration as long as the meetings are small, private, and unobtrusive. As membership grows however, these house churches face difficulties in finding ways to continue conducting religious activities without attracting the notice and control of the government. Tensions between the Vatican and the Chinese government have caused difficulties for the nation's Catholics. The state forbids the official Catholic church from recognizing the authority of the Papacy and in matters where government policy and traditional Catholic faith differ, such as abortion, the state takes precedence. This has had a major impact on recruiting, appointing, and retaining the Catholic clergy within the country.

Falun Gong (also known as Falun Dafa) is a combination of Taoism, Buddhism, meditation techniques, and the physical exercises of quigong. Though spiritual in content, it is considered more of a general practice than a religion, since there are no clergy and no places of worship. The group has been considered a heretical cult by the Chinese government and reports indicate that thousands of adherents have been arrested and imprisoned since 1999. It is believed that several hundred have died while in detention.

## **11 TRANSPORTATION**

Railways, roads, and inland waterways all play an important role in China's transportation system, which has undergone major growth since the 1940s. China's rail network forms the backbone of the transportation system. Chinese railways increased in length from 21,989 km (13,663 mi) in 1949, to 71,898 km (44,721 mi) in 2002, of which 18,115 km (11,267 mi) were electrified. In the rush to expand rail facilities during the "Great Leap Forward," the Chinese laid rails totaling 3,500 km (2,175 mi) in 1958, with some 4,600 km (2,900 mi) added in 1959. Many major projects had been completed by the 1970s, including double-tracking of major lines in the east; the electrification of lines in the west, including the 671 km (417 mi) Baoji-Chengdu link; and the addition of several new trunk lines and spurs, many providing service to the country's more remote areas. While the total rail network is more than

twice what it was in 1949, the movement of freight is more than 25 times that of 1949. Increased freight volumes have been achieved by loading freight cars up to 20% over their rated capacity and by containerization. Shortages of freight and tank cars continue to delay deliveries of coal and other industrial raw materials to their destinations. In 1991, China invested \$8 billion for infrastructure improvements, including the upgrade of 309 km (192 mi) of double-track railway and the electrification of 849 km (528 mi) of track.

Road transportation has become increasingly important. Motor roads grew from about 400,000 km (249,000 mi) in 1958 to 550,000 km (342,000 mi) in 1964 and to 1,809,829 km (1,125,714 mi) by 2003. About 1,447,682 km (900,458 mi) were paved, including at least 29,745 km (18,501 mi) of expressways. Major roads completed in the 1970s included the 2,413 km (1,499 mi) Sichuan-Tibet Highway, the 2,100 km (1,305 mi) Qinghai-Tibet Highway, and the 1,455 km (904 mi) Xinjiang-Tibet Highway. Between 1981 and 1985, 50,000 km (31,000 mi) of highways and more than 15,000 bridges were built. By 2003, an estimated 6,789,000 passenger automobiles used the highway system, up from 50,000 in 1949. In addition, there were some 17,222,000 commercial vehicles operating in the same year. Bicycles are the chief mode of transport in large cities. In Beijing, there are an estimated eight million bicycles, accounting for 83.5% of the city's road traffic.

As of 2002, China had 121,557 km (75,608 mi) of navigable inland waterways. About 25% of the waterways are navigable by modern vessels, while wooden junks are used on the remainder. The principal inland waterway is the Yangtze River. Much work was done in the early 1980s to dredge and deepen the river, to improve navigational markers and channels, and to eliminate the treacherous rapids of the Three Gorges section east of Yibin. Steamboats can now travel inland throughout the year from Shanghai, at the river's mouth, upstream as far as Yibin, and 10,000-ton oceangoing vessels can travel inland as far as Wuhan in the high-water season and Nanjing in the low-water season. Major ports on the river include: Chongqing, the principal transportation hub for the southwest; Wuhan, its freight dominated by shipments of coal, iron, and steel; Wuhu, a rice-exporting center; Yuxikou, across the river from Wuhu and the chief outlet for the region's coal fields; Nanjing; and Shanghai. The Pearl River is navigable via a tributary as far as Nanning. The ancient Grand Canal, rendered impassable by deposits of silt for more than 100 years, has been dredged and rebuilt; it is navigable for about 1,100 km (680 mi) in season and 400 km (250 mi) year-round.

China's merchant fleet expanded from 402,000 gross registered tonnage (GRT) in 1960 to over 10,278,000 GRT in 1986, and to 18,724,653 GRT in 2005. China's 1,649 merchant ships of 1,000 GRT or over can accommodate most of the country's foreign trade. The balance is divided among ships leased from Hong Kong owners and from other foreign sources. The principal ports are Tianjin, the port for Beijing, which consists of the three harbors of Neigang, Tanggu, and Xingang; Shanghai, with docks along the Huangpu River channel; Lüda, the chief outlet for the northeast and the Daqing oil field; and Huangpu, the port for Guangzhou, on the right bank of the Pearl River. Other important ports include Qinhuangdao; Qingdao; Ningbo, the port for Hangzhou; Fuzhou; Xiamen; and Zhanjiang.

The Civil Aviation Administration of China (CAAC) operates all domestic and international air services. Operations have grown significantly with the purchase, since the 1970s, of jet aircraft from the United States, United Kingdom, and other Western sources. In 2004, there were an estimated 472 airports. As of 2005, a total of 389 had paved runways and there were also 30 heliports. Principal airports include Capital at Beijing, Shuangliu at Chengdu, Hongqiao at Shanghai, Baiyun at Guangzhou, Wujiaaba at Kunming, and Gaoqi at Xiamen. From Beijing there are scheduled daily flights to Shanghai, Guangzhou, Kunming, Chengdu, Shenyang, Changchun, Changsha, Wuhan, Zengzhou, and Harbin. The total scheduled international and domestic service performed in 2003 included 5,651 million freight ton-km, as well as 86.041 million passengers carried.

## 12 HISTORY

Fossils attest to hominid habitation in China more than 500,000 years ago, and Paleolithic cultures appeared in the southwest by 30,000 BC. Neolithic peoples appeared before 7000 BC; by 3000 BC there were millet-growing settlements along the Yellow River (Huang He). The original home of the Chinese (Han) people is probably the area of the Wei, Luo (Lo), and middle Yellow rivers. According to tradition, the Xia (Hsia) dynasty (c.2200–c.1766 BC) constituted the first Chinese state. Its successor, the Shang, or Yin, dynasty (c.1766–c.1122 BC), which ruled over the valley of the Yellow River, left written records cast in bronze or inscribed on tortoiseshell and bone. The Shang was probably conquered by the Western Zhou (Chou) dynasty (c.1122–771 BC), which ruled a prosperous feudal agricultural society. Fleeing foreign attack in 771 BC, the Western Zhou abandoned its capital near the site of Xi'an and established a new capital farther east at Luoyang (Loyang). The new state, known as the Eastern Zhou dynasty (771–256 BC), produced the great Chinese philosophers including Confucius (K'ung Fu-tzu or Kong Fuzi) and the semi-historical figure, Lao Tzu (Lao Zi). Between 475 and 221 BC, the Qin (Ch'in) dynasty (221–207 BC) gradually emerged from among warring, regional states to unify China. Shi Huangdi (Shih Huang Ti, r.221–210 BC), the first Qin emperor (the outer edges of whose tomb, opened in the 1970s, were discovered to contain stunningly lifelike terra-cotta armies), ended the feudal states and organized China into a system of prefectures and counties under central control. For defense against nomadic proto-Mongolian tribes, Shi Huangdi connected walls of the feudal states to form what was later to become known as the Great Wall. By this time, the Yellow River had an irrigation system, and cultivation had begun in the Yangtze Valley; at the end of Shi Huangdi's reign, China probably had close to 40 million people. During the period of the Han dynasties (206 BC–AD 8, AD 25–220), China expanded westward, nomadic tribes from the Mongolian plateau were repelled, and contacts were made with Central Asia, the West, and even Rome. The Han saw the invention of paper. Under the later Han, Buddhism was introduced into China. After the Han period, the Three Kingdoms (Wei, Shu, and Wu) contended for power, and nomadic tribes from the north and west raided northern China. From the 4th century AD on, a series of northern dynasties was set up by the invaders, while several southern dynasties succeeded one another in the Yangtze Valley, with their capital at Nanjing (Nanking). Buddhism flourished during this period, and the arts and sciences were developed. The

empire was reunited by the Sui (589–618) dynasty, which built the Grand Canal, linking the militarily strategic north with the economic wealth of the south and laying the basis for the Tang (T'ang, 618–907) dynasty.

Under the early Tang, especially under Emperor Taizong (T'ai-tsung, r.627–49), China became powerful. The bureaucratic system, begun by the Han, was further developed, including the regular use of an examination system to recruit officials on the basis of merit. Handicrafts and commerce flourished, a system of roads radiated from the capital (at the site of Xi'an), successful wars were fought in Central Asia, and China became the cultural and economic center of Asia. Poetry and painting flourished, particularly under Emperor Xuan-Zong (Hsüan-tsung, r.712–56). Civil wars and rebellion in the late Tang led to a period of partition under the Five Dynasties (r.907–60) which was followed by the Northern and Southern Song (Song) dynasties (960–1127, 1127–1279), distinguished for literature, philosophy, the invention of movable type (using clay and wood), the use of gunpowder in weapons, and the improvement of the magnetic compass. However, Mongol and Tatar tribes in the north forced the Song to abandon its capital at Kaifeng in 1126 and move it to Hangzhou (Hangchow). In 1279, Kublai Khan (r.1279–94) led the Mongols to bring all of China under their control and became the first ruler of the Mongols' Yuan dynasty (1279–1368). The Mongols encouraged commerce and increased the use of paper money. The Grand Canal was reconstructed, and a system of relay stations ensured safe travel. Many European missionaries and merchants, notably Marco Polo, came to the Mongol court.

After a long period of peasant rebellion, Mongol rule was succeeded by the native Chinese Ming dynasty (1368–1644). The famous Ming admiral, Zheng He (Cheng Ho, 1371–1433) led seven naval expeditions into the South China Sea and the Indian Ocean between 1405 and 1433, reaching as far as the east coast of Africa. The Portuguese reached China in 1516, the Spanish in 1557, the Dutch in 1606, and the English in 1637. The Ming dynasty was overthrown by the Manchus, invaders from the northeast, who established the last imperial dynasty, the Qing (Ch'ing or Manchu, 1644–1911). The first century and a half of Manchu rule was a period of stability and expansion of power, with outstanding reigns by Kang xi (K'ang-hsi, 1662–1722) and Qian long (Ch'ien-lung, 1736–96). Although the Manchus ruled as conquerors, they adopted indigenous Chinese culture, administrative machinery, and laws. Under Manchu rule, Chinese territories included Manchuria, Mongolia, Tibet, Taiwan, and the Central Asian regions of Turkestan. The population of over 300 million by 1750 grew to over 400 million a century later.

By the close of the 18th century, only one port, Guangzhou (Canton), was open to merchants from abroad, and trade was greatly restricted. Demands by the British for increased trade, coupled with Chinese prohibition of opium imports from British India, led to the Opium War (1839–42), which China lost. By the Treaty of Nanjing (1842), the ports of Guangzhou, Xiamen (Amoy), Fuzhou (Foochow), Ningbo, and Shanghai were opened, and Hong Kong Island was ceded to Britain. The T'aiiping Rebellion (1850–64), nearly overthrew the Manchus and cost 30 million lives. A second war (1856–60) with Britain, joined by France, resulted in the opening of Tianjin (Tientsin) to foreign trade. The West's interest then turned from trade to territory. Russia acquired

its Far Eastern territories from China in 1860. China's defeat in the Sino-French War (1884–85), in which it came to the defense of its tributary, Vietnam, resulted in the establishment of French Indo-China. In the First Sino-Japanese War (1894–95), Japan obtained Taiwan, the opening of additional ports, and the independence of Korea (which Japan subsequently annexed in 1910). This was a major turning point and led to the “scramble for concessions.” In 1898, Britain leased Weihai in Shandong and the New Territories (for 99 years) of Hong Kong, Germany leased part of Shandong, Russia leased Port Arthur at the tip of Liaodong Peninsula, and France leased land around Guangzhou Bay in the south. The Boxer Rebellion, an uprising in 1899–1901 by a secret society seeking to expel all foreigners and supported by the Manchu court, was crushed by the intervention of British, French, German, American, Russian, and Japanese troops.

A revolution that finally overthrew Manchu rule began in 1911 in the context of a protest against a government scheme that would have handed Chinese-owned railways to foreign interests. City after city repudiated the Manchus, and in February 1912, the dowager empress, Ci Xi (Tz'u Hsi), signed an abdication document for the infant emperor, Puyi (P'u-yi). The Chinese republic, ruled briefly by Sun Zhongshan (Sun Yat-sen), followed by Yuan Shikai (Yuān Shih-kai), entered upon a period of internal strife. Following Yuan's death in 1916, the Beijing regime passed into the hands of warlords. The Beijing regime joined World War I on the Allied side in 1917. In 1919, the Versailles Peace Conference gave Germany's possessions in Shandong to Japan, sparking the May Fourth Movement as student protests grew into nationwide demonstrations supported by merchants and workers. This marked a new politicization of many social groups, especially those intellectuals who had been emphasizing iconoclastic cultural change.

Meanwhile, civil war grew more intense. In the south, at Guangzhou, the Nationalists (Guomindang, Kuomintang) led by Sun Zhongshan in alliance with the Communists (whose party was founded in Shanghai in 1921) and supported by Russia, built a strong, disciplined party. After Sun Zhongshan's death in 1925, his successor, Chiang Kai-shek (Jiang Jieshi), unified the country under Nationalist rule in 1928 with the capital in Nanjing. In 1927, the Nationalists began a bloody purge of the Communists, who sought refuge in southern Jiangxi Province. Their ranks severely depleted by Nationalist attacks, the Communists embarked on their arduous and now historic Long March during 1934–35. The Communists eventually reached Shaanxi Province in northwestern China, where, under the leadership of Mao Zedong (Tse-tung), they set up headquarters at Yan'an (Yenan). Japan, taking advantage of Chinese dissension, occupied Manchuria (Dongbei) in 1931.

Increasing Japanese pressure against northern China led, in July 1937, to the second Sino-Japanese war, which continued into World War II and saw Japanese forces occupy most of China's major economic areas. Nationalist China, established in the southwestern hinterland with its capital at Chongqing, resisted with US and UK aid, while the Communists fought the Japanese in the northwest. Japan evacuated China in 1945 and both Communist and Nationalist forces moved into liberated areas. The rift between the two factions erupted into civil war. Although supported by the United States, whose mediation efforts had failed, the Nationalists

steadily lost ground through 1948 and 1949, were expelled from the mainland by early 1950, and took refuge on Taiwan.

### The People's Republic

The Communists, under the leadership of Mao, as chairman of the Chinese Communist Party (CCP), proclaimed the People's Republic of China (PRC) on 1 October 1949, with the capital at Beijing. A year later, China entered the Korean War (1950–53) on the side of the Democratic People's Republic of Korea (DPRK). In the fall of 1950, China entered Tibet, which had asserted its independence after the overthrow of the Manchu dynasty, despite formal claims to it by all subsequent Chinese governments. In 1959, the Dalai Lama fled to India during a Tibetan revolt against Chinese rule. Tibet became an autonomous region in 1965. The Nationalists held, in addition to Taiwan, islands in the Taiwan (Formosa) Strait: the Pescadores, Quemoy (near Xiamen), and the Matsu Islands (near Fuzhou).

In domestic affairs, a rapid program of industrialization and socialization up to 1957 was followed in 1958–59 by the Great Leap Forward, a crash program for drastic increases in output and the development of completely collectivized agricultural communes. The program ended in the “three bad years” of famine and economic crisis (1959–61), which produced 20 million deaths above the normal death rate, followed by a period of restoration and retrenchment in economics and politics. In the early 1960s, Chinese troops intermittently fought with Indian border patrols over conflicting territorial claims in Ladakh and the northeastern Indian state of Assam. Mediation attempts failed, but in 1963, the Chinese withdrew from the contested areas that they had occupied, and war prisoners were repatriated. Meanwhile, growing discord between China and the former Soviet Union had become more open, and in 1960, the USSR withdrew its scientific and technical advisers from China. Public polemics sharpened in intensity in the succeeding years, as the two powers competed for support in the world Communist movement.

After the Chinese economy recovered in 1965, Mao again steered the country onto the revolutionary path, and gradually built up momentum for the Great Proletarian Cultural Revolution, one of the most dramatic and convulsive periods in modern Chinese history. It continued until Mao's death in 1976, but the most tumultuous years were from 1966 to 1969, during which the cities witnessed a chaotic and violent pattern of factional fighting, accompanied by attacks on bureaucrats, intellectuals, scientists and technicians, and anyone known to have overseas connections.

Increasing confrontation between Mao and the party establishment, beginning in the fall of 1965, culminated in August 1966 with the CCP Central Committee's “16-Point Decision” endorsing Mao's Cultural Revolution policy of criticizing revisionism. In response to Mao's initiative, high levels of urban protest demonstrated widespread dissatisfaction with bureaucracies and privilege. In the latter half of 1966, the Red Guard movement of radical students attacked educational and state authorities and split into competing factions. Amid the rising conflict, the party institution collapsed in major cities. Liu Shaoqi, second to Mao in the political hierarchy and Chairperson of the People's Republic, was ousted from power as the chief target of the Cultural Revolution. In 1968, Liu was formally dismissed from all positions and expelled from

the party. He died at the end of 1969. From January 1967 through mid-1968, the discredited political establishment was replaced by Revolutionary Committees, comprised of the new radical organizations, the officials who remained in power, and representatives of the army. Finally, the army was told to restore order. In 1968 and 1969, students were sent out of the cities into the countryside. Colleges did not reopen until 1970. At the Ninth Party Congress in April 1969, the military's role was confirmed when Lin Biao, the Minister of Defense, was named Mao's successor.

Estimates place the number of dead as a direct result of the Cultural Revolution from 1966 to 1969 at 400,000. Much of the countryside, however, was unaffected and the economy, despite a setback in 1968, suffered little. The remaining years of the Cultural Revolution decade, up to 1976, were marked by a legacy of struggles over policies and over political succession to the aging Mao (83 at his death in 1976). In September 1971, Lin Biao died in a plane crash, allegedly while fleeing to the former USSR following an abortive coup. The decade from 1966 to 1976 left persistent factionalism in Chinese politics and a crisis of confidence, particularly among the young.

These years of domestic upheaval also brought profound changes in international alignments. In 1969, Chinese and Soviet forces clashed briefly along the Amur River frontier of eastern Heilongjiang Province. Throughout the late 1960s and early 1970s, China played a major role in supporting the Democratic Republic of Vietnam (North Vietnam) in the Vietnamese conflict. In November 1971, the PRC government replaced Taiwan's Nationalist government as China's representative at the UN and on the Security Council, following a General Assembly vote of 76–35, with 17 abstentions, on 25 October. Following two preliminary visits by US Secretary of State Henry Kissinger, President Richard M. Nixon journeyed to China on 21 February 1972 for an unprecedented state visit, and the two countries took major steps toward normalization of relations as the two nations sought common ground in their mutual distrust of Soviet intentions. In the period following the Nixon visit, US-China trade accelerated and cultural exchanges were arranged. In May 1973, the two countries established liaison offices in each other's capital and full diplomatic relations were established by 1979.

In 1975 at the Fourth National People's Congress, Zhou Enlai (Chou En-lai) announced a reordering of economic and social priorities to achieve the Four Modernizations (of agriculture, industry, national defense, and science and technology). Factional strife reminiscent of the late 1960s emerged between radical party elements led by Mao's wife, Jiang Qing (Chiang Ch'ing), and three associates (later collectively dubbed the Gang of Four), who opposed the modernization plans, and veteran party officials, such as Deng Xiaoping (previously associated with Liu Shaoqi and restored to power in 1973), who favored them. When Zhou died on 8 January 1976, the radicals moved to block the appointment of Deng (Zhou's heir apparent) as premier, with Mao resolving the impasse by appointing Hua Guofeng, a veteran party official and government administrator, as acting premier. Attacks on Deng continued until he was blamed for spontaneous disorders at a Beijing demonstration honoring Zhou on the Festival of the Dead, 5 April 1976, and, for the second time in his career, Deng was removed from all official positions.

## After Mao

When Mao Zedong died on 9 September 1976, Hua Guofeng was quickly confirmed as party chairman and premier. A month later, the Gang of Four was arrested, and in early 1977, the banished Deng Xiaoping was again "reinstated." By 1978, Deng Xiaoping had consolidated his political dominance, and a new era of economic reforms began. The Third Party Plenum and the Fifth National People's Congress in 1978 adopted a new constitution and confirmed the goals of the Four Modernizations. Another new constitution in 1982 again confirmed policies of economic reform and emphasized legal procedure. The Cultural Revolution was officially condemned and Mao's historical role reevaluated. After a show trial from November 1980 to January 1981, the Gang of Four, together with Mao's former secretary and five others associated with Lin Biao, were convicted of crimes of the Cultural Revolution. Jiang Qing, whose death sentence was commuted to life imprisonment, committed suicide in 1991 after being diagnosed with cancer.

In 1980, Zhao Ziyang, a protégé of Deng Xiaoping, replaced Hua Guofeng as premier, and Hu Yaobang, another Deng protégé, became general secretary of the CCP while Hua resigned as party chairperson (a position which was abolished) in 1981. The 1980s saw a gradual process of economic reforms, beginning in the countryside with the introduction of the household responsibility system to replace collective farming. As the rural standard of living rose, reforms of the more complex urban economy began in the mid-1980s in an attempt to use the economic levers of the market instead of a command system of central planning to guide the economy. These included, with varying degrees of success, reforms of the rationing and price system, wage reforms, devolution of controls of state enterprises, legalization of private enterprises, creation of a labor market and stock markets, the writing of a code of civil law, and banking and tax reforms. At the same time, the Chinese pursued a policy of opening toward the outside world, establishing Special Economic Zones, and encouraging joint ventures and foreign investment.

In the 1980s and 1990s, China attempted to settle its relations with neighboring states. After a border clash with Vietnam in 1979, there were agreements with Great Britain in 1984 for the return of Hong Kong to China in 1997, and with Portugal in 1987, for the return of Macau—a Portuguese colony since the 16th century—in 1999. In May 1989, Soviet President Mikhail Gorbachev visited Beijing in the first Sino-Soviet summit since 1959. Top Vietnamese leaders came to China in 1991, normalizing relations between the two countries after a gap of 11 years. In the early 1990s, China and South Korea established regular relations, with China also maintaining a relationship with North Korea.

Until 1989, economic reforms were accompanied by relatively greater openness in intellectual spheres. A series of social and political movements spanning the decade from 1979 to 1989 were critical of the reforms and reacted to their effects. In the Democracy Wall movement in Beijing in the winter of 1978–79, figures like Wei Jingsheng (imprisoned from 1979 to 1994 and subsequently reimprisoned) called for democracy as a necessary "fifth modernization." A student demonstration in Beijing in the fall of 1985 was followed in the winter of 1986–87 with a larger student movement with demonstrations of up to 50,000 in Shanghai, Beijing, and

Nanjing, in support of greater democracy and freedom. In June 1987, blamed for allowing the demonstrations, Hu Yaobang was dismissed as party General Secretary, and several important intellectuals, including the astrophysicist Fang Lizhi and the journalist Liu Binyan, were expelled from the party. At the 15th Party congress of November 1987, many hard-line radicals failed to retain their positions, but Zhao Ziyang, who was confirmed as General Secretary to replace Hu, had to give up his position as Premier to Li Peng. By the end of 1988, economic problems, including inflation of up to 35% in major cities, led to major disagreements within the government, resulting in a slowdown of reforms. In December 1988, student disaffection and nationalism were expressed in a demonstration against African students in Nanjing.

On 15 April 1989, Hu Yaobang died of a heart attack. Students in Beijing, who had been planning to commemorate the 70th anniversary of the May Fourth Movement, responded with a demonstration, ostensibly in mourning for Hu, demanding a more democratic government and a freer press. Student marches continued and spread to other major cities. The urban population, unhappy with high inflation and the extent of corruption, largely supported the students and, by 17 May, Beijing demonstrations reached the size of one million people, including journalists, other salaried workers, private entrepreneurs and a tiny independent workers' organization, as well as students. On 19 May, martial law was imposed to no effect, and the government attempted to send troops to clear Beijing's Tiananmen Square, where demonstrators were camped, on 19–20 May and 3 June. Finally, in the early hours of 4 June 1989, armed troops, armored personnel carriers, and tanks, firing on demonstrators and bystanders, managed to reach the Square. Firing continued in the city for several days and estimates of the total number killed range from 200 to 3,000. The events of 4 June sparked protests across the country, and thousands were arrested as the movement was suppressed. On 24 June, Zhao Ziyang was dismissed as General Secretary and Jiang Zemin, the mayor of Shanghai, was named in his place.

Following 4 June 1989, economic reforms were curtailed and some private enterprises closed down as the leadership launched an anticorruption drive. Ideological expression, higher education, and the news media were more tightly controlled in the ensuing years. The move toward a market-oriented economy began again, with increased speed, after Deng Xiaoping made a publicized visit in the spring of 1992 to the most developed areas in southern China. China's economy became one of the most rapidly growing in the world but continued to be plagued by inflation, corruption, and a growing disparity among the provinces. With a high rate of tax evasion, state revenues were shrinking and one-third went to subsidize state enterprises. Having been at the forefront of change in the early 1980s, peasants in the early 1990s were being left behind. In 1993 and 1994, there were peasant protests and riots over receiving IOUs for their produce and over local corruption. There were workers' disputes and strikes (250,000 between 1988 and 1993) in response to low pay and poor working conditions.

Labor unrest continued into 1997 as thousands of workers in several impoverished inland provinces rioted when promises of back pay went unfulfilled. A March 1997 labor protest involving 20,000 workers in Nanchong was the largest since the Communist revolution. China's uneven economic development also led to the growth of a migrant worker class. By 2005, it was estimated that

some 100–150 million peasants left their homes in northern and western provinces in search of menial work along the coast. The unemployment in urban areas was 9.8% for 2004 with an overall unemployment rate of 20%; the unemployment rate does not include underemployment which also is a serious problem.

Parallel to but separate from the student and labor movements were ongoing demonstrations by ethnic minorities; there are 56 officially recognized minority groups in China. The most visible were those of the Tibetans (Buddhists), due to their international connections, but there have also been protests by other minorities, such as the Uyghurs (Muslims) in Xinjiang province. Violent Tibetan demonstrations in the fall of 1987 and spring of 1988 were forcibly suppressed, and from March 1989 to April 1990, martial law was imposed in Lhasa, Tibet. A Uyghur uprising in Xinjiang was met with force by the Chinese military in February 1997, leaving an estimated 100 ethnic Uyghur and 25 Chinese dead. But the situation in Tibet posed the most difficulty for Beijing. China's efforts to control Tibet and dilute its culture led in 1995 to the indefinite detention of the six-year-old boy chosen by the exiled Dalai Lama as his reincarnation, or Panchen Lama. Beijing selected another six-year-old and forced Tibetan leaders to accept him. According to the CCP the Panchen Lama and his family are living in 'protective custody'; however, no international organization has been able to visit the family to verify their whereabouts since he was taken in 1995.

In September 1997, the CCP's 15th National Congress elected a Central Committee, which selected the 22-member Politburo. Jiang Zemin became the General Secretary of the party in addition to his title of president. Li Peng was appointed prime minister, and Zhu Rongji, deputy prime minister. During this Congress, political power was consolidated in the triumvirate, with Jiang Zemin officially taking the deceased Deng Xiaoping's position.

As the government prepared for the 50th anniversary of the proclamation of the People's Republic of China, it witnessed the return of Hong Kong (1 July 1997) and Macau (20 December 1999). Both former colonies were designated Special Administrative Regions (SAR) and Jiang stated that each SAR would continue to operate with a considerable degree of economic autonomy.

Also in 1999, Chinese nationalism increased with the US bombings of the Chinese Embassy in Belgrade, Yugoslavia in May as an outpouring of government-sanctioned anti-American demonstrations took place in Beijing. Despite rising nationalism, the political leadership felt threatened by a small but rapidly growing religious sect, the Falun Gong. On 22 July 1999, Chinese authorities banned the sect and arrested its leaders despite international human rights watch groups' criticism. The country celebrated its 50th anniversary on 1 October 1999 with a 500,000-person military parade showcasing its new technological achievements in armaments.

In February and March 1996, China test-fired missiles near Taiwan's two main ports, which caused the United States to send two aircraft carrier groups to the Taiwan Strait. It was the largest US naval movement in the Asia-Pacific region since the Vietnam War. The missile firings and accompanying military exercises were considered to be responses to Taiwan's presidential elections of March 1996, which President Lee Teng-hui, whom China accused of supporting Taiwanese independence, won.

In the run-up to Taiwanese presidential elections in March 2000, Chen Shui-bian of the Democratic Progressive Party, the eventual winner, issued pro-independence campaign speeches advocating “one country on each side,” contradicting China’s “one-country, two systems” policy. In March 2000, Zhu Rongji, the deputy prime minister, warned Taiwan and the United States that Taiwanese independence could lead to armed conflict. A Chinese newspaper also quoted a government white paper stating that war with the United States is inevitable in the future and that if the United States intervened on behalf of Taiwan, the Chinese may use nuclear weapons. Meanwhile, China began construction of military bases on the mainland across the Taiwan Strait. In 1996, China had fewer than 50 short-range missiles within striking distance of Taiwan. In April 2002, it was estimated that China’s military forces had more than 350 missiles in the region and by 2005 the number had escalated to 700.

On 1 April 2001, a US Navy EP-3 reconnaissance aircraft survived a mid-air collision with a Chinese F-8 fighter jet over the South China Sea. The Chinese fighter pilot was lost. The EP-3 conducted an emergency landing on Hainan Island, and the 24-member crew was detained there for 11 days in a standoff between the two countries. The United States and China blamed each other’s aircraft for the crash. The EP-3 was later disassembled for transport back to the United States.

China expressed deep sympathy toward the United States following the 11 September 2001 terrorist attacks on the World Trade Center in New York and the Pentagon in Washington, DC. It has backed the American-led war on terrorism, and cited its own problems with what it considers to be terrorist activities led by ethnic Uyghurs fighting for an independent homeland in the northwest Xinjiang province. China has detained thousands of Uyghurs since 11 September 2001. China voted in favor of UN Security Council Resolution 1441 on 8 November 2002, which required Iraq to immediately disarm itself of weapons of mass destruction (chemical, biological, and nuclear weapons), to allow UN and International Atomic Energy Agency (IAEA) arms inspectors into the country, and to comply with previous UN resolutions regarding Iraq.

On 11 December 2001, China formally became a member of the World Trade Organization, representing international recognition of China’s growing economic power. Several nongovernmental organizations and individuals world-wide protested China’s accession to the body, due to its record on human rights violations. Another formidable problem for China, in regards to acceptance of WTO regulations, is the lack of adherence to intellectual property rights which involves industries as different as films to computer software. Most concerning is the availability of counterfeit medicine; thousands of Chinese are reported to have died from the ill effects of fake medicine. WTO regulations forbid counterfeiting although this has not yet affected China’s membership in the organization.

In November 2002, China and the ten members of ASEAN signed an accord to resolve any conflicts over the Spratly Islands without armed force. The Spratlys are claimed by China, Taiwan, Brunei, Malaysia, the Philippines and Vietnam, and are home to some of the world’s busiest shipping lanes; they are also believed to be rich in oil and natural gas. Signatories to the accord agreed to cease further occupation of the islands, to help anyone in distress

in the area, to exchange views with one another on defense issues, and to give advance warning of military exercises.

At the 16th Communist Party Congress held 8–14 November 2002, what is considered to be a “fourth generation” of Chinese leaders emerged, led by Hu Jintao, Jiang Zemin’s replacement as Communist Party General Secretary. In addition to Hu, the other eight members of the 9-member Politburo Standing Committee were new appointees. In 2005 Hu advised the CCP not to focus solely on economic growth and instead integrate social and environmental factors into decision making. Hu also took a number of high profile trips to the poorer areas of China as well as made the minutes of the Politburo Standing Committee meetings public.

### 13 GOVERNMENT

On 4 December 1982, China adopted its fourth constitution since 1949, succeeding those of 1954, 1975, and 1978. In theory, the highest organ of state power is the National People’s Congress (NPC), in which legislative power is vested. The constitution stipulates, however, that the congress is to function under the direction of the Chinese Communist Party, headed by the general secretary. The NPC meets annually for about two weeks to review major new policy directions, to adopt new laws, and to approve the national budget submitted to it by the state council. Each congress consists of more than 3,000 deputies elected indirectly for a term of five years. The NPC elects a standing committee as its permanent working organ between sessions. The state council, the executive organ of the NPC, consists of a premier (the head of government), five vice-premiers, ministers, and heads of other major government agencies. The state council issues administrative regulations and both formulates and executes economic policy and the state budget. The 1982 constitution restored the largely ceremonial post of state chairman, or president, a position abolished by Mao Zedong in 1968. The eighth National People’s Congress in March 1993 elected Jiang Zemin as president and reelected Li Peng, first elected in 1988, to a second five-year term as premier. At the ninth National People’s Congress in March 1998, Li Peng was elected chairman of the NPC standing committee, and Zhu Rongji became premier. Since the 1980s, the NPC has slowly increased its function as a locus for discussion of issues instead of merely being a rubber stamp. The 1992 debate on the Yangtze River (Chang Jiang) dam project is an example of this.

The death of Communist Party patriarch Deng Xiaoping in February 1997 brought to a head the infighting between Jiang Zemin, Li Peng, and Zhu Rongji. At the 15th National People’s Congress, Jiang was chosen to succeed Deng Xiaoping. The political leadership settled into one of shared leadership. At the 16th party congress held in November 2002, Jiang Zemin, Li Peng and Zhu Rongji resigned their posts in the Politburo standing committee, and the three gave up their positions as president and general secretary, chairman of the NPC standing committee, and premier, respectively, at the 10th NPC held in March 2003. Hu Jintao was named president (he had already been named general secretary of the Communist Party) and Wen Jiabao was named premier.

Democratic elections are held at the village level, but are forbidden above that level. The one lone opposition party, China Democratic Party, is acknowledged by the CCP, but it exists in theory only. Corruption, embezzlement, and bribery are all aspects of contemporary Chinese political life. The government owns all

forms of media, including television, radio stations, and most newspapers. However, access to the Internet is widespread, especially in large cities and Western news outlets can be reached.

## 14 POLITICAL PARTIES

The Chinese Communist Party (CCP) has been the ruling political organization in China since 1949. Eight other minor parties have existed since 1949 as members of a United Front, but their existence has been purely nominal. The party, with 55 million members (1999 estimate), plays a decisive role in formulating broad and detailed government policies and supervising their implementation at all levels of administration. Party supervision is maintained not only through placement of CCP members in key government posts, but also through specialized organs of the central committee of the CCP, which focus their attention on given subjects (e.g., propaganda or rural work). The CCP also forms branches within individual government units, as well as in factories, communes, schools, shops, neighborhoods, and military units.

Theoretically, the highest organ of party power is the National Party Congress, which usually meets once every five years. At each party congress a central committee is elected to oversee party affairs between sessions. The central committee (356 members—198 full members and 158 alternate members) meets annually in a plenary session to elect a political bureau, or Politburo (with 24 members as of 2006), and its standing committee, the party's most powerful organ (9 members in 2006). Directing day-to-day party affairs at the highest level is the secretariat, headed by Hu Jintao as general secretary since November 2002. In 1982, the post of party chairman, formerly the most powerful in the nation, was abolished; the title had been held by Mao Zedong until his death in 1976, by Hua Guofeng from 1976 until his ouster in 1981, and by Hu Yaobang thereafter.

Deng Xiaoping, China's acknowledged political leader since 1977, retired from the central committee in 1987, retired as chairperson of the party's central military commission in 1989, and retired as chairperson of the state's central military commission, his last formal position, in 1990. A new CCP charter adopted at the 12th Communist Party congress in September 1982 forbids "all forms of personality cult" and, in an implicit criticism of Mao, decrees that "no leaders are allowed to practice arbitrary individual rule or place themselves above the party organization." A major purge of party members in the early 1980s sought to exclude elements opposed to Deng's modernization policies. The 13th party congress, convened in October 1987, affirmed Deng's reform policies and the drive for a younger leadership.

In the wake of the June Fourth massacre in 1989, Deng Xiaoping declared that Jiang Zemin, former mayor of Shanghai, should be the "core" of collective leadership after Deng's death. The Politburo announced prohibitions, largely ineffectual, against some forms of party privileges and nepotism, the corruption that had sparked the 1989 protests. The 14th party congress in October 1992 removed Yang Shangkun, state president (1988–93), from the Politburo, weakening the power of his clique in the military. In 1993, the National People's Congress reelected Jiang Zemin, already party general secretary, as chairperson of the central military commission and elected him as state president. This was the first time since the late 1970s that top, formal positions in the par-

ty, government, and military were concentrated in one leader's hands.

After the 15th Communist Party congress, a highly publicized anticorruption drive resulted in the execution of several prominent cases. In addition, Jiang began to remove the Communist Party from state-owned enterprises through an aggressive privatization strategy. In 2000, Jiang introduced a theory revamping the image of the Communist Party. Called the "three represents," it was written into the party constitution at the 16th party congress in November 2002. Seen as a re-orientation of the party away from its sole mission to serve the proletariat, the theory of the "three represents" emphasizes the importance of the middle class, stating that the party will represent not only workers and peasants, but the "advanced productive forces, advanced culture, and the broad masses of the people." Jiang resigned as chairman of the Central Military Commission in September 2004, his last official post.

Hu, who became state president at the National People's Congress in March 2003, was a protégé of Deng Xiaoping, chosen as the "core" of the younger generation. Seen as moderate and cautious, he was expected to proceed with Jiang's slow but steady policy of economic liberalization, and perhaps to introduce some administrative and political reform. Soon into his tenure, the SARS (severe acute respiratory syndrome) crisis broke out and Hu was criticized for not taking action quickly enough. Hu also chose to move China away from a policy of favoring rapid economic growth and toward a more balanced view of growth, most notably by establishing a "green" GDP, taking into consideration the degradation of both natural resources and the environment.

## 15 LOCAL GOVERNMENT

The People's Republic of China (PRC) consists of 22 provinces (*sheng*—the PRC claims Taiwan as its 23rd province), five autonomous regions (*zizhiqu*), and four centrally administered municipalities (*zhixiashi*). Provinces and autonomous regions, in turn, are divided into "special districts," counties (*xian*), and cities (*shi*) under provincial jurisdiction, as well as into autonomous minor regions (*zhou*) and autonomous counties (*zizhixian*), where non-Han Chinese minority groups reside. Counties, autonomous counties, and autonomous *zhou* are divided into townships (*xiang*), autonomous townships (for small minority groups), towns, and rural communes. Hong Kong and Macau are designated as Special Administrative Regions (SAR).

From 1958–82, local administrative authority formerly held by the *xiang* was transferred to the communes and their local people's councils. In 1988, Hainan Island, formerly part of Guangdong, was made China's newest province. The 1982 constitution returned local administrative control to the *xiangs* as the communes began to be disbanded. Local revolutionary committees, which replaced the local people's councils during the Cultural Revolution and under the 1975 constitution, were abolished in 1980. The restored local people's councils have the power to formulate local laws and regulations. The local people's governments are administrative organs of the state and report to the State Council.

In the 1980s an emphasis was placed on recruiting and promoting younger and better-educated officials in local party and government posts. Many provinces along the coastal regions have adopted more decentralized forms of administration while interior provinces remain highly beholden to the central party. Local elec-

tions involving multiple candidates have taken place, especially in the more urbanized coastal areas. Elections began on a trial basis in 1987, and in over 730,000 villages, peasants were scheduled to go to the polls every three years to elect local committees.

## **<sup>16</sup>JUDICIAL SYSTEM**

China's legal system, instituted after the establishment of the PRC in 1949, is largely based on that of the former USSR. However, after 1957, Mao Zedong's government consistently circumvented the system in its campaign to purge the country of rightist elements and "counter-revolutionaries." The Ministry of Justice was closed down in 1959, not to reopen until 1979, and the excesses of the Cultural Revolution wrought havoc on legal institutions and procedures. Efforts to reestablish a credible legal system resumed in 1977 (when there were no lawyers in China), as party moderates came to power. These efforts were accelerated in the early 1980s as China sought to provide the legal protection required by foreign investors.

The highest judicial organ is the Supreme People's Court, which, with the Supreme People's Procuratorates, supervises the administration of justice in the basic people's courts and people's tribunals (courts of first instance), intermediate people's courts, and higher people's courts. The judiciary is independent but subject to the Communist Party's policy guidance. The legal profession was still in an incipient stage of development in the mid-1980s. Over 25 law departments at universities and four special schools for training legal officials were in operation in 1987, when China had 26,000 lawyers. By 2000, there were 112,000 lawyers with plans to increase this number to 200,000 by 2010.

A major anticrime campaign during the autumn of 1983 resulted in public executions at the rate of at least 200 a month; capital punishment may be meted out for 65 offenses, including embezzlement and theft. Under the Chinese criminal codes, as revised in 1979, local committees may sentence "hoodlums" to terms in labor camps of up to four years, in proceedings that grant the suspect no apparent opportunity for defense or appeal. Government records for 1990 indicated that nearly 870,000 persons were assigned to such camps during the 1980s. In 2003, there were 250,000 people reported to be incarcerated in these camps. China does not permit international observation of prisons or labor camps. Since 1990, sentences to labor camps may be judicially challenged under the Administrative Procedures Law. In practice the review of such a sentence is rarely sought.

Due process rights are afforded in the 1982 constitution, but they have limited practical import. The Criminal Procedural Law requires public trials, with an exception for cases involving state secrets, juveniles, or personal privacy. Cases are rapidly processed and conviction rates are about 99%. The 1976 Criminal Code contained 26 crimes punishable by death. A 1995 law raised this number to 65, including financial crimes such as passing fake negotiable notes and letters of credit, and illegal "pooling" of funds. Appeal is possible but with little chance of success. However in 1996, the National Peoples' Congress passed new legislation to reform criminal procedure and the legal profession. The new legislation recognized for the first time that lawyers represent their clients, not the state. Under the new system lawyers may establish private law firms. Defendants may also ask near relatives or guardians to provide additional defense.

Amendments to the criminal procedure became effective in January 1997. The amendments state that suspects may retain a lawyer after being first interrogated by an investigative organ. Attorneys may conduct limited investigation, call defense witnesses, and argue their client's cases in open court. According to the amendments, defendants will enjoy a presumption of innocence.

Beginning in 1998, the government began a comprehensive "internal shake-up" of the judiciary, resulting in the punishment or dismissal of over 4,200 judicial branch employees. In January 1999, the former head of the Anticorruption Bureau of the Supreme People's Procuratorate was dismissed for corruption.

China is party to many international organizations such as the UN, the ICC, ASEAN, and most recently the World Trade Organization. China's entry into the World Trade Organization (WTO) in December 2001 has caused China to undertake a full-scale revision of its laws and regulations in order to adhere to WTO rules. In opening its market up to sectors involving finance, insurance, telecommunications, commerce, transportation, construction, tourism, and other services, China will require its judicial system to perform in accordance with international standards. As of 2003, China's lawyers were adhering to a new policy to wear black suits in court, in an attempt to promote professionalism and as a step toward integration with international practices.

Independent trade unions are illegal. Striking is also illegal although there have been increased use of strikes as a method of bargaining with mixed results. Sometimes leaders are arrested but other times not.

The oft misunderstood "one-child policy" has been clarified in recent years. The Population and Family Planning Law requires couples to employ birth control measures and technically limits the couple to only one child. This is well enforced in the cities, but less so in more rural areas. However, there are many avenues through which couples may have a second child. Two examples are as follows: ethnic minorities and farming families are able to have more than one child and couples in urban areas that are both the product of a one child family are entitled to produce a second child.

In March 2005, the State Council passed the Regulation on Religious Affairs which human rights groups believe sharply curtailed both freedom of religious belief and freedom to express one's belief. However, Chinese officials claimed that the regulation safeguards "normal" religious activities, places of religious worship, and religious believers. At the same time religious believers are expected to abide by the government's laws. Religious activities that are banned if deemed "nonnormal" include publishing and distributing texts, selecting leaders, raising funds and managing finances, organizing training, inviting guests, independently scheduling meetings and choosing venues, and communicating freely with other organizations.

## **<sup>17</sup>ARMED FORCES**

In 2005, China's active military forces totaled 2,255,000 personnel, with around 800,000 reservists. China has been modernizing its military at a rapid pace even as it reduces personnel. The Army had 1,600,000 personnel, whose major weaponry included more than 7,580 main battle tanks, 1,000 light tanks, 1,000 armored infantry fighting vehicles, over 3,500 armored personnel carriers, and over 17,700 artillery pieces (14,000 towed). The Army's air arm includ-

ed 31 attack helicopters and eight assault helicopters. The Army is deployed over seven regions. The Chinese Navy in 2005 consisted of an estimated 255,000 personnel, including an estimated 10,000 Marines and a naval aviation arm of 26,000 personnel. Major naval units include 68 tactical submarines including 5 nuclear-powered attack submarines (SSNs), 21 destroyers, 42 frigates, 331 patrol/coastal craft, 130 mine warfare vessels, and various types of amphibious craft and logistics/support vessels. The Navy's aviation arm had 436 combat capable aircraft including 68 bombers, 74 fighters, and 274 fighter ground attack aircraft. Chinese naval forces are deployed into three fleets. The airforce had a total of 400,000 personnel including 210,000 assigned to air defense and 40,000 assigned to China's strategic forces. The Air Force's arsenal had 2,643 combat capable aircraft, including up to 222 bombers, 1,252 fighters, and 1,169 fighter ground attack aircraft.

Chinese military strength also includes a nuclear capability. It is suspected that China possesses 410 strategic and nonstrategic nuclear weapons. There are more than 100,000 personnel assigned to the nation's Strategic Missile Forces.

China's paramilitary forces in 2005 had about 1.5 million active personnel, which made up the People's Armed Police; these forces are under the Ministry of Public Security. In addition, there are over 100,000 border defense and 69,000 communications personnel. There are also an estimated 800,000 Internal Security personnel. The Chinese are involved in UN peacekeeping missions in 10 countries or regions around the world.

China's defense budget for 2005 was reported to be \$29.5 billion. However, that figure may be misleading. In 2004, the defense budget totaled \$25 billion, but actual defense spending was estimated at \$62.5 billion.

## 18 INTERNATIONAL COOPERATION

China has held a seat in the United Nations since 24 October 1945. After the Communist victory in 1949, UN representation was exercised by the Republic of China (ROC) government on Taiwan until November 1971, when the PRC replaced the ROC in the world organization and its member agencies. As of January 1988, the PRC belonged to ESCAP and several nonregional specialized agencies. The PRC displaced the ROC in the World Bank and IMF in 1980. China acceded to WTO membership on 11 December 2001. China also participates in APEC, the African Development Bank, the Asian Development Bank, and G-77. The country is an observer in the OAS and the Latin American Integration Association (LAIA), a nonregional member of the Caribbean Development Bank, and a dialogue partner in ASEAN.

The United States extended recognition to China on 15 December 1978 and resumed full diplomatic relations as of 1 January 1979. Continued US links with Taiwan in the 1980s, however, remained an irritant in US-PRC relations. The future of Hong Kong, for which part of the lease (the New Territories) expired in 1997, dominated UK-Chinese discussions, and in 1984, an agreement to give Hong Kong back to China in 1997 was formally signed. Relations with the USSR, severed during the Sino-Soviet split in the 1960s, improved somewhat in the 1980s but remained strained over China's support of anti-Soviet forces in Cambodia and Afghanistan. By the end of 1985, more than 130 nations had extended full diplomatic recognition to the PRC, with a parallel drop to about 10 in the number recognizing Taiwan's government. By

the mid-1980s, the PRC had achieved normal relations with most of its Asian neighbors, including Japan, India, Pakistan, Malaysia, Thailand, and Singapore.

Relations with Vietnam, Cambodia, and Laos (all allies of the former USSR) were tense after the late 1970s, but improved in the 1990s. At the Eighth Summit of the Association of Southeast Asia Nations held in November 2002, China forgave the debts of Vietnam, Laos, Myanmar, and Cambodia. Following the collapse of the Soviet Union in late 1991, China established diplomatic relations with the republics of the former Soviet Union. China normalized relations with the Republic of Korea in 1992. At an "ASEAN+3" (China, Japan, and the Republic of Korea) summit meeting held in November 2000, the three countries agreed to promote human and cultural exchanges between them. As of January 2003, a proposed ASEAN-China Free Trade Area was being planned, to begin in 2010.

China is part of the Nuclear Suppliers Group (London Group), the Zangger Committee, and the Organization for the Prohibition of Chemical Weapons and participates as an observer in the Nonaligned Movement. In 2001, China joined with Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan to establish the Shanghai Cooperation Organization (SCO), a cooperative security partnership focused on combating terrorism, extremism, and separatism. China is also a member of the Permanent Court of Arbitration.

In environmental cooperation, China is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Traditional China was predominantly agricultural. Adhering to farming patterns developed over a score of centuries, China could sustain a harsh level of self-sufficiency, given surcease from natural calamities. For almost three decades prior to 1949, the incessant ravages of civil disorder, foreign (principally Japanese) invasion, and gross economic neglect virtually decimated China's frail abilities to sustain itself. The first task of the new PRC government thus was to restore the flow of natural resources to prewar levels. By the early 1950s, the government had succeeded in halting massive starvation. Almost all means of production and distribution were brought under state control, and vast parcels of land were redistributed to the peasantry. During 1953–57, China's first five-year plan stressed heavy industry. Economic development was aided by imports of machinery and other industrial equipment from the former USSR and East European countries. In return, China exported agricultural produce to them. A major geological prospecting drive resulted in the discovery of mineral deposits that provided a major thrust toward industrialization.

The Great Leap Forward of 1958–59 initially produced sharp gains in industry and agriculture, but the zeal for increased quotas quickly resulted in undue strain on resources and quality. The Great Leap was followed by "three bitter years" of economic crisis brought on by bad harvests and the economic dislocation of the previous period. By 1961, the GNP had fallen to an estimated \$81

billion, roughly the level reached in 1955. By 1965, however, a readjustment of expectations, coupled with a careful program of industrial investment, helped the economy to recover. China's trade patterns, meanwhile, had shifted radically away from the USSR and toward Japan and Western Europe.

During the late 1960s, in the Cultural Revolution period, long-range central economic planning was abandoned in favor of policies promoting local self-reliance. Self-sufficiency in grain production was particularly stressed. The negative impact of this emphasis on agricultural development, together with the turmoil of the Cultural Revolution, resulted in a drop in industrial production of 10–20%, while agricultural output, aided by good weather, improved only marginally.

Centralized planning resumed in 1970 with Zhou Enlai's announcement of key goals for the fourth five-year plan (1971–75), including an increase in grain output. The fifth five-year plan (1976–80), disrupted during the political upheaval that followed the deaths of Mao and Zhou in 1976, was restructured in 1978 to embody the Four Modernizations, with the use of Western technology as necessary. At the same time, a 10-year plan (1975–85) calling for the traditional expansion of agriculture and heavy industry was revamped to emphasize the growth of light industries and the accelerated development of industrial raw materials. Trade with the United States expanded after full diplomatic relations were restored in 1979, and four special economic zones were established as centers for foreign investment. The sixth five-year plan (1981–85), adopted in 1982, reflected this new pragmatic approach to economic development by emphasizing agriculture, light industry, energy, and improved transportation facilities. During the 1980s, the Chinese economy underwent a major restructuring under the leadership of Zhao Ziyang. Rural reforms launched in 1979, which linked remuneration to output and centered on household responsibility, had a profound and beneficial impact on the rural economy, and output and income rose to record levels for rural residents. The commune system was disbanded in 1983–84 and replaced by a system of townships, and the household or family became the main unit of rural production. In the wake of the success of these rural reforms, the CCP Central Committee published "A Decision on the Reform of the Economic Structure" in October 1984, with the goal of totally overhauling the national economy and bringing urban industrial organization in line with rural practice. The main points of the decision were that all urban enterprises would be responsible for their own profits and losses, managers would have greater decision-making authority, and national and local governments would relinquish direct control over enterprises and assume a regulatory and supervisory position. Remuneration would be based on productivity, subsidies would be abolished, wages and prices would find their own level, and private and collective enterprises would be encouraged.

The seventh five-year plan (1986–90) made reform its paramount concern. The reforms put forth in 1984 and firmly anchored in the 1988 Enterprise Law proved remarkably successful, leading to much higher rates of industrial and general economic growth than previously expected. Real GNP grew by an average of 9.6% annually between 1979–88, reaching 11% in 1988. By this time, however, indicators of a seriously overheated economy were also clearly emerging; inflation accelerated to 20.7% and shortages in raw material and energy supply, as well as transportation capac-

ity, rapidly worsened. Growth fell to only 4% in 1989 before austerity measures initiated by the government brought inflation to below 10% and eventually restored growth to double digit levels.

Infrastructure development was given special priority in the China's eighth plan covering 1991–95. During this period economic growth accelerated, averaging more than 10% annually, giving China one of the fastest growing economies in the world. With growth came rising inflation and infrastructural bottlenecks, which highlighted the need for further improvements in macroeconomic management. The 1996–2000 economic plan, which called for economic growth of 9–10% through 2000, reaffirmed the importance of the private sector and opening the economy to the outside world. To attract and maintain foreign investors China needed to reform its legal and financial institutions. Despite the government's endorsement of market reforms, the plan continued to affirm the role of state-owned enterprises, which still accounted for more than one-third of total industrial output. In 1996, China committed two-thirds of fixed-asset investment to state-owned enterprises even though most were heavily in debt. By propping up the state sector China risked continuing budget deficits and the higher debt service that came with the borrowing necessary to pay for those expenditures. Investment in the state sector accounted for nearly all of the new investment in 1998, in the form of a special infrastructure-spending package forwarded by the government, supporting a GDP growth rate of 7% in 1999. Economic growth, which slowed during the late 1990s, recovered after China gained entrance to the WTO in 2002.

International analysts warn that reports of the GDP issued by the government may be suspect, pointing to historical inconsistencies between government-reported GDP statistics and those reported by other economic analysts. Mid-way through 2005, the Economist Intelligence Unit's estimates of a GDP increase of 9.3% appeared to be accurate. Also in that year, draft proposals for the eleventh five-year plan specified several objectives, including the promotion of energy efficiency, doubling per-capita GDP, and encouraging "harmonious development."

## 20<sup>0</sup> INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 China's gross domestic product (GDP) was estimated at \$6 trillion. The per capita GDP was estimated at \$4,600. The annual growth rate of GDP was estimated at 8%. The average inflation rate in 2005 was -0.8%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 18% of GDP, industry 49%, and services 33%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$556 million, accounting for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$912 million. Foreign aid receipts amounted to about \$1 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$399. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 5%. The rich-

est 10% of the population accounted for approximately 30.4% of household consumption and the poorest 10% approximately 2.4%. It was estimated that in 2001 about 10% of the population had incomes below the poverty line.

## 2<sup>1</sup> LABOR

In 2005, China's labor force was estimated at 791.4 million. As of 2003, an estimated 49% of civilian employment was in agriculture, 22% in industry, and 29% in services. Although unemployment in urban areas was officially put at 4.2% in 2004, there was substantial unemployment and underemployment in rural areas. In 2003, it was estimated by an official Chinese journal that unemployment overall, which included the country's rural areas, was 20%.

Although workers in China are legally allowed the freedom of association, as of 2005, in reality they cannot organize or join a union of their own choosing. Instead, workers are represented by the All-China Federation of Trade Unions (ACFTU), which is controlled by the Chinese Communist Party (CCP) and is headed by a top party official. The ACFTU controls all union activities and organizations, including those at the enterprise level. Independent unions are illegal. As of the end of 2004, it was reported by the ACFTU that its membership totaled 136.9 million, or 53% of the country's 264 million workers in urban areas. A total of 38% of all corporate units and 25% of private firms in China are thought to be registered with the ACFTU. Union officials working outside the official confines of the ACFTU have reported being harassed and detained by authorities.

Unlike their urban counterparts, China's estimated 540 million rural labor force (including 300 million primary sector workers) were unorganized, with no similar organization to represent the nation's farmers. In addition, only a small number of the 130 million rural residents that work in village and township enterprises were unionized.

While collective bargaining for workers in all enterprise types is legal, in reality it falls way short of international standards.

Although forced and compulsory labor is prohibited by law, it was a serious problem in penal institutions. Those held in reeducation-through-labor facilities were frequently forced to work often with no or little remuneration. In some cases they were contracted to nonprison enterprises to the profit of the facilities and their respective managers.

There is a minimum working age of 16, but compliance with this is irregular, especially in the burgeoning and unregulated private economy. The huge surplus of adult labor reduces the incentive to employ children. Children are most often found working on farms in poorer, isolated areas. Those between the ages of 16 and 18 are considered "juvenile workers" and were prohibited from certain types of physical work, including laboring in mines. The minimum wage varies depending on the area of the country. There is no set national minimum wage rate. It generally provides a decent standard of living for a family. The Labor Law provides that the standard workweek is 40 hours, with a mandatory 24-hour rest period weekly.

## 2<sup>2</sup> AGRICULTURE

With some 50% of the economically active population engaged in farming, agriculture forms the foundation of China's economy. Limitations in topography, soil, and climate, however, have re-

stricted cultivation to only about 15% of the total land area. Despite recent advances—grain crops totaling an estimated 377 million tons were produced in 2003 (18.2% of the world's total)—the enormous pressures of feeding and clothing China's vast and growing population remain among the country's most compelling concerns. From 1980 to 1990, agricultural output grew at an average annual rate of 5.9%, above the population growth rate and the first sustained expansion of agriculture since 1966; output increased at an average annual rate of 4.1% from 1990 to 2000. By 2003, agricultural production was up another 9% from 1999–2001.

The PRC government expropriated large landholdings in a land reform carried out in 1951–52, redistributing the land among poor peasants. By the end of 1954, 11.5% of all peasant households had been collectivized; by 1955, 65%; and by 1965, 99%. The Chinese collective farms had virtually no mechanical equipment, but the peasants pooled their labor in various projects, such as water management, which were beyond the capacity of individual peasants. In 1958, the collective farms were merged into larger units as people's communes. The communes were concerned not only with agricultural output but also with subsidiary farm activities, such as light industry and handicrafts, usually produced for local consumption.

Far-reaching changes in the organization of communes took place during 1961–62. Formerly, the production brigade (the major division of a commune), of which there were about 719,438 in 1982, was regarded as the commune's "basic accounting unit." In 1962, however, the production team (the subdivision of a commune) became the commune's basic organizational element. The average production team consisted of 33 households and cultivated about eight hectares (20 acres). Production teams functioned almost autonomously, making basic decisions on production and distribution of income, while the commune mainly exercised the functions of a township government. Households, the final link in the system, were permitted the use of private plots, which made up about 5% of the arable land assigned to a team. In the early 1980s, these private holdings accounted for 19% of total agricultural output and the bulk of the country's production of vegetables, fruits, hogs, and poultry. Under the "responsibility system," which was introduced in 1978 and by 1983 was operating in 90% of rural China, all production in excess of assigned levels could be sold on the open market to yield a profit for individual production teams. In 1982, in addition to the rural communes, which provided most of China's agricultural output, there were 2,078 state farms working approximately 4.5% of all farmland. These farms, under the Ministry of State Farms and Reclamation, generally served as commodity production centers and as research units for the improvement of crop and livestock yields.

In 1983–84, a major reform of the agricultural system was launched. The 50,000 communes were disbanded and replaced by 92,000 townships, and the six million production brigades were broken up. Production decisions were now made by the household, which sets production targets in contracts with the government; households could sell their surpluses in the open market for cash. Crop diversification was encouraged. By the late 1980s, 60% of agricultural output was free of state controls, and most of China's peasants practiced the household responsibility system.

Grains are the chief crop, accounting for 70% of the total value of crop output and occupying 80% of all land under cultivation.

Shandong, Jiangsu, and Henan together account for about 25% of the total crop value.

The main food crops are rice, wheat, and corn, followed by kaoliang (a type of sorghum), millet, potatoes, and soybeans. China is the world's leading producer of rice, with production increasing from 106.6 million tons in 1970 to an estimated 177.4 million tons (29% of the world's total) in 2004. Over 90% of all rice is produced in southern China, with two (and in the far south, three) crops being grown each year where irrigation facilities permit. Early rice is planted in April and harvested in July; single-crop rice is planted in May and harvested in September; and late double-cropped rice is planted in June and harvested in October. The total wheat crop in 2004 amounted to 91.3 million tons, more than double the 1970 output. Wheat is cultivated throughout the country, often as a dry-season crop in the rice-growing south, with specialized production centered in the Yangtze Valley and North China Plain. Output of other coarse grains, including corn in the southwest and drought-tolerant millet and kaoliang in northern and northeastern China, exceeded 140.6 million tons in 2004. Production of roots and tubers, including sweet potatoes grown as a second crop in areas south of the Yellow River (Huang He) and white potatoes in cooler areas north of the Great Wall, totaled 181.4 million tons in 2004. In 2004, China's agricultural exports (including fish and forestry products) were valued at \$28 billion, with 24% shipped from the port of Qingdao, 13% from Dalian, and 13% from Shanghai.

Industrial crops occupy only 8–9% of the cultivated areas. Among the most important are cotton (the chief raw material for the important textile industry), various oil-bearing crops, sugar, tobacco, silk, tea, and rubber. Cotton output totaled 6.3 million tons in 2004, up from 5.6 million tons in 1991, with production concentrated along the middle and lower reaches of the Yangtze River and on the plains of the Yellow and Huai rivers. Oilseed output in 2004 was derived from a diverse assortment of widely grown industrial crops, including sunflower seeds (1,750,000 tons) and rapeseed (13,040,000 tons). Other oilseed products included 250,000 tons of castor beans, 650,000 tons of sesame seeds, and 460,000 tons of linseed in 2004. Sugar production reached 90.6 million tons in 2004; an estimated 84% of all sugar is derived from sugarcane grown in the south, and the remaining 16% from sugar beets grown in the north and northeast. Production of tea, also an important traditional export, increased from 120,000 tons in 1956 to 861,000 tons in 2004 (26% of world production), with most of the tea grown in hilly regions of the south and southeast. Most tobacco is produced as a sideline by commune householders working private plots; output was 2.4 million tons in 2004 (37% of world production). Most natural rubber is produced on specialized state farms; production totaled 600,000 tons in 2004.

The irrigated area is estimated to have increased from about 15.3 million hectares (37.8 million acres) in 1950 to 55 million hectares (137 million acres) in 1998, making China the world's leader in irrigated land. The expansion of fertilizer production is viewed as a key to major growth in the agricultural sector. Toward this end, China during 1972–74 contracted for the purchase of 13 large urea plants from Japan, the United States, and Western Europe. China's use of chemical fertilizers increased from 184 kg per hectares in 1984 to about 258 kg per hectares in 2002. Farm machinery in 2002 included 926,031 tractors and 197,000 combines.

## 23 ANIMAL HUSBANDRY

Except in outlying areas, nearly all of China's arable land is devoted to crops. Most agricultural units, however, also support the raising of large quantities of hogs and poultry. Natural grasslands for the grazing of sheep and cattle occupy 4 million sq km (1.5 million sq mi), or 43% of China's total area; the four major pasture areas are Xinjiang, Gansu, Qinghai, and Inner Mongolia. In an effort to improve these pastures, 303 million hectares (749 million acres) were planted with improved forage seed strains from 1976 to 1980. Nonetheless, animal husbandry continues to be the weak link in the agricultural economy.

China leads the world in swine production, the total number of hogs reaching about 472.9 million as of 2004 (55% of the world's total), as compared with 89.8 million in 1952. The provinces with the largest hog populations are Sichuan, Hunan, Henan, and Shandong. Pig raising, often pursued as a private sideline by peasants, is the fastest-growing sector of the livestock industry, and hogs and pork products are becoming valuable export earners.

The number of sheep expanded from 36.9 million in 1952 to nearly 155.7 million in 2004. Most sheep are raised by pastoral herders, mostly the ethnic minorities, in the semiarid lands of Xinjiang, Inner Mongolia, Gansu, and Sichuan (Szechuan). Goats, also raised primarily in semiarid areas but increasingly promoted throughout China as a profitable household sideline for milk and dairy production, increased in number from 24.9 million in 1952 to 183.4 million in 2004. Provinces with the greatest numbers of sheep and goats include Shandong, Inner Mongolia, Xinjiang, and Itenan. In 2004 there were also 128 million head of cattle and buffalo, up from 66.6 million in 1965; 7.9 million horses (792,000 in 1965); and 265,000 camels (448,000). Chickens and ducks are raised throughout China on private plots and constitute, together with fish and pork, China's chief sources of dietary protein. The provinces with the largest cattle populations are Itenan, Shandong, Sichuan, and Guangxi. China produced 306,000 tons of honey in 2004, more than any other nation. China also led the world in silk production in 2004, at some 95,000 tons (75% of world production).

In 2004, China produced 74.4 million tons of meat, ranking first in the world with 27% of the total. Some 14.7 million tons consisted of poultry, second only to the United States and accounting for 18% of world production. Pork production in 2005 amounted to 50 million tons (first in the world), equivalent to 49% of global production.

## 24 FISHING

With a coastline of some 6,500 km (4,000 mi) adjoining a broad continental shelf, China has excellent coastal fisheries. A vast number of inland lakes and ponds, covering a total area of about 300,000 sq km (116,000 sq mi), are also used for fish culture, and a 30 km (19 mi) section of the Yangtze below Gezhouba Dam at Yichang is a designated sturgeon preserve. The principal marine fisheries are located on the coast of southern and southeastern China, in the provinces of Guangdong, Fujian, and Zhejiang. The total catch in 2003 was 16,755,653 tons, the highest in the world and 18% of global production. China typically accounts for about 10% of the world's catch, but per capita Chinese consumption of fish amounts to only 9.3 kg (20.5 lb) per year (live weight equivalent).

lent), one of the lowest amounts in Asia. China's leading aquacultural products are carp, kelp, oysters, and scallops. Chinese aquaculture produced 28,892,005 tons of fish products in 2003, valued at \$31.4 billion, 68% of world aquacultural production by weight and 52% by value.

Exports of fisheries products in 2003 accounted for 8.3% of the commodity's world exports, and were valued at over \$5.2 billion (second after Thailand). Regulations for the protection of aquatic resources were enacted in 1979.

## 25 FORESTRY

Forest cover has grown from 8.6% of the land base in 1949 to over 18.2% in 2005. Mature stands are decreasing, however, while the share of plantation and commercial forests continues to rise in response to government policies. Coniferous forest accounts for 47%; deciduous, 50%; and mixed, 3%. Most of the forests are in remote regions, however, and lack of transportation limits exploitation. China has three major forest areas: the northeast (Heilongjiang, Jilin, and Inner Mongolia); the southwest (Sichuan and Yunnan); and the southeast (Guangdong, Guangxi, Fujian, Jiangxi, and Hainan). Fujian, Zhejiang, Anhui, and Guangdong together account for about 30% of the total value of the forestry sector. Coniferous stands, which yield the most valuable commercial timber, are found mainly in the northeast and adjoining parts of Inner Mongolia. Deciduous trees are felled in Sichuan and Yunnan. Between 1990 and 1995, however, the northeast's share of production fell from 38% to 30%, as production shifted from state-owned forests in the north to plantation forests in the south. While China is a major producer of softwood logs and lumber, virtually all of its production is domestically consumed. Paper production, which has benefited from the substitution of rice-straw and other non-wood materials for wood pulp, nearly tripled during the 1980s. Special forestry products originating in southwestern China include tung oil, cassia oil, and aniseed oil. Wood imports can vary widely from year to year. China is the largest timber importer in the world—imports of timber and related products reached \$17 billion in 2003. China's domestic industrial roundwood production is divided into two parts—state quota production accounting for about 50 million cu m, and production from illegal over-quota logging, which contributes an additional 40 million cu m. About 60% of state quota timber production comes from plantations. Private mills dominate China's wood processing sector. There are more than 200,000 mills in China (located mostly in Hebei, Shandong, Jiangsu, Zhejiang, Guangdong, and Fujian), of which more than 90% are private.

Deforestation has been a persistent and serious problem in China, leading to massive erosion and desertification. The government has, from the start of its first five-year plan in 1953, given high priority to campaigns for afforestation. By 1980, 26 million hectares (64 million acres) of new forests had been planted, and during the 1980s, afforestation proceeded at the rate of 4.55 million hectares (11.24 million acres) per year. However, cutting of trees for fuel continued in rural areas, and many of the trees planted as part of afforestation efforts were lost because of neglect after planting. During 1990–2000, the forested area grew by an annual average of 1.2%. In its tenth five-year plan commencing in January 2001, the Ministry of Forestry set the annual allowable timber cut at 223.1 million cu m (7.88 billion cu ft), however illegal logging

remains a considerable problem, with annual logging exceeding the quota by 75.54 million cu m (2.67 billion cu ft), or 34%.

## 26 MINING

China produced more than 70% of the world's tungsten, was the largest producer and exporter of rare earths, the largest producer of cement, tin, and steel, and a world leader in the production of antimony. Intensive geologic exploration has yielded greatly expanded mineral reserves. This increase in known subsurface resources was reflected in production rises for China's most important mineral products—coal, petroleum, iron ore, copper, lead, zinc, tungsten, mercury, antimony, tin, molybdenum, barite, fluorospar, magnesite, and rare earths. In 2000, China produced a total of 7.51 million tons of 10 nonferrous metals, 14.6% more than in 1999; production in all 10 metals increased. The production of iron and steel was China's leading industry in 2002, coal production ranked second, and petroleum, cement, and chemical fertilizers were among the top eight. Mineral fuels ranked fifth among export commodities.

Iron ore production in 2004 (gross weight) was 310 million metric tons, up from 261 million metric tons in 2003. Virtually all iron mining was carried out north of the Yangtze River, and the country's total resources totaled 55,000 million tons, the largest reserves being in Liaoning, Hebei, and Sichuan. The largest producers—Anshan Mining Co. (in Liaoning, Anshan) and Shoudu (Capital) Mining Co. (Beijing)—had annual capacities of 30 million tons and 20 million tons, respectively. As domestic iron deposits were of a low ore grade (less than 35% on the average) and required concentration, China has imported more than 50 million tons of ore in the past several years, and steel enterprises continued to look for joint-venture possibilities for iron mines in other countries.

Tungsten output in 2004, mainly from Jiangxi, was 67,000 metric tons (metal content), up from a revised figure of 55,500 metric tons in 2003.

Copper output (metal content) was 610,000 metric tons in 2004, unchanged from 2003, but up from 568,000 metric tons in 2002.

Other metallic ore outputs in 2004 were: tin (chiefly in Yunnan), 110,000 metric tons, up from 102,000 metric tons in 2003; antimony (from Guangxi, Guizhou, and Hunan), 110,000 metric tons; bauxite (gross weight), 15 million metric tons, 13 million metric tons in 2003; lead (metal content), 950,000 metric tons, down from 955,000 metric tons in 2003; molybdenum, 29,000 metric tons; mercury, 425 metric tons, down from 610 metric tons in 2003; and zinc, 2.1 million metric tons, up from 2.03 million metric tons in 2003. China also mined alumina, bismuth, cobalt, gallium, germanium, gold, indium, manganese, nickel, platinum-group metals, silver, uranium, and vanadium. Henan geologists discovered a bauxite deposit in western Hunan Province that could contain reserves of 50 million tons and a significant amount of gallium. Another bauxite discovery, in Jingxi County, Guangxi Province, could contain reserves of 82 million tons (37 million tons of which could be economically developed), 100,00 tons of gallium, and a significant amount of niobium, scandium, and titanium.

The government since 2002 has eased restrictions on its gold market, allowing gold producers to sell their gold through the Shanghai Gold exchange, instead of to the Central Bank at a fixed price. However, imports and exports of gold ingot were still con-

trolled by the government. The establishment of gold mining companies that were wholly owned by foreign investors was not permitted. Shandong province was the leading gold-producing province in China, followed by Henan, Fujian, Shaanxi, Liaoning, and Hebei provinces.

The output of rare-earth oxide content—60% from Nei Mongol, 18% from Sichuan, and 17% from Jiangxi—was 98,000 metric tons in 2004, up from 92,000 metric tons in 2003. Major portions were exported to France, Japan, and the United States. In Nei Mongol, rare-earth concentrate, known as Baotou rare-earth concentrate, was the by-product of producing iron concentrates, and contained oxides of the light rare-earth group—lanthanum, cerium, praseodymium, neodymium, samarium, europium, and gadolinium. In Mianning and Dechang (Sichuan), rare earths were mainly bastnasite, and, in Ganzhou (Jiangxi), the rare earths were of the ionic absorption type. A joint venture in Jiangsu province was to produce vanillin. The largest producers—Gansu Rare Earths Co. (in Jiangxi, Nanchang) and Baotou Iron and Steel and Rare Earths Corp. (in Nei Mongol, Baotou)—had capacities of 32,000 and 25,000 metric tons, respectively. China's rare-earth processing capacity expanded from 50,000 metric tons per year in 1995 to 130,000 metric tons per year in 2000. Rare earths remained a highly controlled sector, and a rare-earth quota was introduced in 1999 to control exports.

Hydraulic cement production in 2004 was 970 million metric tons, up from 862 million metric tons in 2003. Other industrial mineral production in 2004 included: fluorspar, 2.7 million metric tons; barite, 3.9 million metric tons (2.39 million metric tons of barium sulfate was exported, worth \$77.8 million); magnesite, 4.65 million metric tons; gypsum, 7 million metric tons, up from 6.8 million metric tons in 2003; graphite, 700,000 metric tons, down from 710,000 in 2003 (451,735 metric tons exported, for \$67,041,000); talc and related materials, 3 million metric tons, unchanged from 2003 (640,000 metric tons exported, for \$65,954,000); mine boron (boron oxide equivalent), 135,000 metric tons, up from 130,000 metric tons in 2003; asbestos, 510,000 metric tons; and bromine, 4,300 metric tons, down from 42,000 metric tons in 2003. China also produced diamond, diatomite, dolomite, kyanite and related materials, lithium minerals, nitrogen, phosphate rock and apatite, potash, salt, sodium compounds, and sulfur.

The government in 2000 approved the opening of a diamond exchange market in Shanghai. China in 2000 became the world's eighth-largest consumer of precious stones (actual figures were difficult to ascertain because of smuggling and overseas purchases), and "Greater China," which included Hong Kong and Taiwan, was believed to be the world's third-largest diamond market, after the United States and Japan.

In 2000, the government issued several laws and regulations to improve the country's investment environment and foreign investors' confidence. The laws and regulations dealt with, among other things, mineral resource exploitation planning, land exploitation, mine ownership transfer, customs law, gold mining, Sino-foreign contractual joint ventures, foreign capital enterprises, and mineral-resource deposit size classification standards. The government continued its efforts to restructure the mining and metal sectors, abolishing nine bureaus, transferring responsibilities to industrial associations, dissolving three state-owned nonferrous enterprises,

and, to help the industry become more efficient, ceding management to provincial and city governments. The government also offered incentives to companies—exemption from income tax, tariffs, and import value-added tax (VAT)—to invest in the poorer western provinces. It also began to phase out the preferential taxes for foreign enterprises, prepared to draft a "zero tariff rate" policy for exports, issued guidelines to allow foreign enterprises to conduct mineral exploration in China, and agreed to eliminate import quotas and dismantle export subsidies. China planned to increase production of cement, copper, fertilizer, iron, lead, nickel, salt, soda ash, and zinc, and expected to retain its dominance in the world market for antimony, barite, fluorspar, magnesite, rare earths, and tungsten.

## 27 ENERGY AND POWER

China's petroleum resources are a key to its industrial development. In 2004, it became the world's second-largest consumer of petroleum products, surpassing Japan. Crude oil production increased from 102,000 barrels per day in 1960 to 3.3 million per day as of 2002, and to an estimated 3.62 million barrels per day in 2004. In 1998, China had proven reserves of 24 billion barrels. As of 1 January 2005, its proven reserves were estimated at 18.3 billion barrels. In 2004, consumption was estimated at 6.53 million barrels per day, with net oil imports estimated at 2.91 million barrels per day in 2004. The major producing centers are the Daqing field in Heilongjiang, which came into production in 1965 and the Liaohe field, located in northeastern China. Although nearly 85% of China's oil production capacity is onshore, and in addition to numerous other mainland finds, China has potential offshore reserves in the Bo Hai area (thought to have reserves of over 1.5 billion barrels) and the South China Sea, especially in the vicinity of Hainan Island.

By the mid-1970s, China no longer had to rely on oil imports; petroleum exports had, in fact, emerged as a major source of foreign exchange earnings. More than 9,740 km (6,050 mi) of long-distance pipelines transport the oil from fields to refineries and other points of consumption and export. China, however, became a net importer of oil in 1996, because rapid increases in oil demand from high economic growth rates outpaced the slower increases in oil production.

After rising dramatically in the early 1980s, owing largely to the discovery and exploitation of vast deposits in Sichuan Province during the late 1950s and early 1960s, natural gas output stagnated somewhat in the late 1980s. As of 2003, natural gas supplied only an estimated 2.6% of the country's energy. However, with proven reserves totaling an estimated 53.3 trillion cu ft, as of 1 January 2005, it was expected that consumption would double by 2010. In 2000, total national production reached 960 billion cu ft. By 2003, that figure had risen to an estimated 1.21 trillion cu ft. A pipeline to transport natural gas from the Xinjiang province in the west to Shanghai in the east was planned, with Shell chosen to lead a consortium of development companies.

Although China's rivers provide a vast hydroelectric potential (an estimated 378 million kW), only a small part has been developed. In the late 1990s, after economic growth slowed due to the Asian economic crisis, the government declared a two- to three-year moratorium on construction of new power plants due to an oversupply problem. The main hydroelectric projects include Er-

tan in Sichuan Province, Yantan in Guangxi Zhuang Autonomous Region, Manwan in Yunan Province, Geheyan in Hubei Province, Wuqiangxi in Hunan Province, Yamzho Yumco in Xizang Autonomous Region, and Lijia Xia in Qinghai Province. In April 1992, the government approved the construction of the largest hydropower project in China—the Three Gorges Project on the middle reaches of the Chang Jiang. Construction began in 1996, and as of August 2005, was still underway with completion in 2009. The Three Gorges Project will include 26 hydropower generating units, at 700 MW each, producing a total of 18.2 GW of power. The Three Gorges Project will require the relocation of millions of people just in Sichuan Province alone. A second major hydroelectric project, consisting of a series of dams on the upper portion of the Yellow River, was also underway as of August 2005. Plans for this project call for 25 generating stations to be built, having a combined 15.8 GW of installed capacity.

China's electrical generating capacity was estimated as of 1 January 2003 to stand at 338.3 GW, up from 115.5 million kW in 1988. Total output of electricity increased during the 1988–98 period from 545 billion to 1,098 billion kWh. Output in 2000 was 1,288 billion kWh, of which 81.8% was from fossil fuels, 16.8% from hydropower, and 1.2% from nuclear power. In 2003, electrical power output was estimated at 1,807 billion kWh, of which 1,484 billion kWh hours are from thermal sources, 279 billion kWh from hydroelectric sources, and 42 billion kWh from nuclear sources. Electricity consumption in 2000 was 1,206 trillion kWh. In 2002, consumption rose to 1,452.048 billion kWh. Electric power consumption is forecast to increase at an annual rate of 4.3% through 2025.

Traditionally, coal has been China's major energy source, with auxiliary biomass fuels provided by brushwood, rice husks, dung, and other noncommercial materials. The abundance of coal continues to provide cheap thermal power for electric plants. In 2000, China was both the world's largest coal producer, at 1.27 billion short tons, and the leading consumer of coal, at 1.31 billion short tons. In 2003, China produced an estimated 1.63 billion short tons of coal and consumed an estimated 1.53 billion short tons for the same year. Coal comes from over two dozen sites in the north, northeast, and southwest; Shanxi Province is the leading producer. Recoverable reserves as of 2003, were estimated at over 126.2 billion short tons. In 1996, China accounted for 11.1% of the world's proven reserves of coal. Large thermal power plants are situated in the northeast and along the east coast of China, where industry is concentrated, as well as in new inland industrial centers, such as Chongqing, Taiyuan, Xi'an, and Lanzhou. As of August 2005, it was reported that coal accounted for 65% of primary energy consumption.

The development of nuclear power has become a major factor within China's electricity sector. The 279 MW Qinshan nuclear power plant near Shanghai began commercial operation in 1994. That same year, two 944 MW reactors at the Guangdong facility at Daya Bay also started commercial service. In 1995, Chinese authorities approved the construction of four more reactors. In May 2002, the 1 GW first unit of the Lingao nuclear power plant came online while a second 1 GW unit began operating in January 2003. An additional 600 MW generating unit also came online at Qinshan in February 2002. Net capacity for China's three nuclear reactors was estimated at 2,167,000 kW in 1996. At the start of 2002,

installed capacity for nuclear power was placed at 2 GW. By mid-2005, that capacity had risen to 15 GW and further construction is being planned. A 6 GW complex is being planned for Guangdong province at Yangjiang (slated to begin commercial operation in 2010), while a second facility is being planned for Daya Bay. By 2020, plans call for the completion of 27 GW of additional nuclear power generating capacity. Although China touts nuclear power as a way to cut its dependence upon fossil fuels and as a source of clean energy, by 2020 nuclear power will account for less than 5% of the nation's installed electric generating capacity.

## 28 INDUSTRY

China achieved a rapid increase in the gross value of industrial output (used before China switched to GNP accounting in 1986), which, according to official Chinese statistics, rose by 13.3% annually between 1950 and 1979. The greatest sustained surge in growth occurred during the first decade, with the rate averaging 22% annually during 1949–60. During 1961–74, the yearly growth rate fell to about 6%, partly as a result of the disruptions brought on by the collapse of the Great Leap Forward (which accompanied the withdrawal of Soviet technicians in mid-1960) and of work stoppages and transportation disruptions during the Cultural Revolution. Growth averaged 10% from 1970 to 1980 and 10.1% from 1979 to 1985. Major policy reforms of 1984 further accelerated the pace of industrial growth, which reached 20.8% by 1988. After a brief retrenchment period in 1989–90 as government policies prioritized inflation control over other concerns, expansion of the country's industrial sector resumed apace, exceeding 20% in 1992 and 18% in 1994. Industrial output was officially up 13.4% in 1995, with state enterprises contributing the majority.

While approximately 50% of total industrial output still derives from the state-owned factories, a notable feature of China's recent industrial history has been the dynamic growth of the collectively owned rural township and village enterprise as well as private and foreign joint-venture sectors. Also apparent has been the spatial unevenness of recent industrial development, with growth concentrated mainly in Shanghai, the traditional hub of China's industrial activity, and, increasingly, a number of new economic centers along the southern coast. The coastal provinces of Jiangsu, Guangdong, Shandong, Shanghai, and Zhejiang together account for close to 33% of the country's total industrial output and most of its merchandise exports. One key factor in this industrial geography has been the government's establishment of several Special Economic Zones in Guangdong, Fujian, and Hainan provinces, and its designation of over 14 "open coastal cities" where foreign investment in export-oriented industries was actively encouraged during the 1980s.

Before the first five-year plan (1953–57), China had only one major steel center—Anshan, in the northeast—and several minor ones. All these produced 1.93 million tons of pig iron and 1.35 million tons of steel in 1952. By 1995, China was producing 92,970 million tons of crude steel and 101,700 million tons of pig iron. Anshan continues to be the hub of the industry, but other huge steel complexes have been constructed at Baotou, Benxi (about 50 km/30 mi east of Anshan), Taiyuan, Wuhan, and Ma'anshan (near Nanjing).

China's cotton textile industry is the largest in the world, producing yarn, cloth, woolen piece goods, knitting wool, silk, jute

bags, and synthetic fibers. Labor-intensive light industries played a prominent role in the industrial boom of the late 1980s and early 1990s, accounting for 49% of total industrial output, but heavy industry and high technology took over in the late 1990s. In addition to garments and textiles, output from light industry includes footwear, toys, food processing, and consumer electronics. Heavy industries include iron and steel, coal, machine building, armaments, petroleum, cement, chemical fertilizers, and autos. High technology industries produce high-speed computers, 600 types of semiconductors, specialized electronic measuring instruments, and telecommunications equipment.

Since 1961, industry has been providing agriculture with farm machines, chemical fertilizers, insecticides, means of transportation, power, building materials, and other essential commodities. Handicraft cooperatives also have been busy making hand-operated or animal-drawn implements. Production of a variety of industrial goods has expanded, increasingly in order to supply the country's own expanding industrial base. In addition to fertilizers, the chemicals industry produces calcium carbide, ethylene, and plastics. Since 1963, great emphasis has been placed on the manufacture of transportation equipment, and China now produces varied lines of passenger cars, trucks, buses, and bicycles. In 1995, output included 1,452,697 motor vehicles (more than double the 1991 figure). Output for 1997 was over 1.6 million units. The industry underwent a major overhaul in the late 1990s in order to stimulate efficiency and production.

From 1993–2002, the growth in manufacturing was 11.4% each year. Contributing to this growth in the early 1990s was an increase in agriculture-related industry, as promoted by local governments in town and village enterprises (TVEs) in which agricultural surpluses were invested in low-tech and labor-intensive manufacturing processes. By the end of the 1990s, during an economic slowdown, TVEs began to employ fewer rural workers. Foreign and private enterprises (FIEs—foreign-invested enterprises) became increasingly important to industry, while the state-controlled sector declined.

At the end of the 1970s, 80% of manufacturing output was attributed to state-owned enterprises (SOEs); by 2004, SOEs contributed only 35% of gross industrial output. Whereas there were 118,000 recorded SOEs in 1995, the number had decreased to 31,750 in 2004; those that exist are plagued by outdated equipment and a lack of skilled workers.

High-tech manufacturing gained ground, supplanting the low-technology, assembly-line production of the early 1990s. Though textiles still contribute largely to China's production output, industrial growth is increasingly in sectors producing advanced electronic goods such as cell phones, integrated circuits, and cars.

## 29 SCIENCE AND TECHNOLOGY

Modern China is the heir to a remarkably inventive civilization that pioneered in the development of the abacus (the first mechanical calculating device), paper (and paper money), printing by movable type, gunpowder, the magnetic compass, and the rocket. Contact with the West during the 19th century however, revealed how technologically backward China had become, and it is only in recent decades that the nation has begun to catch up.

China detonated its first fission device in 1964 and its first hydrogen bomb in 1967; the nation now possesses a variety of nucle-

ar weapons mounted on missiles, bombers, submarines, and other delivery systems. Its first satellite was launched in 1970. By 1992, the PRC had launched an INTELSAT satellite on a Chinese launch vehicle. Other priorities have been the development of high-energy physics, laser research, powerful computer memory chips, color television broadcasting technology, and laser infrared devices, although the PRC still relies heavily on outside investment and technology transfer. Major advances have also been claimed in rice hybridization, insecticides, fertilizers, biogas digesters for rural electrification, and pollution control technology.

Two scientific exchange agreements between the United States and China were signed in January 1984 during Premier Zhao Ziyang's visit to Washington, D.C. China has proposed to several Western nations that it provide long-term storage facilities in remote provinces for radioactive waste—a proposal that Western observers believed would provide China not only with hard currency but also with nuclear materials for possible reprocessing.

China's principal technological handicap is lack of skilled personnel. Only 1% of the PRC's 127 million 22-year-olds receive a university degree. However, 37% of all Chinese degrees are in engineering, the highest ratio in Asia. Part of China's response to this shortage has been to send tens of thousands of students overseas for advanced study, especially in the United States. In 1987–97, science and engineering students accounted for 43% of college and university enrollments. China had 454 scientists and engineers and 200 technicians per million people engaged in research and development (R&D) during the same period. By 2002, the number of scientists and engineers per million people had risen to 633 (excluding Hong Kong). Scientific research is coordinated by the prestigious Chinese Academy of Sciences, founded in 1949 and headquartered in Beijing. China in 1996 had 90 specialized learned societies in the fields of agriculture, medicine, science, and technology. Most are affiliated members of the China Association for Science and Technology, founded in 1958. International science and technology cooperation is also increasing. However, concerns over human rights issues have had the effect of cooling US-PRC science and technology exchanges. In 1996, China had 105 universities and colleges offering courses in basic and applied science.

In 1998, high-technology exports were valued at \$23.3 billion and accounted for 15% of manufactured exports. By 2002, high technology exports (excluding Hong Kong) had risen to \$68.182 billion, accounting for 23% of manufactured exports. In 2002, R&D expenditures totaled \$72.014 billion, or 1.23% of GDP. In 2000, the biggest spender on R&D was business at 57.6%, followed by government at 33.4%, and foreign sources at 2.7%. The remainder was undistributed.

## 30 DOMESTIC TRADE

Three types of retail trade outlets—the periodic market, the peddler, and the urban shop—constituted the basis of the traditional commercial structure. In the early 1950s, however, a number of state trading companies were established for dealing in commodities such as food grains, cotton, textiles, coal, building materials, metals, machinery, and medicines. These companies, under the

control of the Ministry of Commerce, have established branch offices and retail stores throughout the country.

In the 1960s, the establishment of state-owned department stores and cooperative retail outlets virtually replaced private trade. There was a resurgence of periodic open markets and private traders when domestic trading regulations were relaxed in 1978. In addition, the government has progressively loosened or eliminated many of its former price controls; an estimated 90% of all retail sales are no longer controlled.

In 2003, about 50% of the work force was employed in agriculture, keeping the country basically self-sufficient in grain production, even though only about 15% of the land is arable. Farmlands and the agricultural industry, however, remain under state control.

The China Export Commodities Fair, usually held each spring and fall in Guangzhou, was for more than 20 years an important point of contact for Westerners doing business with China. Though still important as an initial introduction to the full range of China's potential suppliers, the decentralization of trading activities in recent years has greatly reduced the fair's role in mediating sustained contact between producers and buyers.

Local foreign trade commissions in various industrial centers of the country have taken on a much more active role in organizing many of the services associated with the commodities fair, while any domestic enterprise with foreign trading rights may now participate directly in all events related to trade promotion. Guangzhou still hosts two annual trade fairs, though on a reduced scale. In the major cities, Friendship Stores and other restaurants, hotels, service bureaus, and taxis cater exclusively to foreign visitors; payment is made in foreign exchange certificates.

By the mid-1980s, international credit cards could be used to obtain cash advances in selected outlets and for direct purchases in Friendship Stores. Internet commerce was initiated in China in the late 1990s, and by 2005, there were more than 100 million computer Internet users.

### 3<sup>1</sup> FOREIGN TRADE

Though China has only recently become a major trading nation, its enormous trading potential is attracting great attention by both

advanced and newly industrializing nations, shown by the world's interest in China's membership in the WTO. Trade has performed important functions within the economy, providing needed capital goods and modern technology to abet development, as well as primary commodities (such as grains) to supplement local supply in slack years. Foreign trade is under the direction of a single Ministry of Foreign Economic Relations and Trade, created in 1982 through the merger of the former ministries of Foreign Trade and Foreign Economic Relations with the Export-Import and Foreign Investment commissions. A major issue since the early 1980s, however, has been the decentralization of trade management and greater reliance on currency devaluation (major devaluations were implemented in 1989 and 1991) and market incentives rather than direct export and import controls to promote desired trade patterns. After the Asian financial crisis of 1997, officials were tempted to devalue the currency once more; instead the Ministry of Foreign Trade and Economics (MOFTEC) spent massive sums of money on state industry, while dismantling trade barriers in anticipation of WTO membership.

Prior to 1949, some three-fourths of China's exports were agricultural products. This proportion ebbed to a low of 13% during the agricultural crisis of 1961. Foodstuffs and other primary products including crude nonfood raw materials, minerals and fuels averaged about 43–50% of exports through 1985, after which the proportion declined steadily to reach only 6% in 1998, as manufactured exports expanded rapidly. Textiles (excluding garments) accounted for 10% of all exports in 1994 and clothing for about 19.7% (up from 7.5% in 1985). However, China's efforts to emulate the success of Japan, British Hong Kong, Taiwan, and the ROK in basing economic expansion on textile and clothing exports encountered protectionist resistance from major potential markets in the United States and European Union.

The textile and clothing industry created the large majority of China's commodity exports in 1998. China's special administrative region of Hong Kong also produces clothes, averaging 12.1% of the world's total clothes exports. Other exports include electrical parts (16%), watches and clocks (2.6%), telecommunications equipment (6.7%), and footwear (3.0%). Hong Kong produces 28% of the world's exports in watches and clocks.

Food imports, which made up only about 2% of the import volume in the 1950s, averaged 20% of the total in 1973 and 1974 but, as total imports rose, fell to less than 4% by 1985 and remained at 2.4% in 1994 and 5% in 1998.

The direction of China's trade has followed three major patterns since the 1930s. Prior to World War II, Japan, Hong Kong, the United States, and the United Kingdom together made up about three-fourths of the total trade volume. With the founding of the PRC in 1949, trade shifted in favor of the former USSR and Eastern Europe. During 1952–55, more than 50% of China's trade was with the former USSR; during 1956–60, the proportion averaged about 40%. As Sino-Soviet relations deteriorated during the 1960s, trade exchanges steadily declined, reaching a bare 1% of China's total volume in 1970 (3.6% in 1986). By the early 1980s, most of China's leading trade partners were industrialized non-Communist countries, and China's trade pattern overall reflected a high degree of multilateralism.

In recent years, as China has rapidly enlarged its role on the international market, the importance of Hong Kong as an entrepot

#### Principal Trading Partners – China (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	438,227.8	412,759.8	25,468.0
United States	92,626.3	33,944.2	58,682.1
China, Hong Kong SAR	76,274.4	11,118.7	65,155.7
Japan	59,408.7	74,148.1	-14,739.4
Korea, Republic of	20,094.8	43,128.1	-23,033.3
Germany	17,442.1	24,291.9	-6,849.8
Netherlands	13,501.2	1,933.1	11,568.1
United Kingdom	10,823.7	3,570.3	7,253.4
Other Asia nes	9,004.5	49,360.6	-40,356.1
Singapore	8,863.8	10,484.9	-1,621.1
France-Monaco	7,329.7	6,102.6	1,227.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

and major source of revenue has increased. In 1992, Hong Kong accounted for close to 35% of China's total trade (up from about 21% in 1986). Hong Kong reverted to Chinese rule in 1997, but because of its enormous trade activity, Hong Kong's trade is often measured separate from China. During the 1990s, Japan ranked as the second-largest trading partner, importing oil and other raw material and claiming 15% of China's total trade. The most dramatic change in the mid-1980s was the emergence of the United States as China's third-largest trading partner; by 2000 the United States was China's second-largest trading partner, and the largest importer of Chinese goods.

As of 2005, China exported \$752.2 billion in goods, 21.1% of which went to the United States, 17% to Hong Kong, 12.4% to Japan, 4.7% to South Korea, and 4% to Germany. That year, China imported an estimated \$631.8 billion in goods, 16.8% from Japan, 11.4% from Taiwan, 11.1% from South Korea, 8% from the United States, and 5.4% from Germany.

### 3<sup>2</sup> BALANCE OF PAYMENTS

Both foreign trade and international financing in China are state monopolies, with policies and transactions administered by the People's Bank of China (PBC). Among its various functions, the PBC sets exchange rates for foreign currencies. The PBC releases foreign exchange to the Bank of China, which plays a major payments role through its branches in Hong Kong, Singapore, and other overseas financial centers. The government has, overall, maintained a record of financial stability, linked to a policy of stringent controls over its international transactions. Adhering generally to a principle of self-reliance, it has resorted to the use of commercial credit at certain junctures but until the 1970s avoided falling into long-term indebtedness as a means of financing major development goals. In the period 1958–60, the Great Leap Forward and the succeeding years of economic crisis caused a sharp deterioration in China's international payments position. In 1960,

large negative clearing account balances with Communist countries (-\$625 million) were even more than the foreign exchange reserves of \$415 million. By the end of 1964, however, the negative balance with Socialist nations had been reduced to \$55 million, and China's net international financial resources stood at a surplus of \$345 million, owing to monetary gold holdings of \$215 million and foreign exchange balances from trade with non-Communist countries amounting to \$185 million. By 1965, the Chinese had completely cleared their long-term debt to the former USSR, and by 1968, China had redeemed all national bonds and was free of all long-term external and internal debts. Publication of official balance-of-payments statistics was discontinued during the Cultural Revolution and not resumed until September 1985.

According to Western analyses, the period 1978–81 saw a continuing surplus in current accounts, as rising levels of imports were generally matched or exceeded by increases in exports over the same period. In addition, transfers of an estimated \$1.1 billion in 1978 and \$1 billion in 1980, derived from increased earnings in tourism, shipping, and remittances from Hong Kong and other sources, resulted in overall current accounts surpluses of \$900 million and \$1.2 billion in 1978 and 1980, respectively. China's drive to industrialize under the Four Modernizations policy resulted in an unprecedented deficit on capital accounts of \$1.1 billion in 1978. The subsequent unilateral decisions to cancel \$2.6 billion in contracts with Japan (1979) and \$2 billion with Japan and Western nations (1981) were interpreted by some observers as an indication of acute cash-flow problems and a reordering of investment priorities at the highest levels. The trade account was helped by the slow but steady devaluation that occurred after China went to a managed float exchange rate system in January 1991. Tourism receipts and visitor figures also continued to grow, passing pre-Tiananmen levels.

Foreign investment boomed in the 1990s, with a total of nearly \$45 billion committed in 1998 alone. Approximately half of China's loans came from the Asian Development Bank, the World Bank, and Japan; external debt reached \$159 billion in 1998. A usually positive current account balance stockpiled China's reserves. In 1998, China had some \$147 billion in official reserves, but state industries had accumulated a huge amount of what was called triangular debt with the state banks and other lending agencies. Government infrastructure and industrial projects received funding for goods that could not be sold domestically in 1999 due to lower demand, losing money for each party involved. In effect, external trade plays a secondary role in China's economy because of normally high, unsatisfied domestic demand. Agreements with the WTO threaten to increase China's dependence on foreign trade. China's external debt stood at \$149.4 billion in 2002.

The Economist Intelligence Unit reported that China's total exports increased from \$249 million in 2000 to \$593 million in 2004, with an average annual increase of \$86 million. Total imports increased from \$214 million in 2000 to \$534 million in 2004 with an average annual increase of \$80 million.

### 3<sup>3</sup> BANKING AND SECURITIES

Economic reforms under the Four Modernizations program adopted in 1978 brought major changes in China's highly centralized and tightly controlled banking system. In 1982, the People's Bank of China (PBC) became the central bank and turned over

#### Balance of Payments – China (2001)

(In millions of US dollars)

<b>Current Account</b>		<b>17,401.0</b>
Balance on goods	34,017.0	
Imports	-232,058.0	
Exports	266,075.0	
Balance on services	-5,933.0	
Balance on income	-19,175.0	
Current transfers	8,492.0	
<b>Capital Account</b>		<b>-54.0</b>
<b>Financial Account</b>		<b>34,832.0</b>
Direct investment abroad	-6,884.0	
Direct investment in China	44,241.0	
Portfolio investment assets	-20,654.0	
Portfolio investment liabilities	1,249.0	
Financial derivatives	...	
Other investment assets	20,813.0	
Other investment liabilities	-3,933.0	
<b>Net Errors and Omissions</b>		<b>-4,732.0</b>
<b>Reserves and Related Items</b>		<b>-47,447.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

its commercial operations to the new Industrial and Commercial Bank. The State Administration of Foreign Exchange (SAFE) helps set foreign exchange policy. Other specialized agencies include the People's Construction Bank, the Agricultural Bank of China, the Bank of China, the Bank of Communications, the China Development Bank, and the Export-Import Bank of China. The China Construction Bank (CCB) makes payments for capital construction according to state plans and budgets. The Agricultural Bank of China finances agricultural expansion, grants rural loans, supervises agricultural credit cooperatives, and assists in the modernization of agriculture. The Bank of China (BOC) handles foreign exchange and international settlements for the PBC. It has branches throughout China as well as in Singapore, Hong Kong, Paris, London, Luxembourg, New York, and Tokyo. The BOC is charged with financing China's foreign trade and also acquiring and channeling into appropriate areas the foreign capital needed for imports of industrial equipment and other items for modernization.

The foreign-owned Standard Chartered Bank maintains long-established offices in China. Over 90 foreign banks, representing Japan, the United States, France, Italy, Pakistan, and the United Kingdom, received permission to establish offices in Beijing in the early 1980s. In 1985, for the first time, foreign banks were allowed to do business in the four special economic zones (established to attract foreign investment) in foreign currency. In mid-1997, 10 foreign banks were given permission to operate outside of the special zones; and in 1996, foreign banks were given limited authority to do business in renminbi (the local currency at the time). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$745.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1,889.7 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3.24%.

In 1987, stock exchanges opened in Shanghai and several other cities, and several stock and bond issues were floated domestically. Securities exchanges are controlled by the PBC, and trading in securities is very limited. In 1997, China accelerated stock-market listings of about 50 large and medium-sized state-owned enterprises (SOEs) and considered raising the number of enterprises piloting group holding structures from 57 to 100. In November 1996, the Shanghai Stock Exchange President, Yang Xianghai, predicted that China's two exchanges (Shanghai and Shenzhen) would number in excess of 1,000 companies by 2000. At the time he was speaking, there were 472 companies listed on the stock exchanges. By 2003, there were 746 listed companies and 871 listed securities being traded on the exchange. In 2004, the Shanghai and Shenzhen exchanges listed a combined total of 1,384 companies. Market capitalization of all exchanges in 2004 amounted to \$639.765 billion. In that same year, the Shanghai Stock Exchange stood at 1,266.5, down 15.4% from the previous year. China's stock market is split into two sections, the "A" share market and the "B" share market. Foreigners may only participate in the B-share market, denominated in foreign currencies and consisting predominantly of foreign private companies. The A-share market is reserved for domestic investors (who are not allowed to participate in the B-share market) and dominated by state enterprises.

### 3<sup>4</sup> INSURANCE

The People's Insurance Co. of China (PICC), formed in 1949, is authorized to handle all kinds of insurance, including the insurance of China's foreign trade and foreign insurance operations in China. In 2001, the People's Insurance Co. of China controlled 78% of China's property/casualty insurance industry, with 4,200 branches and a workforce of 110,000. Two newer domestic Insurance Companies, China Pacific and Ping An, have 11% and 8%, respectively, of the market. Two additional state enterprises, the China Insurance Co. and the Tai Ping Insurance Co., are in operation, and several foreign insurance companies have established representative offices in Beijing. Demand for insurance projects is predicted to grow as economic reforms limit the social security benefits provided by state enterprises. By 2001, life insurance premiums were growing at an average rate of nearly 70% per year, with nonlife premiums growing at around 15% per year. As of 2003, the value of direct premiums written totaled \$46.911 billion, of which life premiums accounted for the largest portion at \$32.442 billion. PICC was China's top nonlife insurer, with \$7,095.6 million in gross nonlife premiums written. China Life was the country's top life insurer, with \$19,583.3 million of gross life premiums written in 2003.

Motor-vehicle third-party liability for foreigners and for citizens in certain provinces, workers' compensation (in the Shenzhen Special Economic Zone), old age pension, unemployment insurance, and property (fire) in Shenzhen for commercial risks are compulsory.

### 3<sup>5</sup> PUBLIC FINANCE

The annual state budget is prepared by the Ministry of Finance and approved by the National People's Congress. A major reform in public finance, introduced in 1980, was a new system of allocating revenues and expenditures between local and national levels of government. Previous revenue-sharing procedures allowed the central government to fix maximum spending levels for each

#### Public Finance – China (2001)

(In billions of yuan, budgetary central government figures)

<b>Revenue and Grants</b>	<b>921.2</b>	<b>100.0%</b>
Tax revenue	811.7	88.1%
Social contributions	...	...
Grants	59.1	6.4%
Other revenue	50.4	5.5%
<b>Expenditures</b>	<b>1,381.6</b>	<b>100.0%</b>
General public services	945.4	68.4%
Defense	143	10.4%
Public order and safety	28.4	2.1%
Economic affairs	189.6	13.7%
Environmental protection	0.2	0.0%
Housing and community amenities	6.1	0.4%
Health	2.1	0.2%
Recreational, culture, and religion	5	0.4%
Education	20.9	1.5%
Social protection	40.8	3.0%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

province, autonomous region, and centrally administered municipality. The new system fixed for a five-year period the proportion of local income to be paid to the central government and (except for emergency appropriations for floods and other such disasters) the level of subsidies to be provided by the central government, as well as the proportion of local income to be retained by local governments. Autonomous regions receive proportionately greater state subsidies than the provinces and centrally administered municipalities, and they are entitled to keep all revenues from local industrial and commercial taxes. During the 1990s, the Chinese consolidated budget deficit grew at a rapidly increasing rate. According to the IMF, the 1998 budget deficit amounted to 4% of GDP, due to rising expenditures and tax evasion. Deficits are largely financed by domestic debt issuance rather than by money creation. In 1999, the central government performed an audit of embezzlement, finding that some \$2.4 billion in state funds had been diverted into private bank accounts, and that a total equaling one-fifth of the central government's tax revenues were misused. In all, the government's liabilities were equal to 100% of GDP in 2000, according to some sources. Annual tax revenues equal 13% of GDP, one-fifth of which goes annually to paying interest on government debts.

The US Central Intelligence Agency (CIA) estimated that in 2005 China's central government took in revenues of approximately \$392.1 billion and had expenditures of \$424.3 billion. Revenues minus expenditures totaled approximately -\$32.2 billion. Public debt in 2005 amounted to 28.8% of GDP. Total external debt was \$242 billion.

Government outlays by function in 2001 were as follows: general public services, 68.4%; defense, 10.4%; public order and safety, 2.1%; economic affairs, 13.7%; housing and community amenities, 0.4%; health, 0.2%; recreation, culture, and religion, 0.4%; education, 1.5%; and social protection, 3.0%.

### **36 TAXATION**

China's standard corporate tax rate is 33%, and includes a 3% local corporate income tax. It is applicable to resident as well as those business operations that involve foreign investments, or so-called foreign investment enterprises (FIEs). In addition, local authorities are allowed to collect certain license and registration fees, as well as levy a surcharge. FIEs typically pay taxes at concessional rates, depending upon the type of business and location. Capital gains incurred by companies are generally considered income and are taxed as such.

On 1 January 1994, the PRC Individual Income Tax law came into effect in China. As of 2005, China's individual income tax was progressively rated up to 45% for residents and foreigners, although foreigners listed as nonresidents (those living in China for less than one year) are taxed only on income sourced from China. People resident in China for five or more years are considered residents and are taxed on world-wide income. Capital gains claimed by individuals are taxed at 20%. However, the sale of a private dwelling is exempt from the capital gains tax, if the seller lived in it for at least five years. Nonresidents are subject to a 10% withholding tax. The sale or importation of goods and services are subject to a value-added tax (VAT) at a standard rate of 17% or at a lower rate of 13%. The lower rate applies to water, grain, edible oils, certain agricultural products such as fertilizers, and books.

Small firms are subject to a 6% VAT. The VAT applies to a broad range of services including the sale of immovable property, construction, insurance and entertainment, the latter of which is subject to a 20% rate. Consumption/excise taxes also apply to goods, including cigarettes, motor vehicles, cosmetics, jewelry and alcoholic beverages.

### **37 CUSTOMS AND DUTIES**

Although China is in the process of aligning its trade system with international standards, prohibitively high tariffs and quotas discourage many imports. It uses the Harmonized System for tariff classification. A minimum tariff rate is granted to countries that have special agreements with China, including the United States. Tariff rates range from 3–100% with the highest rates reserved for goods such as automobiles. Raw materials are exempt. In 1996, as a step toward WTO compliance, China reduced tariffs on more than 4,000 products by an average of 30%, and then reduced tariffs even further in 2001 in preparation for WTO accession. In 2000, the US-China Trade Relations Working Group successfully opened trade relations with China, with such agreements as: reducing the automobile tariff from a maximum of 100% to a maximum of 25%; reducing auto parts tariffs from 23.4% to 10%; and eliminating quotas by 2005. In addition, China agreed to a reduction in chemical tariffs from about 15% to 7% and a reduction in textile tariffs from 25% to 12% by 2005 (but a quota safeguard would be available in the event that the industry failed). Steel tariffs were to be reduced from 10% to 6% by 2003. These reductions would be implemented on a sliding yearly basis. Most other tariffs have been scheduled for reduction by more than 50%, to an average of 9.4% on industrial tariffs and an average of 17% on agricultural tariffs. China acceded to the World Trade Organization on 11 December 2001.

Official PRC policy is that direct trade with Taiwan is inter-regional, rather than international, since Taiwan is considered a province of China and, therefore, no customs duties are levied. There are free trade zones in Shanghai, Tianjin, Dalian, Haikou, the Hainan Island Special Economic Zone, and within the Shenzhen Special Economic Zone. Smuggling, reportedly well organized along the coasts of Guangdong, Fujian, and Zhejiang provinces and in the frontier regions of Tibet and Yunnan, is a major governmental concern.

### **38 FOREIGN INVESTMENT**

China strongly emphasizes attracting foreign investment in projects that will enhance the nation's economic development. Beginning in the early 1970s, China contracted for the construction of a substantial number of complete plants, notably for iron and steel, automobile, fertilizer manufacture, and power generation, including nuclear power. Such agreements, often made with private firms from Japan, Germany, Italy, France, the United Kingdom, and Canada, as well as with agencies of the Communist states, all called for direct purchase of materials and services. Residual ownership by foreigners and remittance of profits from production were expressly disallowed. In 1979, China established the Foreign Investment Control Commission to attract and coordinate foreign investment, and the first four Special Economic Zones (SEZs) in southern China at Shenzhen, Xiamen, Shantou, and Zhuhai to at-

tract foreign investment (the fifth SEZ was established on Hainan Island in 1988).

In the 1980s, foreign investment was restricted to export-oriented businesses, and foreign investors were required to enter into joint ventures (JVs) with Chinese counterparts in order to enter the market. Under the Joint Ventures Law, enacted in 1979 and revised in 1982, the development of joint ventures for the production of exports has been particularly stressed as a means of securing for China the foreign exchange needed to pay for purchases of advanced technology. Foreign investment in products for the domestic market, other than those needed for modernization, was discouraged. In 1984, further foreign investment opportunities were created with the designation of 14 open coastal cities—Shanghai, Guangzhou, Tianjin, Fuzhou, Dalian, Qinhuangdao, Yantai, Qingdao, Lianyungan, Nantong, Ningbo, Wenzhou, Zhanjiang, and Beihai—where preferential incentives could also be offered. Since then, 52 state-approved economic and technology zones have come into existence, and most provinces, regions, and major municipalities have their own international and trust investment corporations, of which the one in Shanghai is the largest. Special corporations for the attraction of investment by overseas Chinese have been established in Fujian and Zhejiang provinces.

In the early 1990s, the government began allowing foreign investors to manufacture and sell an increasingly wide variety of goods in the domestic market. From the mid-1990s, wholly foreign-owned enterprises (WFOEs) have been allowed to operate. In 2000 and 2001, China revised its laws on JVs and WFOEs to eliminate requirements for foreign exchange balancing, to eliminate domestic sales ratio requirements, to eliminate or adjust advanced technology and export performance requirements, and to modify provisions on domestic procurement of raw materials. With China's accession to the WTO in December 2001, foreign investment opportunities were further expanded with the removal of financial and distribution services from the restricted list. Only the production of arms and the mining and processing of certain minerals are currently off-limits to foreign investment.

China attracts capital in four ways: (1) by soliciting loans and credits from foreign governments and international financial institutions; (2) by floating bonds and debentures on international capital markets; (3) by promoting direct foreign investment through joint ventures and other cooperative enterprises; and (4) by accumulating trade surpluses from export sales.

From 1979 to 2000, according to Chinese government figures, FDI totaled \$350 billion. This figure includes investment from the Special Administrative Regions (SARs) of Hong Kong and Macao as well as from Taiwan. On an annual basis, this not-very-foreign proportion of FDI has dropped from over two-thirds to an average of 45.5% for 1999 and 2000. (Analysts have also estimated that 10–30% of FDI from Hong Kong actually comes from Chinese mainland companies looking for a tax break.) From 1979 to 1990, double-digit annual growth rates in the early years (55% in 1984 and 38% in 1985) declined to a low of 2.7% in 1990, the year after the Tiananmen Square violence. However, in 1991, FDI increased 25% and then soared by triple digits in 1992 (152%) and 1993 (150%). By the end of 1995, over 258,000 foreign-invested enterprises had registered in China. In 1996 a World Bank study found that China attracted more than one-third of all investment in factories and other manufacturing plants in developing nations.

Growth rates, of course, moderated after their early surge, but it was not until the Asian financial crisis of 1997–98, precipitated by China's reabsorption of Hong Kong in July 1997, that annual FDI levels stagnated, with a 0.45% growth rate in 1998, and then declined, with an 11.1% fall in 1999 from \$45.46 billion to \$40.4 billion annual FDI. In 1999 foreign invested firms numbered 300,000 and accounted for almost 50% of exports. In 2000, FDI only grew 0.9%, to \$40.77 billion, but in 2001, a 14.6% increase sent annual FDI to a record \$46.8 billion.

China continues to have no mergers and acquisitions law that would permit the involuntary take-over of a company. A company can be bought outright but the sale requires specific government approval, as do all investments in China. Indirect foreign (or portfolio) investment (FII) is limited to those willing to invest in the mainland companies listed on the Chinese stock exchange. Mainland companies raised about \$22 billion in 2000. This fell to about \$12 billion in 2001, reflecting the near 50% drop in foreign investment worldwide following the 11 September 2001 terrorist attacks on the United States.

Until the early 1980s, the flow of Chinese funds abroad was confined to assistance to developing countries and to investment in Hong Kong real estate. In 1983, however, China began making direct investments overseas, in the United States, Canada, the Solomon Islands, and Sri Lanka. China has been a significant supplier of development aid to other countries. Recipients of Chinese military and economic assistance have included the DPRK, Vietnam, Egypt, Pakistan, and Tanzania.

### 39 ECONOMIC DEVELOPMENT

A profound restructuring of China's economy began in 1949 following the founding of the PRC. Adhering to orthodox models borrowed wholesale from the former USSR, the PRC brought all major industrial, infrastructure, and financial enterprises directly under state ownership. Agriculture was collectivized. Management of the economy was closely controlled by central authorities, whose powers extended to the allocation of basic commodities and the basic division of resources into investment, consumption, and defense channels. Centralized planning for economic development was introduced in the form of five-year economic plans.

The first five-year plan (1953–57), belatedly announced in 1957, pursued rapid industrialization along Soviet lines, with a special emphasis on increases in steel and other heavy industries. The plan reportedly achieved its goals of a 5% gain in gross value of agricultural output and a 4% gain in grain production, and exceeded the 19% growth target in gross value of industrial output.

The second five-year plan (1958–62) was voided at its start by the social and economic upheavals of the Great Leap Forward. At the heart of the Great Leap was the establishment of the self-sufficient rural commune; decentralization of industry was stressed, and the rural unemployed put to work in “backyard steel furnaces” and other industrial enterprises of dubious efficiency. Incomes were determined by need, and coercion and revolutionary enthusiasm replaced profit as the motivation for work. Publication of economic data ceased at this time, but Western observers estimated a 1% decline in agriculture for the 1958–60 period, an increase in GNP of only 1%, and no more than a 6% increase in industrial output. After the bad harvests of 1960 and 1961, an “agriculture first” policy was adopted under which large areas of semiarid

steppe and other marginal lands in the north and west were converted to agricultural use.

A third five-year plan (1966–70), formulated by governmental pragmatists and calling for rapid growth of all sectors, was aborted by the outbreak of the Cultural Revolution. In 1969, the government published a report calling for a more open approach to foreign assistance and trade. Domestically, it confirmed the use of the “mass line”—the system of calling upon workers and peasants to take responsibility and initiative, and to work without material incentives. It favored the simultaneous use of modern and traditional employment methods (the “walking on two legs” policy), and recommended expansion of industry through investment of profits derived from the sale of agricultural and light industrial products. At the heart of the 1969 policy was a reversion to the commune system of 1958—a program to make the countryside self-sufficient, with every commune not only growing its own food but also producing its own fertilizer and tools, generating its own electricity, and managing its own small handicrafts factories, health schemes, and primary schools. In contrast to the hastily organized communes of 1958–60, however, the new units frequently adhered to the traditional—and more manageable—structure of Chinese rural life.

Long-range economic planning resumed in 1970 with the announcement of a fourth five-year plan, for 1971–75. In late 1975, Premier Zhou Enlai proclaimed the plan successful. Agricultural output was reported to have grown by 51% during the 1964–74 period, while gross industrial output was said to have increased by 190%. Specifically, the following growth rates (1964–74) for mining and industry were reported: petroleum, 660%; coal, 92%; steel, 120%; cotton yarn, 86%; tractors, 540%; chemical fertilizers, 350%; and electric power, 200%.

A fifth five-year plan (1976–80), announced in 1975, gave priority to modernization of the economy and, for the first time, emphasized the development of light rather than heavy industry. Implementation of this new departure was, however, delayed by the deaths of Mao and Zhou in 1976 and did not occur until 1978, by which time the economic pragmatists, led by Deng Xiaoping, had emerged victorious from the subsequent political and ideological struggles.

The sixth five-year plan (1981–85) reemphasized China’s commitment to the pragmatic line and to the Four Modernizations. Approximately \$115 billion was allocated for capital construction, and another \$65 billion for renovation of existing infrastructure. GNP increased by an annual average of 10%, industrial output by 12%, and agricultural output by 8.1%.

The seventh five-year plan (1986–90), announced in March 1986 and called by Deng Xiaoping “The New Long March,” featured the following major goals: increasing industrial output 7.5% annually (to \$357 billion); increasing agricultural output 4% annually (to \$95.4 billion); increasing national income 6.7% annually (to \$252.7 billion); increasing foreign trade 40% (to \$83 billion); spending \$54 billion on 925 major development projects in energy, raw materials, transportation, and postal and telecommunications; and investing \$74.6 billion in technological transformation of state enterprises. The goal for rural per capita income was \$151 annually.

Concerns about the unevenness of China’s economic development progress, both in geographic and sectoral terms, shaped the

country’s eighth five-year plan (1991–95). To ameliorate potentially crippling bottlenecks in the supply of raw materials, energy, transportation, and communications capacity, the government prioritized the financing of infrastructure investments. Streamlining of inefficient state industrial enterprises was targeted as well, with the setting up of an unemployment security fund planned in order to assist laid-off workers make the transition to employment in nonstate industry and the services sector. Direct foreign investment in industry, services, and infrastructure (especially energy and communications development) were promoted. The plan also emphasized better distribution of the country’s development momentum. Inland cities, especially along the Russian, Mongolian, and North Korean borders were targeted for development as export-oriented special economic zones in addition to coastal areas. Particular emphasis was given to developing major infrastructure projects to link Hong Kong, Macao, and the Pearl River delta area of Guangdong province into an integrated economic area and major export base for the 21st century.

The ninth five-year plan (1996–2000) called for a shift from a centrally planned economy to a “socialist market economy.” It also stressed resource allocation to achieve higher efficiency. The goals included continuing progress toward quadrupling the 1980 GNP by the year 2000 (a goal that had already been met by 1996) and doubling the 2000 GNP by the year 2010, a goal carried over into tenth five-year plan (2001–05). By the end of 2002, the Chinese economy had come through two major external shocks (the Asian financial crisis of 1997–98 and the global economic slowdown of 2001–02) without seriously faltering, at least according to official government figures. Real GDP growth registered 8% in 2000 and dipped to 7.3% in 2001. Inflation has held near zero or below, with a slight deflation in consumer prices (–0.8% in 1998, –1.4% in 1999, and –0.4% in 2002). In 2000 and 2001 inflation was below 1%, at 0.4% and 0.7%, respectively.

The tenth five-year plan (2001–05) called for a continuance of these trends: average GDP growth rates of 7% with a goal of reaching a GDP of \$1.5 trillion by 2005 in the context of stable prices. The government estimated that the labor force would increase 40 million by 2005, and that there would also be 40 million surplus rural laborers to be transferred, as the proportion of the labor force in agriculture dropped from an estimated 50% in 2001 to a planned 44% by 2005. Under the tenth five-year plan the government sought to improve its “socialist market economy.” Priorities include establishing a “modern enterprise system” in the state-owned enterprises (SOEs), improving social security, and increasing the depth and breadth of participation in the international economy. Registered urban unemployment, at 3.6% in 2001 and below 4% in 2002, was to be controlled at about 5% under the tenth plan. The CIA estimated that total urban unemployment was about 10% in 2001, and that there was substantial underemployment in rural areas; Chinese sources put unemployment overall at 20% in 2003. The tenth five-year plan foresaw agriculture’s share in the GDP decreasing to 13% by 2005 from 17.7% in 2001, while industry’s share was expected to increase from 49.3% to 51%, and the share of services, from 33% to 36%, across the planning period. Educational goals include attaining gross enrollments of 90% at the junior high school level, 60% in high school, and 15% in higher education. Environmental targets included attaining 18.2%

forest coverage, 35% urban green rate, and an overall 10% reduction over 2000 levels in pollutants discharged.

In 2005, China's history of incrementalist economic restructuring for increased efficiency gains led to a GDP ten times higher than that recorded in the late 1970s. Such advances helped make China the second-largest economy in the world (in terms of purchasing power parity) after the United States. However, despite the country's economic advances as a whole, the low per capita income and millions of citizens living below the poverty line still placed China in a lower middle-income range. Economic development continued to be disproportionate, with more advances occurring in the eastern coastal provinces than in the rest of the country. Also, as state-owned enterprises (SOEs) have decreased, the government has been challenged to find work for the millions of former SOE employees who were unemployed as a result. Also challenging the government are charges to reduce corruption and economic crimes and to reduce environmental damage (air pollution, soil erosion, and the fall of the water table in the north) and social strife in the face of economic transformation. In July 2005, China revalued the yuan (¥) by 2.1%, and benefited from foreign investment and increased involvement in world trade and increasing employment in urban jobs, despite electricity shortages in the summer of 2005.

Also, in 2005, the draft of the eleventh five-year plan was approved. The plan included provisions to reduce energy consumption (per unit GDP) by 20% and increase GDP by 45% by 2010. It also included a resource conservation and environmental protection package supplementing the other policies and reforms.

#### **40 SOCIAL DEVELOPMENT**

China does not yet have national social security legislation. Old age provisions in rural areas is tied to family support and community and state programs. According to the Labor Law, male workers and professional women are eligible to retire at age 60, female nonsalaried workers at 55, and other women at age 50. The amount of the pension is decided by the local or city government based on the standard of living in that area. The urban medical insurance program covers employees in urban enterprises. Local governments and employers adapt the guidelines and base rates according to local conditions. There are some local programs to provide for needy families.

Workers may receive six months' sick leave at 60–100% of salary. For work-related total disability, workers are entitled to lifetime compensation of 75–90% of the standard wage. Maternity leave at full pay is provided for up to 90 days. In addition, numerous health, day-care, and educational benefits are provided free of charge. In urban areas, housing rentals rarely exceed 5% of the monthly wage.

Despite constitutional provisions, women may face discrimination in the workplace. Women continue to report that unfair dismissal, sexual harassment, demotions, and wage disparity are significant problems. In addition, some enterprises are reluctant to hire women because of the additional costs of maternity leave. Sexual harassment was an ongoing problem and the first court cases were heard in 2003. Most women earn less than men, and are twice as likely to be illiterate. Violence against women remains a serious problem, and spousal abuse goes largely unreported. The suicide rate among women is three times the global average.

Women are subject to pressure and sometimes physical coercion to submit to abortion or sterilization. The trafficking of women for the sex trade is a pervasive problem.

A serious human rights problem is female infanticide by families wishing for sons. The imbalance of sex ratios in the country has led to a shortage of women of marriageable age and a dramatic increase in the abduction of women for this purpose.

China's human rights record continued to draw international censure. Ongoing human rights abuses include arbitrary and lengthy detention, forced confessions, torture, and the mistreatment of prisoners. Repression of political dissent continues. Prison conditions are poor and China does not allow any independent monitoring of its prisons. Widespread human rights abuses have also been reported in Chinese-occupied Tibet. The government does not tolerate any political dissent or pro-independence movements in Tibet.

#### **41 HEALTH**

A revamping of China's health system was underway in the late 1990s to manage serious diseases. The Ministry of Public Health's ninth five-year plan on the control of serious diseases outlined major reforms to be reached by the year 2000. These include strengthening epidemic prevention management systems and facilities. National health practices, including the provision of both Western and traditional Chinese health services are under the supervision of the Ministry of Health. The ministry has emphasized preventive medicine and general improvement of sanitary conditions.

Since the early 1950s, mass campaigns have been mounted to deal with major public health problems. These have included nationwide cleanup campaigns and mass educational programs in the sanitary preparation of food, the treatment of drinking water, personal hygiene, and waste disposal. The entire population was mobilized to eradicate the four pests—rats, sparrows, flies, and mosquitoes—with mixed results. Epidemic prevention centers were established to carry out massive immunizations, while parasitic diseases, affecting hundreds of millions in China, were also attacked. As a result, schistosomiasis, malaria, kala-azar, and hookworm are thought to have been largely brought under control.

Approximately 90% of inhabitants had access to health care services. In 2000, 75% of the population had access to safe drinking water and 38% had adequate sanitation.

There were 62,000 hospitals and total beds numbered 2.6 million, a rate of 2.33 per 1,000. As of 2004, there were an estimated 164 physicians, 104 nurses, 29 pharmacists, and 4 midwives per 100,000 people.

During the Cultural Revolution in an effort to even out the disparity between rural and urban health services, medical personnel from hospitals (as much as 30–50% of a hospital's medical staff) were sent to the countryside and the number of locally trained paramedical personnel, called barefoot doctors, expanded. These paramedical personnel—young peasants or middle-school graduates—were trained on the job by township doctors or in two-month courses at township health clinics. "Barefoot doctors" and brigade health stations were still the major deliverers of health care in the countryside.

An estimated 83% of married women (ages 15–49) used contraception. The infant mortality rate was reduced from as high as 200 per 1,000 live births before 1949 to an estimated 24.18 per 1,000 in 2005. The maternal mortality rate was estimated at 55 per 100,000 live births. In the mid-1990s, China vaccinated a high percentage of its children up to one year of age: tuberculosis, 94%; diphtheria, pertussis, and tetanus, 93%; polio, 94%; and measles, 89%. Despite the high immunization rates, diseases still persist. China had the greatest number of tuberculosis cases of any UN member state. According to the World Health Organization, cholera was reported in 10,344 individuals in 1995. In China, which accounts for 20% of the world's tetanus cases, over 90,000 a year die from neonatal tetanus.

Average life expectancy in 2005 was 72.27 years, up from an average of 45 years in 1950. Major causes of death were recorded as: communicable diseases and maternal/perinatal causes, noncommunicable diseases, and injuries. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 840,000 people living with HIV/AIDS in the country. There were an estimated 44,000 deaths from AIDS in 2003.

## 42 HOUSING

China has an acute shortage of housing, attributable not only to the large annual increases in population (over 10 million a year), but also to the long-standing policy of directing investment funds into heavy industry rather than into housing and other social amenities. In the mid-1990s, the total number of housing units in China stood at 276,502,000. Approximately 400,000 new dwellings were completed per year and 90.6% of all homes had piped water. By the end of 2002, an additional 19.25 million sq m (207.21 million sq ft) of commercial housing had been completed, representing a 10.5% increase from the previous year. The government expects to build 486 million sq m (5,231.26 million sq ft) to 549 million sq m (5,909.39 million sq ft) of floor space each year for the first 20 years of the 21st century. In 2002, the annual investment for housing was at about us\$97 billion.

During the 1990s, the government began a program of transferring ownership of state-owned housing into private hands at fairly low costs and with subsidized mortgages. As a result, an estimated 73% of families own their own residence. In 2002, the average living space was at 23.5 sq m (252.95 sq ft). In rural areas, homes tend to be smaller. Some newer rural homes are at about 50 sq m (538.2 sq ft) in size with households of about three to six people. Though many rural homes are constructed with wood and earthen walls and tile or thatched roofs, some newer homes, such as those built by Habitat for Humanity, include red brick, stone, and compressed earth blocks.

## 43 EDUCATION

The Cultural Revolution affected education more than any other sector of society. Schools were shut down in mid-1966 to give the student Red Guards the opportunity to “make revolution” on and off campus. The Cultural Revolution touched off purges within the educational establishment. Upper- and middle-level bureaucrats throughout the system were removed from office, and virtually entire university faculties and staffs dispersed. Although many lower schools had begun to reopen during 1969, several universities remained closed through the early 1970s, as an estimated 10

million urban students were removed to the countryside to take part in labor campaigns. During this period and its aftermath, revolutionary ideology, and local conditions became the principal determinants of curriculum. A nine-year program of compulsory education (compressed from 12 years) was established for youths 7–15 years of age.

Education was reoriented in 1978 under the Four Modernizations policy, which restored the pre-1966 emphasis on competitive examinations and the development of special schools for the most promising students. The most striking changes were effected at the junior and senior high school levels, in which students were again streamed, according to ability, into an estimated 5,000 high-quality, well-equipped schools, or into lower-quality high schools, or into the technical and vocational schools, which were perceived as the least prestigious. In addition, 96 universities, 200 technical schools, and 7,000 primary schools were designated as “key” institutions. Universities were reopened, with a renewed emphasis given to science and technology. By 1998, there were 628,840 primary schools with 5,794,000 teachers and 139,954,000 students. At the secondary level, there were 4,437,000 teachers and 718,883,000 students.

As of 2006, the nine years of compulsory education was still in effect. This consists of a six-year primary education and a three-year junior secondary program. A senior secondary program continues for another three years. The academic year runs from September to July. The primary language of instruction is Chinese.

In 2001, about 27% of children between the ages of three and six were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 94.6% of age-eligible students. The same year, secondary school enrollment was about 67% of age-eligible students. It is estimated that about 98% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 21:1 in 2003; the ratio for secondary school was about 19:1.

There are over 1,000 colleges and universities in China. Among the largest and most prestigious institutions were Beijing University and Qinghua University, both in Beijing; Zhongshan University, in Guangzhou; Nanjing University and Nanjing Institute of Technology; Nankai University and Tianjin University, in Tianjin; and Fudan University, in Shanghai. In 2003, about 16% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 90.9%, with 95.1% for men and 86.5% for women.

Tuition has traditionally been free in vocational secondary schools, and in training schools for elementary teachers, as well as in colleges and universities; students in need of food, clothing, and textbooks receive state grants-in-aid. Primary and general secondary school students pay a nominal tuition fee. Part-time primary and secondary schools, evening universities, and correspondence schools exist for adult workers and peasants.

As of 2003, public expenditure on education was estimated at 2.1% of GDP, or 13% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The National Library in Beijing (founded in 1909) is the largest in China, with over 22 million volumes, including more than 291,000 rare ancient Chinese books and manuscripts. The Chinese Academy of Sciences Central Library, in Beijing, has a collec-

tion of 6.2 million volumes, with branches in Shanghai, Lanzhou, Wuhan, and Chengdu. The Capital Library in Beijing (2.6 million volumes) is the city's public library and operates lending, reference, and children's services. The Shoudou Library, also in Beijing, has 2.35 million volumes. Shanghai Central Library System, established in 2001 with support from the municipal government, includes about 36 branch libraries.

Small lending libraries and reading rooms can be found in factories, offices, and rural townships. The library of Beijing University, with over four million volumes, is the largest university library. Other important university collections are at Nanjing University in Nanjing (3.2 million volumes), Fudan University in Shanghai (3.6 million volumes), and Qinghua University in Beijing (2.5 million volumes). The Central Institute of Nationalities in Beijing—one of dozens of private institutions with libraries—has a collection of 800,000 volumes, including 160 foreign-language journals. The Library Association of China was founded in Peiping (modern-day Beijing), China, in 1925 and reorganized in T'aipei in 1953. The Hong Kong Library Association was founded in 1958.

China has a wealth of about 1,000 museums, most of them cultural in nature. The Imperial Palace Museum in Beijing houses collections of art, sculpture, silk fabric, and furniture. The Museum of the Chinese Revolution on Tiananmen Square has exhibits of the revolutionary movement in China from the Opium War to the founding of the PRC. In Shanghai is the Museum of Art and History, with some of the country's outstanding archaeological and art collections. Many museums are memorials to Chinese artists and writers, and house collections of their work. China also has 500 historical sites with exhibitions. With the return of Hong Kong to China, the country gained the Hong Kong Museum of Art, the University Museum and Art Gallery, the Hong Kong Museum of History, and the Hong Kong Space Museum.

## 4<sup>5</sup> MEDIA

Postal service and telecommunications facilities fall under the authority of the Ministry of Posts and Telecommunications. In 2003, there were an estimated 209 mainline telephones for every 1,000 people.

The same year, there were approximately 215 mobile phones in use for every 1,000 people. Figures for Hong Kong alone were much higher, with 559 mainline telephones and 1,079 mobile phones for every 1,000 people.

Television broadcasting began in 1958, and color transmissions in 1973. As of 1998 China had 369 AM and 259 FM radio broadcasting stations. In 1997, China Central Television operated 209 government-owned television stations. There were also 31 provincial stations and almost 3,000 city stations. The most important station is Beijing's Central People's Broadcasting Station (CPBS); from there, programs are relayed by local stations. CPBS broadcasts daily on several channels using a variety of languages, including Mandarin (or standard Chinese), the Hokkien and Hakka dialects, Cantonese, Mongolian, Tibetan, Uigur, Kazakhi, and Korean. In 2005, there were about 2,100 television channels available through state-run Chinese Central TV, provincial, and municipal stations. Approximately 75 of every 1,000 people were cable subscribers. In 2003, there were an estimated 339 radios and 350 television sets for every 1,000 people. Many of the TV sets are installed in public meeting places and in government and economic

enterprises, although increasingly a television set has become a much-prized private acquisition. Since large segments of the rural population are as yet without radios and television sets, the government operates a massive wired broadcast network linked to over 100 million loudspeakers. Again, figures for Hong Kong alone were much higher, with 686 radios and 504 television sets for every 1,000 people.

Despite controls, a rapidly growing number of Chinese have access to satellite television and the Internet. The government regulates access of the Internet through the Ministry of Information Industry and the Ministries of Public and State Security. In 2003, there were 27.6 personal computers for every 1,000 people and 63 of every 1,000 people had access to the Internet. There were 293 secure Internet servers in the country in 2004.

The press is closely controlled by the government, the CCP, or the various political and mass organizations associated with the CCP. Minority newspapers are published in Mongolian, Uygur, Tibetan, Korean, and other languages. The main news agencies are the official New China (Xinhua) News Agency; the China News Service, which supplies information to overseas Chinese newspapers and journals; and China Feature, which supplies articles to magazines and newspapers worldwide.

The Cultural Revolution caused substantial upheaval in the Chinese press establishment. Many publications closed down, and others underwent purges of editorial staffs. Publication of *Hongqi* (*Red Flag*), the most authoritative of the CCP publications, resumed in 1968.

The major newspapers, with their locations and circulations in 2002, are: *Gongren Ribao* (*Worker's Daily*), Beijing, 2,500,000; *Renmin Ribao* (*People's Daily*), Beijing, 2,150,000; *Xin Min Wanbao* (*Xin Min Evening News*), Shanghai, 1,800,000; *Wenhui Bao* (*Wenhui Daily*), Shanghai, 1,700,000; *Yangcheng Wanbao* (*Yangcheng Evening News*), Guangzhou, 1,300,000; *Jiefang Ribao* (*Liberation Daily*), Shanghai, 1,000,000; and *Jiefangjun Bao* (*Liberation Army Daily*), Beijing, 800,000.

*Jiefangjun Bao*, the army news, played a leading role in the Cultural Revolution. China's first English-language newspaper, the *China Daily*, founded in 1981, is published in Beijing and had a circulation of 150,000 in 1999. The most authoritative publication for foreigners is the multilingual weekly *Beijing Review*, which distributed in China and abroad with a 1995 circulation of more than 100,000.

In 2002, Hong Kong had over 75 daily newspapers in circulation, some of which are English-language papers from other countries, such as the *Toronto Star*, the *Boston Globe*, and *The Australian*. Major Hong Kong dailies and their 2002 circulations were *Tin Tin Yat Pao*, 199,260; *Sing Tao Wan Pao*, 125,000; *Wah Ku Yat Po*, 125,000; *Ching Pao*, 120,000; *Hong Kong Commercial Daily*, 110,000; *South China Morning Post*, 104,000; and *Hong Kong Daily News*, 101,815.

The largest daily newspaper in Macau is *Ou Mun Iat Pou* (*Macau Daily News*, 2002 circulation 100,000).

Government-approved publishing houses are the only legal book publishers.

Though China's constitution states that freedom of speech and of the press are fundamental rights, in practice the Communist Party and the government control all print and electronic media, which are compelled to propagate the current ideological line. All

media are under explicit, public orders to guide public opinion as directed by the authorities.

## 46 ORGANIZATIONS

Prior to 1966, the leading mass organizations, all closely tied to the regime, were the Communist Youth League, the Women's Federation, the Federation of Literary and Art Circles, the Federation of Scientific Societies, and the Federation of Industry and Commerce. These bodies were to some extent eclipsed by the Cultural Revolution, which spawned a host of new groups. After the Cultural Revolution passed its peak, many of the new organizations lost ground, while local Communist Youth League organizations, including the Young Pioneers, gained prestige. By the mid-1980s, the pre-Cultural Revolution groups were once again ascendant.

There are professional and trade organizations representing a wide variety of professional fields. The All China Federation of Industry and Commerce promotes international trade. The All China Federation of Trade Unions serves as an advocate for worker's rights and benefits, particularly for women. The Asia Pacific Occupational Safety and Health Organization (APOSHO) is located in Hong Kong. Labor organizations in Hong Kong include the Employers' Federation of Hong Kong, the Hong Kong Confederation of Trade Unions, and the Hong Kong Federation of Trade Unions. The International Labour Organization has an office in Beijing.

Educational and cultural organizations include the China National Association of Literature and Fine Arts based in Taiwan. The Chinese Academy of Social Sciences promotes research in philosophy and the social sciences. The Hong Kong Arts Festival Society sponsors an international arts festival. The Royal Asiatic Society, dedicated to the history and culture of China, Hong Kong, and Asia, has a branch in Hong Kong. There are also several organizations dedicated to research and education in various fields of medicine and science. There are also many associations for hobbyists.

National women's organizations include the Association for the Advancement of Feminism (AAF), based in Hong Kong and the All China Women's Federation, based in Beijing. The largest youth association is the umbrella organization the All-China Youth Federation (ACYF), which is led by the Communist Party of China. Member organizations include the Rural Young Entrepreneurs Association, the Association for Young Journalists, the Communist Youth League (CYL) of China, the All-China Students Federation (ACSF), the YMCA and YWCA, and the Chinese Young Entrepreneurs Association (CYEA). Scouting groups exist in Hong Kong and Macau. A wide variety of sports organizations are active throughout the country, including the Chinese Table Tennis Association, which has gained international recognition.

The Asian Human Rights Commission (Hong Kong) is a multinational organization for human rights. There are national chapters of the Red Cross, Greenpeace, Habitat for Humanity, and Amnesty International.

## 47 TOURISM, TRAVEL, AND RECREATION

Chinese restrictions on tourism were eased to allow access by foreigners on group tours in 1976 and further relaxed in 1983, when the ban on individual travel was lifted. By 1985, there were 244 Chinese cities and scenic spots open to foreign tourists and a number of resorts specifically designed for foreigners were in op-

eration. China was opened to tourists from Taiwan in 1987. All visitors to China must have a valid passport and visa; personal interviews may also be required upon entry.

The most famous tourist attraction in China is the Great Wall, the construction of which began in the 3rd century BC as a barrier against northern invaders. Other leading tourist attractions include the Forbidden City, or Imperial Palace, in Beijing; the nearby tombs of the Ming emperors; historic Hangzhou, with its famous West Lake and gardens; busy Shanghai, with its well-stocked stores and superb cuisine; Xi'an, the site of monumental Qin dynasty excavations; and Guangzhou, the center of Cantonese cooking, with an extensive Cultural Park.

Sports activities in China are coordinated by the State Physical Culture and Sports Commission and the All-China Sports Federation. Active sports, represented by national associations, include gymnastics, diving, basketball, football (soccer), tennis, cycling, swimming, volleyball, weight lifting, and mountain climbing. The 2008 Summer Olympics were scheduled to be held in Beijing, the first Olympic Games to be held in China.

Distinctively Chinese pastimes include wushu, a set of ancient exercises known abroad as *gonfu* (kung fu) or the "martial arts"; *taijiquan*, or shadow boxing, developed in the 17th century; and *liangong shibafa*, modern therapeutic exercises for easing neck, shoulder, back, and leg ailments. *Qigong* (literally "breathing exercises") is also widely practiced both as a sport and as physical therapy. A popular traditional spectator sport is Chinese wrestling. Traditional pastimes for the national minorities are horse racing, show jumping, and archery among the Mongolians; the sheep chase (in which the winner successfully locates and defends possession of a slaughtered sheep) among Uigurs and Kazaks; and yak and horse racing among Tibetans.

In 2003, about 11,403,000 tourists arrived in China. Total receipts from tourism that year were estimated at \$18.7 billion, a decrease of 15% from 2002. There were 992,804 hotel rooms with 1,887,740 beds and a 56% occupancy rate.

The costs of traveling in China vary from city to city. In 2005, the US Department of state estimated the daily cost of staying in Shanghai at \$320 and in Beijing at \$241.

## 48 FAMOUS CHINESE

Confucius (K'ung Fu-tzu or Kong Fuzi, 551–479 BC) is generally regarded as the most important historical figure, as well as the greatest scholar, of ancient China. His philosophy and social ideas include observance of filial piety, the sanctity of the family, and social responsibility. Other early philosophers were Lao-tzu (Laozi; Li Erh, 604?–531 BC), the traditional founder of Taoism; Mencius (Meng-tzu or Mengzi, 385–289 BC), who stressed the essential goodness of human nature and the right of subjects to revolt against unjust rulers; and Mo Ti (Di, 465?–390? BC), who stressed the theme of universal love. Among the principal early poets was Chu (Chü) Yuan, (340–278 BC), whose *Li Sao*, a melancholy rhapsody, is among the world's great poems. Sima Qian (Ssu-ma Ch'ien, 145–87 BC) produced the monumental *Shiji* (*Shih-chi; Historical Records*), the first general history of China. Ban Gu (Pan Ku, AD 32–92) wrote *Qian Hanshu* (*Ch'ien-Han shu; History of the Former Han Dynasty*), a continuation of Sima Qian's work. Zhang (Chang) Heng (78–139), an astronomer, is credited with having invented the first seismograph. Zhang Zhongjing (Chang Chung-

ching, 152–219) was a celebrated physician, and Zu Zhongzhi (Tsu Chung-chih, 429–500) calculated the figure 3.14159265 as the exact value for pi. Three brilliant poets of the Tang dynasty were Li Bo (Po, 701–62), Du (Tu) Fu (712–70), and Bo Juyi (Po Chü-yi, 772–846). Li Shizhen (Shi-chen, 1518–93), an outstanding pharmacologist, wrote a monumental *Materia Medica*. Great authors of the Qing dynasty were Wu Jingzi (Ching-tzu, 1701–54), who wrote *Rulin Waishi* (*Ju-lin wai-shih; Unofficial History of the Scholars*), a superb satire on the civil service system, and Cao Xuequin (Ts'ao Hsüeh-ch'in, 1715?–63), who produced a remarkable novel, *Honglou meng* (*Hung-lou meng; The Dream of the Red Chamber*). Lu Xun or Lu Hsun (Zhou Shuren or Chou Shu-jen, 1881–1936) is generally regarded as China's greatest writer of the modern period. Mao Dun (Shen Yanbing, 1896–1981) and Ba Jin (Li Feigan, b.1904) are leading novelists. Lin Yutang (Yu-t'ang, 1895–1976) popularized Chinese culture in the West. Ha Jin (b.1956) is a contemporary Chinese-American novelist born in Liaoning, China. His novel *Waiting* (1999) won the US National Book Award and PEN/Faulkner Award, and *War Trash* (2004) was a finalist for the Pulitzer Prize. Maxine Hong Kingston (b.1940), born in California, is a Chinese-American writer whose *The Woman Warrior* (1976) won the National Book Critics Award for Nonfiction.

#### Political Figures

Sun Yat-sen (Zhongshan or Chung-shan, 1866–1925) planned the revolution against the Manchus and became the first president (1911–12) of the republic. Mao Zedong (Tse-tung, 1893–1976), the foremost figure of postrevolutionary China, served as chairman of the Central Committee of the CCP from 1956 to 1976. Other prominent Chinese Communist leaders include Zhu De (Chu Teh, 1886–1976), who became commander in chief of the Red Army in 1931 and chairman of the Standing Committee of the NPC; Zhou Enlai (Chou En-lai, 1898–1976), first premier of China's State Council; Liu Shaoqi (Shao-ch'i, 1898–1969), who became China's head of state in 1959 and was purged during the Cultural Revolution but posthumously rehabilitated in 1985; and Lin Biao (Piao, 1908–71), who became deputy premier and minister of defense in 1959 and who, prior to his death and subsequent political vilification, had been certified as Mao's successor in the constitution drawn up in 1969. Women in the political hierarchy have included Song Qingling (Soong Ch'ing-ling, 1892–1981), Sun Zhongshan's wife, and Jiang Qing (Chiang Ch'ing, 1913–91), Mao's fourth wife, who emerged as a radical leader during the Cultural Revolution. Jiang, with other prominent radicals, was purged in the wake of the ascension of Hua Guofeng (b.1920) as CCP chairman in 1976. Deng Xiaoping (1904–97), twice disgraced (1966–73 and 1976) by radical administrations, reemerged in 1977 to become China's most powerful political figure, albeit without major office, and a major figure in its modernization drive; he officially retired in 1987. A protégé, Hu Yaobang (1915–89), was party secretary until his ouster in 1987. Another protégé was Zhao Ziyang (1919–2005), who became general secretary of the CCP in 1987; he was purged in 1989 for his support of student demonstrators in the Tiananmen Square protests of 1989, and spent the last 15 years of his life under house arrest. Li Peng (b.1928) was chairman of the standing committee of the National People's Congress from 1998–2003. For his support of the violent suppression of the 1989 Tiananmen Square protests, he remains unpopular with a large

part of the Chinese population. Jiang Zemin (b.1926), is part of the “third generation” of Chinese leaders (after those surrounding Mao Zedong and Deng Xiaoping); he served as general secretary of the CCP from 1989–2002, as president from 1993–2003, and as chairman of the military from 1989–2004. Hu Jintao (b.1942) is the fourth president of the People's Republic of China, general secretary of the CCP, and chairman of the central military commission, succeeding Jiang Zemin in those posts. He ushers in a “fourth generation” of leaders.

## 49 DEPENDENCIES

### Hong Kong

Hong Kong consists of 237 small islands off the southeast coast of the mainland of China and a small peninsula adjoining Guangdong Province on the mainland between 22°29' and 22°37' N and 113°52' and 114°30' E. With a total area, including reclamation, of 1,068 sq km (412 sq mi), it comprises the island of Hong Kong and adjacent islands, 79 sq km (30 sq mi); the Kowloon Peninsula, 11 sq km (4 sq mi); and the New Territories (a leased section of the Chinese mainland) and the remaining islands, 978 sq km (377 sq mi). Most of Hong Kong territory is rocky, hilly, and deeply eroded. The climate is subtropical, with hot and humid summers. Rainfall is heavy and there are occasional typhoons.

Total population, which was under 600,000 in 1945, was approximately 7.3 million in 2002. Some 60% of Hong Kong's residents in 1996 were born there. The phenomenal increase since World War II (1939–45) resulted primarily from a large influx of mainland Chinese. During the late 1970s and early 1980s, hundreds of thousands of “boat people” arrived from Vietnam. Most have been resettled in other countries, and by mid-1987 only 8,500 remained in camps. In summer 1987, however, Hong Kong faced another influx of Vietnamese, most of them ethnic Chinese. These people—more than 6,000 of them—had fled to China after the Vietnam War but found it difficult to assimilate there.

The overall population density in 2002 was 5,800 per sq km (14,500 per sq mi). About 95% of the inhabitants are Chinese and about 95% of the people live in metropolitan areas. Chinese (Cantonese dialect) is the principal spoken language; both Chinese and English are official languages. Taoists, Confucianists, and Buddhists constitute a majority of the population. The Christian population (10%) is split about evenly between Roman Catholics and Protestants. There are also Muslim and Hindu communities (1%). The capital is Victoria, commonly known as Hong Kong.

Hong Kong has regular shipping, air, cable, and wireless services to every part of the world. Government-maintained roads span more than 1,830 km (1,135 mi). The mile-long Cross Harbour Road Tunnel connecting Hong Kong Island to Kowloon was opened in 1972, and the Lion Rock Tunnels link Kowloon with Sha Tin; the Aberdeen Tunnel beneath Hong Kong Island entered service in 1982. The government-owned Mass Transit Railway, a 38.6-km (24-mi) subway system, was begun in November 1975 and started operations in October 1979. The government also owns and operates a 56-km (35-mi) rail line, known as the Kowloon-Canton Railway. The railroad links up with the rail system of Guangdong Province and constitutes a major land-entry route to China; passenger service, suspended in 1949, was resumed in 1979. The Kowloon-Canton Railway operates a 34-km (21-mi)

light rail system for the New Territories; as of 2001, it connected to the China railway system.

Hong Kong has one of the finest natural harbors. There are deep-water berths in Kowloon Peninsula and in Hong Kong; a container terminal at Kwaichung in Kowloon handles some 60% of Hong Kong's exports. An extensive ferry service connects Hong Kong's islands; hydrofoils provide service to Macau. The Hong Kong airport, Kai Tak, is the world's fourth-largest in terms of passenger traffic; it can handle upwards of 27 million passengers a year. A new airport, Chep Lap Kok, a us\$20 billion project that included bridges, highways, tunnels, and a high-speed railway, opened in 1998. The first phase of the airport project, the West Kowloon expressway connecting the airport to Hong Kong Island, opened in February 1997. In April that year, another link—the Tsing Ma Bridge, the longest suspension bridge for road and rail travel in the world—opened with lavish ceremonies. Three days later, a tunnel with capacity for 180,000 cars a day opened to provide another link between Hong Kong Island and the West Kowloon expressway.

A bleak fisherman's island for most of its early history, Hong Kong was occupied in 1841 by the British. Formal cession by China was made in 1842 by the Treaty of Nanking. The Kowloon Peninsula and adjacent islands were added in 1860, and in 1898, the New Territories were leased from China for 99 years. Hong Kong fell under Japanese occupation from 25 December 1941 to 30 August 1945. Negotiations between the United Kingdom and China culminated in an agreement on 26 September 1984 under which sovereignty over the entire colony would be transferred to China as of 1 July 1997. For a 50-year period, Hong Kong would be a Special Administrative Region and would retain its capitalist economy, its political rights, and its general way of life. A Basic Law, forming a constitution for this period, took effect in 1990.

In the interim, the colony was ruled by a UK-appointed governor, with an advisory Executive Council headed by the local commander of UK forces, and an appointed Legislative Council presided over by the governor. Chris Patten, appointed governor in 1992, held the post until the transfer of control to China 1 July 1997. The Urban Council of 30 members (15 elected and 15 appointed by the governor) dealt primarily with municipal affairs, and the government secretariat was responsible for the work of some 40 executive departments. The public sector's share of GDP decreased steadily after 1973. Under a 1981 defense agreement, about three-fourths of the cost of the maintenance of a garrison of 8,945 troops (including four Gurkha battalions) in Hong Kong was borne by the Hong Kong government. The currency unit is the Hong Kong dollar; exchange rates as of 2005 were HK\$1 = us\$7.7773; us\$1 = HK\$0.1286).

Located at a major crossroads of world trade, Hong Kong has become a center of commerce, shipping, industry, and banking. Rapid industrialization, accelerated by the influx of new labor, skills, and capital, changed the pattern of the economy after World War II. While heavy industries, such as shipbuilding and ship repairing, iron, and steel, remain important, light industries—especially watches, clocks, toys, and electronics—have developed more rapidly in recent years. The service sector has also experienced growth; as of 2005, approximately 90% of Hong Kong's GDP derived from services. In 2005, the gross domestic product (GDP) stood at us\$172.6 billion, with annual growth that year of 7.3%.

Less than 10% of the total land area is used for farming, most of which is intensive vegetable cultivation. Agriculture does not represent a significant portion of Hong Kong's GDP and most of Hong Kong's agricultural produce is imported. Hong Kong is among the top export markets for US produce.

Electricity is supplied by two franchise companies. Water resources, for long a serious deficiency, have been increased by converting Plover Cove into a lake. About one-quarter of the water supply is purchased annually from China.

Imports in 2005 were estimated at us\$291.6 billion, and exports and reexports at us\$286.3 billion. As one of the world's largest banking centers, Hong Kong receives a continuous flow of outside capital. The Hong Kong Association of Banks was created in January 1981 to regulate charges and deposit interest rates and oversee banking standards. There is no central bank; currency is issued by two commercial banks. In addition to the licensed banks, many Chinese firms handle Chinese remittances from overseas.

Hong Kong is self-supportive except for external defense. Revenues in 2005 were estimated at us\$31.31 billion, derived mainly from internal taxation and import duties. Government expenditures, including us\$5.9 billion in capital expenditure, amounted to us\$32.3 billion in 2005.

Tourism was an important industry prior to 1997, and remained so after the transfer of Hong Kong to China. About one-fourth of the total number of tourists travel to Hong Kong from the United States, Canada, and Western Europe, with another one-fourth from Japan. Travel restrictions for tourists from mainland China were eased, resulting in growth in tourism in 2003–05.

Main line telephones numbered about 3.8 million in 2004; mobile cellular telephones numbered about 8.2 million that year. Broadcasting services are provided by a government station, Radio Television Hong Kong, and by commercial operators. Broadcasting services are in both Chinese and English. More than 90% of all households have one or more television sets. The Hong Kong press included 734 newspapers and periodicals. Almost all the newspapers are in Chinese; five are English-language dailies.

The infant mortality rate was 2.95 deaths per 1,000 live births in 2004, down from 5.73 deaths per 1,000 live births in 2002. The average life expectancy as of 2004 was 81.59 years (females, 84.5 years and males 78.9 years), up from 79.8 years in 2002. In 1995, there were 4.7 hospital beds per 1,000 population, and the daily cost of a hospital bed in a public hospital was \$60.

The Hong Kong Housing Authority plans, builds, and manages public housing developments. About 40% of the population lived in public and aided housing as of the late 1990s.

In September 1980, education until the age of 15 was made compulsory; six years of primary and three years of secondary schooling are provided by the government free of charge. Schools are of three types: Chinese, English, and Anglo-Chinese. Prevocational training was offered in more than a dozen government-run institutions. Student enrollment in primary and secondary school is about a quarter of the population. Higher education is provided primarily by the University of Hong Kong and the Chinese University of Hong Kong. Hong Kong Polytechnic and the City Polytechnic of Hong Kong also provides postsecondary education for the colony's residents. As of 2002, approximately 93.5% of the population was literate (96.9% for men and 89.6% for women).

## MACAU

Macau (Macao) is situated on the south coast of China, at the mouth of the Pearl (Zhu) River, almost directly opposite Hong Kong, which is about 65 km (40 mi) away. Located at 22°6' to 22°13' N and 113°33' to 113°37' E, Macau consists of a peninsula, about 5 km (3 mi) long and 1.6 km (1 mi) wide, and two small islands, Taipa and Coloane. The total area is about 16 sq km (6 sq mi), and the total coastline is 41 km (25 mi). The climate is subtropical, with high humidity from April to October, when Macau receives most of its rainfall. Daily maximum temperatures average 29°C (84°F) during the summer; normal daily temperatures are less than 20°C (68°F) during the winter months.

Macau's population was estimated at 453,125 in mid-2006, down from 496,837 in mid-1996. The population density of over 29,000 per sq km (79,000 per sq mi) was among the highest in the world. Chinese, many of them refugees from the People's Republic of China (PRC) before Macau reverted to the PRC in 1999, constitute 95% of the total; the remaining 5% are Portuguese or of mixed Chinese-Portuguese ancestry. Large-scale movement of Chinese in and out of Macau has inevitably affected the economic and social life of the territory. The common language is Chinese, usually spoken in the Cantonese (87.9%), Hokkien (4.4%), or Mandarin (1.6%) dialect. As of 1997, Buddhism (50%) and Roman Catholicism (15%) were the dominant religions.

In 2003 there were about 345 km (215 mi) of highways. A causeway links Taipa and Coloane islands, and a 2.7-km (1.7-mi) bridge connects Macau and Taipa. Macau's main asset is its harbor; ferries, hydrofoils, and jetfoils offer shuttle service between Macau and Hong Kong. In 1994, a 240-km (149-mi) road connecting Macau and Hong Kong opened, running through Guangdong Province in the PRC.

Macau is the oldest European settlement in the Far East. The first Portuguese attempts to establish relations with China were made in the early 16th century. In 1557, the Chinese authorities agreed to Portuguese settlement of Macau, with leaseholder rights. The Portuguese, however, treated Macau as their possession and established a municipal government in the form of a senate of the local inhabitants. Disputes concerning jurisdiction and administration developed. In 1833, Macau, together with Timor, became an overseas province of Portugal under the control of the governor-general of Goa, and in 1849, Portugal succeeded in having Macau declared a free port. On 26 March 1887, China confirmed perpetual occupation and governance of Macau and its dependencies by Portugal, but the question of the delimitation of the boundaries was left unsettled.

As the only neutral port on the South China Sea during World War II (1939–45), Macau enjoyed a modicum of prosperity. In 1949, the government of the PRC renounced the "unequal treaty" granting Portuguese suzerainty over Macau. Civil disturbances in late 1966 between Macau police and Chinese leftist groups resulted in concessions to the territory's pro-China elements. The 1974 military coup in Portugal led to a constitutional change in Macau's status from a Portuguese province to a "special territory." In January 1976, Portugal's remaining few hundred troops were withdrawn from Macau. China and Portugal established diplomatic ties in 1980. In March 1987, the PRC and Portugal reached an agreement for the return of Macau to the PRC on 20 December

1999. The PRC has guaranteed not to interfere in Macau's capitalist economy and way of life for a period of 50 years.

Until December 1999, Macau was ruled by a governor appointed by Portugal, although it was empowered to make its own laws, appoint and control its own civil service, and contract directly for foreign loans.

Prior to and immediately following Macau's transfer to PRC control, the unit of currency was the Macau pataca (p) of 100 avos; Hong Kong dollars also circulated freely. There are coins of 10, 20, and 50 avos and 1 and 5 patacas, and notes of 5, 10, 50, 100, and 500 patacas. The pataca is linked to the Hong Kong dollar at the rate of HK\$1 = P1.03; as of 2005, the rate of exchange with US dollars was US\$1 = P8.011 OR P1 = US\$0.1248. Corporate taxes and import duties are important sources of revenue; major expenditures are for finance, security, education, and health and welfare.

Macau's economy is consumer-oriented. There is little agriculture and the territory is heavily dependent on imports from China for food, fresh water, and electricity. Important economic sectors are commerce, tourism, gambling, fishing, and light industry. There are small- and medium-scale enterprises concerned especially with the finishing of imported semimanufactured goods, in particular the manufacture of clothing, ceramics, electronic equipment, toys, and fireworks, and the printing and dyeing of cloth and yarn.

Macau's historic role has been that of a gateway for southern China. It has close trade relations with neighboring Hong Kong, another free port. Gold trading, formerly a major facet in Macau's economy, virtually came to a halt in 1974–75 following Hong Kong's decision to lift its own restrictions on gold trading. The principal exports were clothing, textiles, footwear, toys, electronics, and machinery and parts. Principal export partners in 2004 were the United States, 48.7%; China, 13.9%; Germany, 8.3%, Hong Kong, 7.6%, and the United Kingdom, 4.4%. The principal imports were raw materials and semi-manufactured goods, consumer goods (foodstuffs, beverages, and tobacco), capital goods, and mineral fuels and oil. Total imports in 2004 were valued at \$3.478 billion, of which China provided 44.4%; Hong Kong, 10.6%; Japan, 9.6%; Taiwan, 4.9%; Singapore, 4.1%, and the United States, 4.1%.

Government schools are operated mainly for the children of civil servants and wealthier families, while poor Chinese students are educated in schools supported by China. Macau's University of East Asia opened in 1981. The Medical and Health Department, although critically understaffed, operates a 400-bed hospital. The 800-bed Kiang Vu Hospital has a largely China-trained staff.

There were 173,900 main telephone lines and 432,400 mobile cellular phone lines in use in 2004. Macau has two FM radio stations and has access to satellite communications. There are newspapers published in Chinese and Portuguese. Macau receives television broadcasts from Hong Kong.

With its varied gambling facilities, gambling provides about 70% of government revenue. Travelers must have a valid passport and a visa, which is generally purchased at the point of disembarkation. After the transfer of Macau to Chinese control in 1999, there was an increase in tourist arrivals from China.

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# CYPRUS

Republic of Cyprus  
*Kypriaki Dimokratia*

**CAPITAL:** Nicosia

**FLAG:** The national flag consists of the map of Cyprus in gold set above two green olive branches on a white field.

**ANTHEM:** *Ethnikos Hymnos (National Hymn)*, beginning “Se gnorizo apo tin kopsi” (“I recognize you by the keenness of your spade”).

**MONETARY UNIT:** The Cyprus pound (c£) is a paper currency of 100 cents. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 pound, and notes of 50 cents, and 1, 5, 10, and 20 pounds. c£1 = \$2.12766 (or \$1 = c£0.47) as of 2005. The Turkish lira (TL) of 100 kuruş is the currency in the Turkish Cypriot zone.

**WEIGHTS AND MEASURES:** The metric system is the legal standard. Imperial and local measures also are used.

**HOLIDAYS:** New Year’s Day, 1 January; Epiphany, 6 January; Late President Makarios’ Day, 19 January; Greek Independence Day, 25 March; Cyprus National Day, 1 April; Labor Day, 1 May; Cyprus Independence Day, 1 October; Greek Resistance Day, 28 October; Christmas, 25 December; Boxing Day, 26 December. Holidays observed by the Turkish Cypriot community include Founding of the Turkish Federated State of Cyprus, 13 February; Turkish National Sovereignty and Children’s Day, 23 April; Turkish Youth and Sports Day, 19 May; Turkish Victory Day, 30 August; Turkish Independence Day, 29 October. Movable Christian religious holidays include Green Monday, Good Friday, Holy Saturday, and Easter Monday. Movable Muslim religious holidays are observed in the Turkish Cypriot zone.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Cyprus is the largest Mediterranean island after Sicily and Sardinia. Including small island outposts of Cape Andreas known as the Klidhes, its area is 9,250 sq km (3,571 sq mi). Comparatively, the area occupied by Cyprus is about three-fifths the size of the state of Connecticut. Since 1974, the northern third of the island, or 3,367 sq km (1,300 sq mi), has been under the de facto control of the Turkish Cypriot Federated State (proclaimed in 1975), which on 15 November 1983 proclaimed its independence as the Turkish Republic of Northern Cyprus; the southern two-thirds (5,884 sq km/2,272 sq mi) are controlled by the government of the Republic of Cyprus. A narrow zone called the “green line,” patrolled by UN forces, separates the two regions and divides Nicosia, the national capital.

Cyprus is situated in the extreme northeast corner of the Mediterranean; it is 71 km (44 mi) s of Turkey, 105 km (65 mi) w of Syria, and some 800 km (500 mi) e of the Greek mainland. Cyprus extends 227 km (141 mi) ENE–WSW from Cape Andreas to Cape Drepanon and 97 km (60 mi) SSE–NNW. The average width is 56–72 km (35–45 mi); the narrow peninsula known as the Karpas, which is nowhere more than 16 km (10 mi) wide, extends 74 km (46 mi) northeastward to Cape Andreas. Cyprus has a total coastline of 648 km (403 mi).

The capital city of Cyprus, Nicosia, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

Two dissimilar mountain systems, flanking a central plain, occupy the greater part of the island. The Troodos Massif, in the southwest, attaining its highest point in Mt. Olympus (1,953 m/6,406 ft), sends out numerous spurs to the northwestern, northern, and southern coasts. In the north, a geologically older range, the Kyrenia Mountains, extend more than 160 km (100 mi) along the coast in a series of rocky peaks, capped often by medieval castles. Between these principal formations lies the Mesaoria, a low plain extending from Famagusta Bay on the east to Morphou Bay on the west. Once forested, this now treeless region, varying in width from 16–32 km (10–20 mi), contains the bulk of the island’s cultivable and pastoral area. There are few lakes or rivers; rivers are little more than rocky channels that carry away torrents during the thaw of spring and early summer.

## <sup>3</sup>CLIMATE

Cyprus is for the most part dry and sunny. The warm currents of the Mediterranean ensure mild winters but bring humidity to the coastal area in the summer, when the central plain is hot and dry. On the hills, daily sunshine is interrupted only occasionally by a wet period rarely lasting more than a week. The mean annual temperature is about 20°C (68°F). A cool, rainy season lasts from November to March. In winter, snow covers the higher peaks of the Troodos; elsewhere the temperature seldom falls below freezing,

and conditions are mild and bracing. Rainfall is erratic and varies greatly in different parts of the island. The annual average precipitation ranges from below 30 cm (12 in) in the west-central lowlands to more than 114 cm (45 in) in the higher parts of the southern massif. The main agricultural areas receive rainfall of from 30–40 cm (12–16 in) annually. Earthquakes are not uncommon.

#### **4 FLORA AND FAUNA**

Except for some small lowland areas in which eucalyptus has been planted, the forests are natural growths of great antiquity, from which the Phoenician shipbuilders drew much of their timber. Forests consist principally of Aleppo pine; other important conifers, locally dominant, are the stone pine, cedar (which is becoming rare), Mediterranean cypress, and juniper, the last growing chiefly on the lower slopes of the Kyrenia Mountains. Oriental plane and alder are plentiful in the valleys, while on the hills, Olympus dwarf oak mingles with pines of various species. Wild flowers grow in profusion, and herbs are numerous.

Cyprus has few wild animals, but birdlife is varied and includes partridge, quail, snipe, plover, and woodcock. Eagles are commonly seen in the mountains.

#### **5 ENVIRONMENT**

Under the Town and Country Planning Law of 1972, the government has the power to issue "reservation orders" in order to protect historic buildings, trees, or other specific points. Other conservation laws seek to preserve forests, restrict the hunting of wildlife, and maintain environmental health.

The most significant environmental problems in Cyprus are water pollution, erosion, and wildlife preservation. The purity of the water supply is threatened by industrial pollutants, pesticides used in agricultural areas, and the lack of adequate sewage treatment. Other water resource problems include uneven rainfall levels at different times of the year and the absence of natural reservoir catchments. Cyprus has about 0.2 cu mi of fresh water, of which 91% is used for farming activity. One hundred percent of Cyprus's urban and rural dwellers have access to safe water.

Another environmental concern is erosion, especially erosion of Cyprus's coastline. In accordance with the Foreshore Protection Law, several coastal areas have been zoned to prevent undesirable development. The Ministry of Agriculture and Natural Resources has primary responsibility for environmental matters. The expansion of urban centers threatens the habitat of Cyprus' wildlife.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 3 types of mammals, 11 species of birds, 3 types of reptiles, 7 species of fish, and 1 species of plant. Threatened species included the Cyprus spiny mouse, the black vulture, the Mediterranean killfish, the imperial eagle, and the wild goat. About 20 species of flora are protected. The Cyprus mouflon or wild sheep is protected in the Paphos Forest game reserve.

#### **6 POPULATION**

The population of Cyprus (both north and south) in 2005 was estimated by the United Nations (UN) at 965,000, which placed it at number 152 in population among the 193 nations of the world. In 2005, approximately 11% of the population was over 65 years of age, with another 20% of the population under 15 years of age.

There were 95 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.4%, a rate the government viewed as too low. The fertility rate at 2 births per woman is not enough to sustain the population. The projected population for the year 2025 was 1,087,000. The population density was 104 per sq km (270 per sq mi), with the Turkish sector more sparsely populated than the Greek zone.

The UN estimated that 65% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.88%. The capital city, Nicosia, had a population of 205,000 in that year. Other chief towns—all seaports—are Limassol, Famagusta, Larnaca, Paphos, and Kyrenia.

#### **7 MIGRATION**

Cyprus suffered massive population shifts following the Turkish military occupation of the northern third of the island in July 1974. Some 120,000 Greek Cypriots fled from the occupied area to the south, and about 60,000 Turkish Cypriots fled in the opposite direction.

In the 1990s, asylum seekers originated mainly from the Middle East and North Africa. Until 1998, a yearly average of 70 to 100 people applied for refugee status. This figure rose significantly in the second half of 1998 due to the arrival of approximately 150 asylum seekers who arrived by boat from Lebanon. In 2004 there were 531 refugees and 10,028 asylum seekers. Asylum seekers were from China, Russia, and other countries such as Bangladesh, Pakistan, Ukraine, Syria, Palestine, Iraq, and Iran.

Some asylum seekers are detained as illegal entrants or overstayers. While acknowledging the difficulties in dealing with the increased number of asylum seekers, the United Nations High Commissioner for Refugees (UNHCR) has encouraged the government to find alternatives to detention. Cyprus allows recognized refugees to remain with work permits while waiting for resettlement to a third country; however resettlement is a lengthy process and many refugees never obtain employment. Local integration was the preferred solution after adoption of the new refugee law. In 2004 there were 210,000 internally displaced persons in Cyprus. In 2002 an Amendment of the Citizenship Law allowed persons born after 16 August 1960 by a Cypriot mother and a foreign father to automatically acquire Cyprian citizenship. Previously, only children born of a Cypriot father were automatically permitted to attain citizenship.

In 2005, the net migration rate was estimated as .43 migrants per 1,000 population, down from 8.4, 15 years earlier.

#### **8 ETHNIC GROUPS**

Following the 16th-century Turkish conquest, Cyprus received a substantial permanent influx of Ottoman Turks. Many soldiers became owners of feudal estates, and there was immigration from Anatolia and Rumelia. There was virtually no intermarriage; each community preserved its own religion, language, dress, and other national characteristics, and major cities and towns had their Greek and Turkish quarters. The 1974 war had the effect of almost completely segregating the two communities.

Estimates in 2001 indicated that about 77% of the population were Greek and about 18% were Turkish. The remainder of the

population included Lebanese Maronites, Armenians, British, and others.

## <sup>9</sup>LANGUAGES

After independence in 1960, Greek and Turkish became the official languages. Since 1974, Greek has been the language of the south and Turkish the language of the north. English is also used extensively.

## <sup>10</sup>RELIGIONS

According to a 2004 report, about 96% of the government-controlled area of Cyprus was Greek Orthodox. Nearly 99% of the Turkish Cypriots were Muslim. Other faiths included Maronite, Armenian Orthodox, Roman Catholic, and Protestants. Religion holds a significantly more prominent place in Greek Cypriot society than in Turkish Cypriot society, with correspondingly greater cultural and political influence. Under the Cyprus ethnarch Archbishop Makarios III, who was president of Cyprus from 1960 until his death in 1977, the church was the chief instrument of Greek Cypriot nationalism. Makarios' successor as ethnarch, Archbishop Chrysostomos, elected for life, also has played an active role in Greek Cypriot political affairs.

The constitution of the Republic of Cyprus provides for freedom of religion and this right is generally respected in practice. The constitution also specifies that the Greek Orthodox Church of Cyprus has a right to regulate and administer its own internal affairs. The Vakf, the Muslim institution that serves the Turkish Cypriots, is given the same right.

The independence of the Church of Cyprus was recognized by the Council of Ephesus in AD 431 and confirmed by Emperor Zeno in 478. The Church of Cyprus is one of the oldest constituent bodies of the Holy Orthodox Eastern Church, being senior by centuries to the Orthodox Church of Greece, and junior only to the four original patriarchates of Constantinople, Alexandria, Antioch, and Jerusalem. Virtually all Turkish Cypriots are Sunni Muslims of the Hanafi sect.

## <sup>11</sup>TRANSPORTATION

Internal transport is exclusively by road. In 2003, there were 11,760 km (7,315 mi) of roads in the Greek area and 2,350 km (1,460 mi) of roads in the Turkish area. In the Turkish area, 1,370 km (851 mi) of the roads were paved, compared with 7,403 km (4,605 mi) in the Greek area. In addition to numerous taxicabs, the chief towns are served by private buses, whose services are regulated by the Road Motor Transport Board. In 2003 there were 287,622 licensed private motor cars and 120,789 commercial vehicles.

Although off the main world shipping routes, Cyprus is served by passenger and cargo shipping lines. Famagusta on the east coast was the main port, but it and the ports of Kyrenia and Karavostasi were closed to national shipping after the Turkish invasion in 1974. (The port of Famagusta was reopened by the Turkish Cypriots in 1978.) The Limassol and Larnaca ports have been modernized and are now considered good deepwater harbors. Other ports include Moni, Vasiliko-Ziyyi, and Paphos. In 2005, there were 972 ships totaling 22,016,374 gross registered tonnage (GRT) comprised the merchant fleet, one of the world's leaders in terms of deadweight tonnage (DWT), at 35,760,004. About two-

thirds of the trade passed through Limassol. There are no inland waterways.

There were an estimated 17 airports in 2004. As of 2005 a total of 13 had paved runways, and there were 10 heliports. The civil airport at Nicosia was used by many international airlines until the 1974 war, after which nearly all flights were diverted to the new international airport built at Larnaca. In 1983, a new international airport opened in Paphos. In 2001, a total of 1,503,400 passengers were carried on scheduled domestic and international flights. Cyprus Airways has services to Middle Eastern countries, but there is no regular internal air service.

## <sup>12</sup>HISTORY

Numerous Stone Age settlements excavated in Cyprus indicate that as early as 4000 BC a distinctive civilization existed on the island. Living in circular huts, this Neolithic people produced decorated pottery of great individuality, and used vessels and tools ground from the close-grained rocks of the Troodos Mountains. Cyprus was famous in the ancient world for its copper, which, from about 2200 BC, was used throughout the Aegean in the making of bronze. The island is believed either to have derived its name from or to have given it to this mineral through the Greek word *kypros*—copper. Although celebrated also for its cult of Aphrodite (many temples devoted to the goddess were built in Paphos on the southwest coast), Cyprus was at first only a far outpost of the Hellenic world.

Greek colonizers came there in sizable numbers in 1400 BC, and were followed soon afterward by Phoenician settlers. About 560 BC, Cyprus was conquered by Egypt. Coveted by each rising civilization, it was taken in turn by Persia, Alexander the Great, Egypt again, Rome, and the Byzantine Empire. Its Christian history began with the visits of Paul, accompanied first (as described in the Acts of the Apostles) by Barnabas, and later by the apostle Mark. For several centuries after AD 632, Cyprus underwent a series of Arab invasions. The island was wrested from its Byzantine ruler Isaac Comnenus in 1191 by Richard I (the Lion-Hearted) during the Third Crusade. Sold by the English king to the Knights Templar, it was transferred by that order to settle debts. Guy de Lusignan, the ruler of Jerusalem, received control of Cyprus. It was under his dynasty that the island experienced a brilliant period in its history, lasting some 300 years. In the period from 1468 until 1489, Cyprus was linked to Venice through a marriage. Cyprus fell to the Turks in 1571, and was thus part of the Ottoman Empire until 1878.

The administration of Cyprus by the United Kingdom began in 1878 at a convention with Turkey initiated by the British prime minister, Benjamin Disraeli, at the Congress of Berlin. He sought to establish Cyprus as a defensive base against further Russian aggression in the Middle East. When Turkey entered World War I, Cyprus was annexed to the British crown. It was declared a crown colony and placed under a governor in 1925.

For centuries under Ottoman and British rule, Greek Cypriots had regarded Greece as their mother country and had sought union (*enosis*) with it as Greek nationals. In 1931, *enosis* agitation, long held in check, broke into violence. The government house was burned amid widespread disturbances, and the British colonial administration applied severe repressive measures, including the deportation of clerical leaders. While British occupation was

restrictive to many Cypriots, it also brought many benefits. The economy prospered, an efficient civil service was established, hospitals and roads were built, and investment in modernization was made.

Agitation for *enosis* was dormant until the close of World War II, when it recommenced, and demands that the United Kingdom cede the island to Greece were renewed. The National Organization of Cypriot Fighters (Ethniki Organosis Kyrprion—EOKA), led by retired Greek army officer Col. George Grivas and Michael Mouskous (who was Archbishop Makarios III), began a campaign of terrorism in 1955. The campaign was a series of carefully planned military attacks against British police, military, and other government institutions in Limassol, Larnaca, Famagusta, and Nicosia. The results of these riots were the resignation of many Greek Cypriots from the police force and the replacement of the force by Turkish Cypriots. Upward of 2,000 casualties were recorded.

Problems were escalating rapidly in the island, and in 1957, because of tensions between the Greeks and the Turks, the Turkish Cypriots formed the TMT (Turk Mukavemet Teskilati) to fight the EOKA. The TMT was formed to protect Turkish Cypriots' interest and identity, should *enosis* occur. The TMT felt the only solution was to divide the island, with the Greek Cypriots living on one side and the Turkish Cypriots on the other.

The unity of NATO was endangered by the opposing positions taken on the Cyprus question by Greece and Turkey, and efforts by NATO members to mediate the dispute proved unsuccessful. Against this background, the prime ministers of Greece and Turkey met in Zürich, Switzerland, early in 1959 in a further attempt to reach a settlement. Unexpectedly, the Greek Cypriots set aside their demands for *enosis* and accepted instead proposals for an independent republic, with representation of both the Greek and Turkish Cypriot communities (including a Greek Cypriot president and a Turkish Cypriot vice president) guaranteed. A formula for the island's future, approved by the governments of the United Kingdom, Greece, and Turkey, also received the blessing of the Cyprus ethnarch, Archbishop Makarios III, who returned in triumph to the island from which he had been deported by the British government on charges of complicity with terrorism.

Besides determining Cyprus's legislative institutions, the Zürich settlement provided for a number of instruments defining the island's future international status. Enclaves on Cyprus were set aside for the continuation of British military installations in an effort to restore constitutional order. The United Kingdom, Greece, and Turkey, the guarantor powers, had the right to act together or singly to prevent either *enosis* or partition. In addition, provision was made for Greek, Turkish, and Cypriot forces to be stationed together at a tripartite headquarters. By 1 July 1960, agreement was reached on all outstanding differences. Independence was officially declared and the constitution was made effective on 16 August 1960. The first general elections for the House of Representatives were held 31 July of that same year. A month later the island became a member of the United Nations (UN), in the spring a member of the Commonwealth on Nations. In December 1961, Cyprus became an official member of the International Monetary Fund and the World Bank.

No amount of independence, however, would ensure peace between the Turks and Greeks living in Cyprus. From the outset, the two Cypriot communities differed on how the Zürich settlement

would be implemented, and how much autonomy the Turkish minority would enjoy. In December 1963, Turkish Cypriots, protesting a proposed constitutional change that would have strengthened the political power of the Greek Cypriot majority, clashed with Greek Cypriots and police. When fighting continued, the Cyprus government appealed to the UN Security Council. On 4 March 1964, the Security Council voted to send in troops. Turkey and Cyprus agreed on 10 August 1964 to accept a UN Security Council call for a cease-fire, but on 22 December, fighting again erupted in Nicosia and spread to other parts of the island. The UN General Assembly passed a resolution in December 1965 calling on all states to "respect the sovereignty, unity, independence, and territorial integrity of the Republic of Cyprus, and to refrain from any intervention directed against it." The General Assembly requested the Security Council to continue UN mediation.

Violent clashes between Greek and Turkish Cypriots nearly precipitated war between Greece and Turkey in 1967, but the situation was stabilized by mutual reduction of their armed contingents on Cyprus. By January 1970, the UN peacekeeping force numbered some 3,500 troops; both Greek Cypriot National Guard and Turkish Cypriot militia also maintained sizable national guards of their own. Although talks continued between the two communities, no agreement was reached on the two basic points of dispute. Politically, the Turks wanted full autonomy, while the Greeks demanded continued unitary majority rule. Territorially, the Turks wanted Cyprus divided into Greek- and Turkish-controlled zones, a position that was likewise at odds with the Greek Cypriot concept of a unitary state.

Meanwhile, tensions had developed between Makarios, who continued to oppose *enosis*, and the remnants of the military junta that had ruled Greece since 1967. On 2 July 1974, Makarios accused the Greek government of seeking his overthrow and called for the immediate withdrawal of 650 Greek officers in the Cypriot National Guard. Less than two weeks later, the National Guard toppled the Makarios government, forcing the Archbishop into exile and installing Nikos Sampson as president. To counter the threat of Greek control over Cyprus, the Turks, supported by Turkish Cypriots, insisted on some form of geographical separation between the Greeks and the Turks living on the island. Turkish Cypriot leaders asked Turkey to intervene militarily. On 20 July 1974 Turkish troops landed on the island, and the resulting conflict ended in the deaths of thousands of Greek and Turkish Cypriots. Within two days the UN forces had been augmented and a UN Security Council cease-fire resolution took effect. This action eventually led to the establishment of a corridor, known as the UN Buffer Zone or the "green line," separating the two groups. Sampson resigned as president on 23 July and Glafkos Clerides became acting president in accordance with the Cyprus constitution.

However, Turkey did not withdraw its forces, and while peace talks were conducted in Geneva, Switzerland, the Turkish military buildup continued. When talks broke down, a full-scale Turkish offensive began, and by mid-August, when a second cease-fire was accepted, Turkish forces controlled about 38% of the island. Makarios returned to Cyprus and resumed the presidency in December. On 13 February 1975, in an action considered illegal by the Cyprus government, the Turkish-held area proclaimed itself the Turkish Cypriot Federated State; Rauf Denktash, a former vice president of Cyprus and the president of the interim Autonomous

Turkish Cypriot Administration (formed after the 1967 crisis), became president. A Security Council resolution on 12 March regretted the proclamation of the new state and called for the resumption of talks. The government of the Republic of Cyprus continued to be recognized as the legally constituted authority by the UN and by all countries except Turkey, although its effective power extended only to the area under Greek Cypriot control.

After the de facto partition, Greek and Turkish Cypriot leaders met several times under UN auspices to explore a possible solution to the Cyprus problem. President Makarios conferred with Denktash in Nicosia early in 1977. When Makarios died of a heart attack on 3 August, Spyros Kyprianou became president, and he also held talks with Denktash in May 1979. Further negotiations between leaders of the two communities were held in August 1980, but again no agreement was reached.

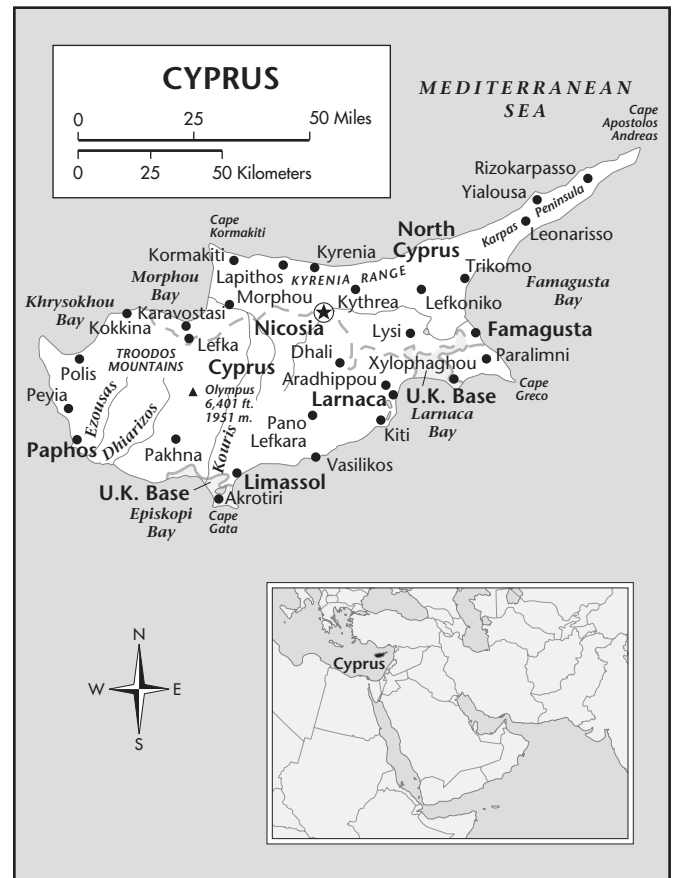
On 15 November 1983, the Turkish sector proclaimed itself an independent state, the Turkish Republic of Northern Cyprus (TRNC). Denktash was named president, but only Turkey recognizes the TRNC. The UN, which condemned the TRNC's declaration of independence, tried repeatedly to end the partition between north and south, but both parts rejected all proposals. The major stumbling block was the south's demand that the estimated 25,000 Turkish troops in the north be withdrawn before negotiations began and the north's refusal to remove the troops before a final solution was reached. In February 1988, George Vassiliou was elected president of Cyprus, and he stated that he would call for reunification talks with the Turkish Cypriots.

In 1991, the UN Security Council called on both sides to complete an overall framework agreement. Despite speculation in 1994 that UN peacekeeping forces might be withdrawn if some progress was not registered, the mandate was renewed. In 1993 voting, Glafcos Clerides, a conservative, replaced right-wing George Vassiliou as president. Clerides won reelection to a second five-year term in 1998.

August 1996 saw the most violent border clashes since the 1974 partition. In the space of one week, protestors broke through Greek-Cypriot security lines and clashed with Turkish-Cypriot and Turkish military forces in the buffer zone lying between the two divided parts of the island. Two Greek-Cypriots were killed and over 50 were injured by the Turkish military. The killing of the protestors, who were unarmed, brought general expressions of condemnation from the West but was supported by the Turkish government as acts of self-defense.

In November 2002, UN secretary general Kofi Annan presented a comprehensive peace plan for Cyprus, envisaging a Swiss-style confederation of two equal component states, presided over by a rotating presidency. To go into effect, the plan required a referendum on both sides of the island. In December 2002, the European Union (EU) issued a formal invitation to Cyprus to join, stipulating that by 28 February 2003, the two communities agree to the UN peace plan for reunification. Without reunification, only the Greek Cypriot part of the island would gain membership.

In late 2002 and early 2003, thousands of Turkish Cypriots held rallies to call for the island's reunification and Denktash's resignation. Denktash was accused of blocking progress on the November 2002 UN peace plan. Denktash threatened to stand down as leader rather than sign the UN plan. Contributing to the failed peace negotiations was the election of hard-line nationalist Tassos Pa-



LOCATION: 34°33' to 35°34' N; 32°16' to 34°37' E.  
TERRITORIAL SEA LIMIT: 12 miles.

padopoulos as president of Cyprus on 16 February 2003; he took office 1 March 2003. In a surprise first-round win, Papadopoulos soundly defeated Clerides, with 51.5% of the vote to 38.8%.

Talks on Annan's reunification plan broke down on 11 March 2003, and Annan declared the island's two communities might not get a similar chance for peace for years. The Republic of Cyprus, remaining divided, signed the Accession Treaty for the EU on 16 April 2003, and joined the EU in May 2004.

In April 2005 Rauf Denktash retired as president of the Turkish area. Mehmet Ali Talat—who favors reunification—was elected in his place.

### 13 GOVERNMENT

The 1960 constitution of the Republic of Cyprus respects the two existing ethnic communities, Greek and Turkish, by providing specifically for representation from each community in the government. The president must be Greek and the vice president Turkish. Under the constitution, these officers are elected for five years by universal suffrage by the Greek and Turkish communities, respectively; each has the right of veto over legislation and over certain decisions of the Council of Ministers. (The Council of Ministers is made up of seven Greek and three Turkish ministers, designated by the president and vice president jointly.) Legislative authority (as of 20 June 1985) is vested in the 80-member House of Representatives, elected by the two chief communities in the proportion of 56 Greek and 24 Turkish. In January 1964, following

the outbreak of fighting, Turkish representatives withdrew from the House, and temporary constitutional provisions for administering the country were put into effect.

Archbishop Makarios, who became president of Cyprus in 1960, was reelected in 1968 and 1973. Following his death in 1977, the leader of the House of Representatives, Spyros Kyprianou, became president; he was elected to two five-year terms in 1978 and 1983. (George Vassiliou, an independent, succeeded him in 1988; Glafcos Clerides was elected in 1993 and reelected in 1998. Tassos Papadopoulos was elected president in 2003.) Rauf Denktash was elected vice president in 1973, but the post has remained effectively vacant since the 1974 war, in the absence of Turkish participation. Denktash was president of the Turkish area from 1975–2005.

On 13 February 1975, subsequent to the Turkish invasion of Cyprus, the Turkish Cypriot Federated State (TCFS) was proclaimed in the northern part of the island, and Denktash became its president. A draft constitution, approved by the state's Constituent Assembly on 25 April, was ratified by the Turkish Cypriot community in a referendum on 8 June. Establishment of the TCFS was described by Denktash as "not a unilateral declaration of independence" but a preparation for the establishment of a federal system. Denktash was elected president of the TCFS in 1976 and again in 1981; elections to a unicameral legislature of 40 seats were held those same years. On 15 November 1983, the TCFS proclaimed itself the Turkish Republic of Northern Cyprus (TRNC), separate and independent from the Republic of Cyprus. In June 1985, TRNC voters approved a new constitution that embodied most of the old constitution's articles. The new constitution, however, increased the size of the Legislative Assembly to 50 seats. In elections held in June 1985, Rauf Denktash won reelection to a five-year term as president with more than 70% of the vote. Denktash was reelected in 1990, 1995, and 2000. In April 2005, Rauf Denktash retired, and Mehmet Ali Talat—who favors reunification—was elected president of the TRNC.

## 14 POLITICAL PARTIES

The four principal political parties of the Greek community in 2001 were the Progressive Party of the Working People (Anorthotikon Komma Ergazomenou Laou—AKEL), a pro-Communist group; the right-wing Democratic Rally (Demokratikos Synagermos—DISY); the center-right Democratic Party (Demokratiko Komma—DIKO); and the Socialist Party, or Social Democrats Movement (Kinima Sosialdimokraton—KISOS, formerly Eniea Demokratiki Enosi Kyprou or EDEK). The Orthodox Church of Cyprus also exercises some political power within the island.

Party representation in the House and percentages of the popular vote won by the parties in the elections of 27 May 2001 were AKEL, 20 seats (34.7%); DISY, 19 seats (34%); DIKO, 9 seats (14.8%); KISOS, 4 seats (6.5%); and other parties, 4 seats (9.9%).

The Turkish Republic of Northern Cyprus held elections for a 50-seat Legislative Assembly on 14 December 2003. The Republican Turkish Party (CTP) won 19 seats (35.8% of the vote); the National Unity Party (UBP), 18 seats (32.3%); Peace and Democratic Movement, 6 seats (13.4%), and the Democratic Party (DP), 7 seats (12.3%).

## 15 LOCAL GOVERNMENT

There are six administrative districts in the island: Kyrenia, Limassol, Nicosia, Paphos, and Famagusta. The Turkish areas include Kyrenia, and several small parts of Larnaca, Nicosia, and Famagusta. Elected municipal corporations manage chief towns and larger villages. The smaller villages are managed by commissions comprising a headman (*mukhtar*) and elders (*azas*).

The 1960 constitution provided for two communal chambers, these bodies having wide authority within the two main ethnic groups, including the power to draft laws, impose taxes, and determine all religious, educational, and cultural questions. The Greek Communal Chamber, however, was abolished in 1965, and its functions reverted to the Ministry of Education (later renamed the Ministry of Education and Culture). The Turkish Communal Chamber embraces municipalities that are exclusively Turkish. Originally the duties of the Turkish Communal Chamber were to supervise Turkish cooperatives, sports organizations, and charitable institutions. But since the late 1960s, the Turkish communities have maintained strict administrative control of their own areas and have insisted on civil autonomy.

## 16 JUDICIAL SYSTEM

In the Greek Cypriot area, the Supreme Court is the final appellate court and has final authority in constitutional and administrative cases. It deals with appeals from assize and district courts, as well as from decisions by its own judges, acting singly in certain matters. There are six district courts and six assize courts. The Supreme Council of Judicature appoints judges to the district and assize courts.

In the Turkish-held area, a Supreme Court acts as final appellate court, with powers similar to those of the Supreme Court in the Greek Cypriot area. In addition to district and assize courts, there are two Turkish communal courts as well as a communal appeals court.

The Cypriot legal system incorporates a number of elements of the British tradition including the presumption of innocence, due process protections, and the right to appeal. Both parts of Cyprus provide for fair public trials. Both in theory and in practice, the judiciary is independent of executive or military control.

## 17 ARMED FORCES

As of 2005, Cyprus' armed forces were divided between the Greek and Turkish dominated areas. The armed forces of the Greek side consisted of a 10,000 member national guard, that included maritime and aviation wings, and which was supported by 60,000 reservists and a 750 person paramilitary force. The National Guard was outfitted with 154 main battle tanks, 139 reconnaissance vehicles, 43 armored infantry fighting vehicles, 310 armored personnel carriers, and over 562 artillery pieces. The maritime wing operated 15 patrol/coastal vessels, while the aviation wing operated 16 attack helicopters, 2 trainers, and 1 transport aircraft. The paramilitary force consisted of more than 500 land-based armed police and a 250-person maritime police force. About 1,150 troops and advisors from Greece were stationed in the south in 2005 in addition to small contingents from eight other countries. Military spending in the Greek Cypriot region in 2005 amounted to \$280 million. In the Turkish region, there was an estimated army

of 5,000 active personnel, supported by a force of 26,000 reservists, a paramilitary force of around 150, and a Turkish Army force of about 36,000. With the exception of 73 120-mm mortars, operated by the local 5,000 man army, virtually all other equipment is operated by the Turkish Army force. This includes 8 main battle tanks, 441 training tanks, 627 armored personnel carriers, and 102 towed and 90 self-propelled artillery pieces.

## 18 INTERNATIONAL COOPERATION

Cyprus was admitted to the United Nations on 20 September 1960 and is a member of ECE and several nonregional specialized agencies. Cyprus became a member of the European Union in 2004. The nation is also a member of the Commonwealth of Nations, the Council of Europe, the European Bank for Reconstruction and Development, the Central European Initiative, and the WTO. Cyprus belongs to the Alliance of Small Island States (AOSIS) and the OSCE and is an observer in the OAS.

Cyprus is part of the Nonaligned Movement, the Australia Group, and the Organization for the Prohibition of Chemical Weapons. It also belongs to the Nuclear Suppliers Group. The United Nations Peacekeeping Force in Cyprus (UNFICYP) was established in 1964 to serve in peacekeeping efforts between the Greek Cypriots and the Turkish Cypriots; 10 nations are involved in the force. In environmental cooperation, Cyprus is part of the Basel Convention, Conventions on Biological Diversity and Air Pollution, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Historically an agricultural country with few natural resources, Cyprus has been shifting from subsistence farming to light manufacturing, and a service dominated economy. Farm mechanism has reached an advanced state, and a hopefully long-lasting solution to an erratic water supply has been achieved with the completion of a second desalination plant in 2001 that allowed the lifting of restrictions on water usage. Large trade deficits have been partially offset by tourism and remittances from Cypriots working abroad. The Greek Cypriot economy has established itself as a business and service center for enterprises engaged in shipping, banking, and commerce. Cyprus is now classified by the World Bank as a high-income country, and in 2004 it became a full member of the EU.

The 1974 coup and the Turkish armed intervention badly disrupted the economy. Physical destruction and the displacement of about a third of the population reduced the output of the manufacturing, agricultural, and service sectors. The lands occupied by Turkish forces accounted for about 70% of the country's prewar economic output. In general, the Greek Cypriot zone recovered much more quickly and successfully than the Turkish-held region, which was burdened with the weaknesses of Turkey's economy as well as its own. Scarcity of capital and skilled labor, the lack of trade and diplomatic ties to the outside world, and the consequent shortage of development aid have aggravated the problems of northern Cyprus. In the south, on the other hand, tourism has exceeded prewar levels, foreign assistance has been readily available, and the business community has benefited from the transfer

to Cyprus of the Middle Eastern operations of multinational firms driven from Beirut by the Lebanese civil war.

The Republic of Cyprus saw strong economic growth throughout the 1990s. In 1992, the economy grew by over 8%. In 1995 and 1996, growth was more modest, but still robust, registering 6.6% in 1996. Growth slumped in 1997 to 3%, which was followed by three years of recovery, with growth rates of 5%, 4.5%, and 5.1% in 1998 to 2000. The global slowdown of 2001 impacted Cyprus' vulnerable economy, which posted a 2.6% decline. Although growth returned in 2002, it was at an anemic 2% level due mainly to the sharp decline in tourism following the 11 September 2001 terrorist attacks on the United States. Inflation and unemployment continued at low levels. From 1992 to 2001, the weighted annual rate of inflation was 2.48%, and had fallen to 1.9% (consumer prices) in 2001, according to CIA estimates. The unemployment level was averaging below 2% before 1996, and since has averaged a little over 3%. Unemployment was at 3% in 2001, and was an estimated 3% for 2002, according to official government statistics.

In the North, however, the economy continued to grow more slowly, at less than 1% a year accompanied by persistently high inflation. In 1995, growth was estimated at 0.5% and inflation at 215%. In 2000, according to CIA estimates, growth was .8% and inflation, based on consumer prices, was 53.2%. Unemployment in the Turkish-held north, estimated at 1.5% in 1995, was at an estimated 5.6% in 1999, the latest available year. Nominal per capita income in the south is about three times that of the north, although in purchasing power parity (PPP) terms, as estimated by the CIA, the difference is somewhat narrower.

Economic growth was consistent, but not spectacular, hovering around 2% in 2002 and 2003, and climbing slightly, to 3.7%, in 2004. The main drivers of growth were the sectors of financial intermediation (12.4%), transport, storage and communication (8.9%), construction (5.2%), and wholesale and retail trade (4.8%). The tourist industry registered a setback despite a slight increase of incoming tourists. Inflation and unemployment are not a matter of concern for the country, floating around 2.5% and 3.5% respectively. These indicators vary however if the Republic of Cyprus and North Cyprus are analyzed separately. North Cyprus performed more poorly on all of the indicators presented above, and is to a large extent dependent on transfers from the Turkish government. Its main domestic sources of revenue were the tourist industry and the education sector.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 the Greek Cypriot area's gross domestic product (GDP) was estimated at \$16.82 billion and the Turkish Cypriot area's GDP was estimated at \$4.54 billion. The per capita GDP was estimated at \$21,600 in the Greek Cypriot area in 2005 and at \$7,135 in the Turkish Cypriot area in 2004. The annual growth rate of GDP was estimated at 3.8% in the Greek Cypriot area in 2005, and at 15.4% in the Turkish Cypriot area in 2004. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3.8% of GDP, industry 20%, and services 76.2% in the Greek Cypriot area in 2005; agriculture accounted for 10.6% of GDP, industry 20.5%

and services 68.9% in the Turkish Cypriot area in 2003. Over the 2003–06 period, the Turkish region received some \$700 million in grants and loans from Turkey, which are usually forgiven.

## **2<sup>1</sup> LABOR**

In 2005, the economically active population totaled an estimated 370,000 in the Greek Cypriot area and 95,025 in the northern Turkish Cypriot area. Of all employees in the Greek Cypriot area in 2004, an estimated 54.4% were employed in the services sector, 38.2% in industry, and 7.4% in agriculture. In the Turkish Cypriot area, an estimated 56.5% were in the services sector, 29% in industry, and 14.5% in agriculture. The unemployment rate in the Greek Cypriot area was estimated at 3.5% in 2005, while in the Turkish area it amounted to an estimated 5.6% in 2004.

In both the Greek and Turkish parts of Cyprus, all workers have the right to join or form unions without prior authorization, excluding the military and police forces. On the Greek side, more than 70% of the Greek Cypriot workforce belonged to independent unions in 2005. On the Turkish portion, about 60 to 70% of semipublic workers, nearly all public-sector workers and 1% of private sector workers are unionized. In both parts of Cyprus, collective bargaining is legal but the bargaining agreements are not legally enforceable.

There is a legislated minimum wage in the Greek Cypriot community; because of inflation this figure is adjusted twice yearly. In 2005 it was \$724 per month for practical nurses, shop and nursery assistants, clerks and hairdressers, rising to \$770 per month after six months employment. In the same year, the Turkish Cypriot minimum wage was \$447 per month. These wages are insufficient to support a wage earner and family, but most workers earn significantly more than this. The minimum working age in both communities is 16, with apprentice programs allowing 15 year olds to work in the Turkish Cypriot community. In the Greek controlled area, the legal workweek is 48 hours, including overtime. In the private sector, white-collar employees worked 39 hours, with 38 hours for blue-collar workers. Fewer hours were worked in the summer months. In the Turkish Cypriot community, the workweek is 38 hours in the winter and 36 hours in the summer. Health and safety standards in the workplace continued to improve.

## **2<sup>2</sup> AGRICULTURE**

Agricultural methods are adapted to the island's hot and dry summers and generally limited water supply. Spring and early summer growth is dependent on moisture stored in the soil from the winter rains, but summer cultivation is dependent on irrigation. About 12.2% of the total land area is arable.

Most farmers raise a variety of subsistence crops, ranging from grains and vegetables to fruits. Since 1960 there has been increased production of citrus fruits and potatoes. These two commodities, along with grapes, kiwi, and avocados are grown both for the domestic market and as exports to EU nations. Principal crops in 2004 (in tons) included barley, 94,000; potatoes, 116,000; grapes, 80,860; grapefruit, 30,000; oranges, 35,000; lemons, 25,000, and wheat, 13,000. Tomatoes, carrots, olives, and other fruits and vegetables are also grown. The areas that have been Turkish-held since 1974 include much of Cyprus' most fertile land; citrus fruits are a major export.

The Agricultural Research Institute, through experiments with solar-heated greenhouses, soil fertility, water usage optimization, and introduction of new varieties of grain, attempts to improve the efficiency of Cypriot agriculture. Agricultural products accounted for 24% of exports in 2004.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

Grazing land for livestock covers about 1,100 hectares (2,700 acres). Animal husbandry contributes about one-third of total agricultural production. Output of pork, poultry, and eggs meets domestic demand, but beef and mutton are imported. Sheep and goats, which feed upon rough grazing land unsuitable for cultivation, provide most of the milk products. In 2004, sheep numbered about 295,000; hogs, 491,800; and goats, 460,000.

Indigenous cattle, kept primarily as draft animals, are decreasing with the advance of farm mechanization. There is no indigenous breed of dairy cattle, but near main towns, dairy stock, mostly shorthorns, are kept under stall-fed conditions, and Friesian cattle have been imported from the Netherlands and the United Kingdom. Cattle numbered about 58,500 in 2004.

Livestock products in 2004 included 53,000 tons of pork, 35,000 tons of poultry meat, 108,248 tons of milk, and 12,300 tons of eggs.

## **2<sup>4</sup> FISHING**

Year-round fishing is carried on mostly in coastal waters not more than 3.2 km (2 mi) from shore. The fish in Cyprus waters are small from the lack of nutrient salts, and the catches are meager. The 2003 catch was 3,612 tons. Fish exports in 2003 were valued at \$4.7 million, or 6.8% of agricultural exports. There is no deep-sea fishing. Sponges of good quality are taken, mostly by licensed fishermen, from the Greek Dodecanese Islands.

## **2<sup>5</sup> FORESTRY**

About 172,000 hectares (425,000 acres) are forested; 137,800 hectares (340,500 acres) are reserves managed by the Forest Department, the remainder being natural growths of poor scrub used by village communities as fuel and as grazing grounds. Besides furnishing commercial timber, the forests provide protective cover for water catchment areas and prevent soil erosion. Their value is also scenic, numerous holiday resorts being situated in the forest reserves. Most numerous by far among forest trees is the Aleppo pine. The stone pine is found on the highest slopes of the Troodos Massif; the cedar, once a flourishing tree, has become a rarity. In the lowlands, eucalyptus and other exotic hardwoods have been introduced. Other important local species include cypress, plane, alder, and golden oak. The demand for timber during World War I resulted in some overcutting, and in 1956 large fires further reduced forests, particularly in Paphos, where 211,000 cu m (6 million cu ft) of standing timber were destroyed. To offset these losses, all felling of fresh trees for timber was stopped and systematic reforestation begun. The timber cut decreased from 152,415 cu m (5.4 million cu ft) in 1977 to 12,000 cu m (42.3 million cu ft) in 2003 (about 90% coniferous). Most of Cyprus' timber require-

ments must be met by imports. In 2003, imports of forestry products exceeded exports by \$93.3 million.

## 26 MINING

In 2004, the mineral industry of Cyprus was dominated by the production of bentonite, cement, sand and gravel, and stone. Mineral production however, accounts for only a small portion of the country's gross domestic product (GDP). In 2004, mineral production accounted for approximately 0.3% of GDP, estimated that year at \$14.5 billion. In addition, production of Cyprus's historically important export minerals—asbestos, celestite, chromite, copper, and iron pyrite—has stopped. Cyprus was also a source of the mineral pigment umber. In 2004 preliminary umber production was put at 5,205 metric tons. Ownership and control of minerals and quarry materials were vested in the government, which may grant prospecting permits, mining leases, and quarrying licenses. Royalties on extracted mineral commodities ranged from 1–5%.

Preliminary production totals of the following products in 2004 were: hydraulic cement, 1,689,000 metric tons; 155,717 metric tons of bentonite; 11.6 million metric tons of sand and gravel; 255,000 metric tons of crude gypsum; 2.29 million tons of marl (for cement production), and 1.2 million tons of crushed limestone (Havara). Other mine and quarry products for 2004 were common clays, hydrated lime, marble, building stone, and sulfur.

## 27 ENERGY AND POWER

Except where stated, the information that follows is for the Greek portion of the island. All of Cyprus' electricity is produced by conventional thermal means, namely through the burning of fossil fuels. Its production, transmission and distribution are controlled by a semigovernment corporation known as the Electricity Authority of Cyprus (EAC), which operates three generating stations: Dhekelia-B; Moni; and Vasilikos, a new facility that began operation in 2000. A fourth facility, Dhekelia-A, was decommissioned in January 1994 and was demolished in 2002. In 2002, total electric generating capacity stood at 0.998 million kW. 2001. In 2003, the southern half of Cyprus produced 4 billion kWh. However, it is not known how much power, if any, was produced by the northern portion or TRNC. Consumption of electricity by the southern and northern portions totaled 3.663 billion kWh and 0.602 billion kWh, respectively.

Cyprus must also import virtually all the oil products it consumes. In 2002, consumption of all petroleum products totaled 50,890 barrels per day, with imports totaling 50,880 barrels per day. The island does produce a miniscule amount of oil, estimated at 300 barrels per day for 2004. Cyprus has no known coal reserves and therefore must import whatever coal it uses. In 2002, imports of hard coal totaled 73,000 tons, of which 58,000 tons was consumed and 14,000 tons stockpiled.

## 28 INDUSTRY

Industries are numerous and small in scale, 95% of them employing fewer than 10 workers. Working owners make up a large part of the industrial labor force. Manufacturing, which accounts for about 10.6% of GDP, and employs 9.1% of the labor force, is dominated by small enterprises. The manufacturing sector of indus-

trial production has declined in absolute value over 10% from its peak in 1992, reflecting declines in the traditional leaders, textiles and food processing. Textiles, the leading manufacturing industry since 1974, has declined in output value about 50% since a peak reached in 1988, whereas food processing (food, beverages, and cigarettes) has declined about 15% from a peak reached in 1992. The manufacture of nonmetallic mineral products has also declined, about 7% from peak levels in 1994–95. Growth has occurred among nontraditional manufactures in the areas of chemicals, petroleum, rubber, and plastics, up over 25% in the decade.

Other industrial sectors have increased strongly: mining and quarrying is up nearly 60% since 1990 and the production of electricity, gas, and water treatment, increased nearly 80%. According to CIA estimates, overall industrial production grew 2.2% in 1999 in the Greek Cypriot area, but declined an estimated 0.3% in the Turkish area. The leading products are textiles, shoes, cement mosaic tiles, and cigarettes. Major plants include modern flour mills, tire-treading factories, knitting mills, preprocessing facilities, and a petroleum refinery. Furniture and carts are also manufactured. Nine industrial estates have been established. In both the Greek and Turkish areas of Cyprus, industry accounts for about 20% of GDP and employs about 22% of the labor force.

The contribution of the industry to the GDP was fairly the same in both parts of Cyprus—20% in the Republic of Cyprus (2005), and 20.5% in North Cyprus (2003). The make-up of the labor force showed some discrepancies however: in the Republic of Cyprus, 38.2% of the work force was employed by the industry, as opposed to 29% in North Cyprus in 2004. This is a clear indicator of the higher productivity levels achieved in the south.

## 29 SCIENCE AND TECHNOLOGY

The Cyprus Research Center promotes research principally in the social sciences and in history, ethnography, and philology. In addition, Cyprus has three universities and several colleges offering degrees in basic and applied sciences. In 2003, total expenditures for research and development (R&D) amounted to €22.1 million. The R&D spending breakdown for 2002 (the latest year for which this data was available; R&D spending that year totaled €19.441 million) saw government sources account for 61.7%. Business that year accounted for 17.4% of R&D spending, while educational, private nonprofit and foreign sources accounted for 3.8%, 2% and 15.1%, respectively. In 2002, there were 269 technicians and 569 researchers per million people engaged in R&D.

## 30 DOMESTIC TRADE

A flourishing cooperative movement provides facilities for marketing agricultural products. There are more than 500 Greek cooperative societies, with some 100,000 members. Many towns and villages have cooperative stores; the towns also have small independent shops, general stores, and bazaars. The nation is not self-sufficient and relies on imports for a number of food products and consumer goods. Since 1990, at least 12 US franchises have been established throughout the country.

Government price controls have been virtually eliminated as the nation has realigned its economic policies to be acceptable to the European Union. The result has been a more open market with greater competition.

Business hours are from 8 AM to 1 PM, and 2:30 to 5:30 PM in the winter and from 7:30 AM to 1 PM and 4 to 6:30 PM in the summer. Shops are open only in the morning on Wednesday and Saturday. Normal banking hours are from 8:30 AM to noon, Monday through Saturday. Advertising is mainly through newspapers and television. Direct marketing/telemarketing has also been used.

As a result of the island's division in 1974, there is no trade between the two communities across the UN buffer zone.

### 3<sup>1</sup> FOREIGN TRADE

With limited natural resources, Cyprus is dependent on other countries for many of its needs. Other than some agricultural commodities, it has few surpluses, and the balance of trade has steadily grown more unfavorable.

The tobacco industry in Cyprus provides the export market with the largest portion of revenues (30%), while medicinal and pharmaceutical products take care of another large proportion (11%). Other exports include passenger motor vehicles (6.3%), vegetables (5.7%), apparel (4.5%), and fruit (2.5%).

Lack of international recognition for the Turkish Cypriots severely hampers their foreign trade. Because of the Greek Cypriot economic boycott, all goods originating in northern Cyprus must transit through Turkey, thereby adding to shipping costs. Moreover, a 1994 ruling by the European Court of Justice declared that phyto-sanitary certificates issued by the "Turkish Republic of Northern Cyprus" were invalid due to the "illegality" of the entity.

In 2004, North Cyprus' total exports reached \$49.3 million (FOB—Free on Board), and were dwarfed by the south's performance—\$1.1 billion (FOB). Imports were almost ten times as high as the exports in the north, at \$415 million (FOB), and almost five times as high in the south, at \$5.3 billion. Main import commodities for the Republic of Cyprus were consumer goods, petroleum and lubricants, intermediate goods, machinery, transport equipment, while North Cyprus mostly imported vehicles, fuel, cigarettes, food, minerals, chemicals, and machinery. Turkey remains the most important trade partner for the latter, while the south largely relies on trade with Greece, the United Kingdom, Germany, and Italy.

### 3<sup>2</sup> BALANCE OF PAYMENTS

Since Cyprus has persistently imported more than it exports, it consistently runs a trade imbalance which has grown steadily over the past two decades. Cyprus' trade deficit has been somewhat offset by tourist dollars, spending by foreign military forces, and remittances from workers abroad.

The US Central Intelligence Agency (CIA) reported that the purchasing power parity of Greek Cypriot exports was \$1.237 billion in 2005 (FOB), and Turkish Cypriot exports totaled \$49.3 million, while Greek Cypriot imports totaled \$5.552 billion in 2005, and Turkish Cypriot imports totaled \$415.2 million.

The current account balance for Greek Cyprus was negative, worsening from -\$442 million in 2003, to -\$915 million in 2004. External debt was on the rise (lending from international markets is one way of responding to the huge trade deficit), reaching \$7.6 billion in 2003, and \$9.9 billion in 2004. The reserves of foreign exchange and gold were high enough though to sustain a pro-

#### Principal Trading Partners – Cyprus (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	922.9	4,466.2	-3,543.3
United Kingdom	295.0	371.8	-76.8
Bunkers, ship stores	89.8	...	89.8
Greece	84.7	535.1	-450.4
Germany	36.1	336.0	-299.9
Lebanon	31.3	...	31.3
Jordan	24.7	...	24.7
Netherlands	23.8	109.2	-85.4
United Arab Emirates	23.3	...	23.3
Egypt	22.9	22.7	0.2
United States	17.8	186.6	-168.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

longed period of imports: \$3.4 billion in the Republic of Cyprus, and \$942 million in North Cyprus.

### 3<sup>3</sup> BANKING AND SECURITIES

In 1963, the Ottoman Bank (since renamed the Central Bank of Cyprus) was designated as the government's banking and currency clearing agent. The Banking law of 1997 provided for a properly-funded deposit insurance scheme and regulation were before the House of Representatives in late 1999. In general, banking services compare with the level experienced in European countries and the United States. There are six domestic banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$695.0 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mu-

#### Balance of Payments – Cyprus (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-441.8</b>
Balance on goods		-3,134.4
Imports	-4,089.8	
Exports	955.4	
Balance on services		2,935.8
Balance on income		-387.1
Current transfers		144.0
<b>Capital Account</b>		<b>20.3</b>
<b>Financial Account</b>		<b>188.6</b>
Direct investment abroad		-538.5
Direct investment in Cyprus		1,025.1
Portfolio investment assets		-482.5
Portfolio investment liabilities		802.5
Financial derivatives		16.6
Other investment assets		-2,479.2
Other investment liabilities		1,844.7
<b>Net Errors and Omissions</b>		<b>45.2</b>
<b>Reserves and Related Items</b>		<b>187.6</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tual funds—was \$4.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.93%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5.5%.

The Cyprus Stock Exchange, which opened in March 1996, ended 1996 with gains of just 0.2%, but experienced an extended bull run starting in late November of 1998. Since 1996, foreign investors are no longer required to obtain the Central Bank's permission to invest in the CSE, although there are limits on foreign participation. Legislation passed in 1999 prohibited insider trading and a new screen-based automated trading system helped enhance investor confidence. The CSE index reached 162.8 by June 1999, up from its initial starting point of 100 in 1996. By mid-2003, however, it had dropped to around 84. Market capitalization is \$5.4 billion.

### 34 INSURANCE

Insurance companies, mostly British, make available life, fire, marine, accident, burglary, and other types of insurance. Third party automobile liability and workers' compensation insurance are compulsory. All insurance companies in Cyprus must be members of the Insurance Association of Cyprus, and foreign ownership is subject to government approval. In 2003, the value of all direct premiums written totaled \$590 million, of which nonlife and life each accounted for 50%. The top nonlife insurer in 2003 was Laiki, with \$45 million in gross nonlife premiums written. The country's top life insurer was Laiki Cyprialife, with \$80.8 million on gross premiums written in that same year.

### 35 PUBLIC FINANCE

The fiscal year follows the calendar year. Import duties and income tax are the principal sources of government revenue. The principal ordinary expenditures are education, defense, and police and fire services. Due to the introduction of a value-added tax and a more efficient tax collection system, Cyprus made steady

progress in reducing its budget deficit in the early 1990s, which reached 1% of GDP in 1995. The deficit, however, due in part to a slowing economy, began to increase again. Turkish Cypriots use the Turkish lira for currency, and the Turkish government reportedly provides a large part of the TRNC annual budget. The International Monetary Fund (IMF) estimates that in 1997 Cyprus's central government took in revenues of approximately \$710.9 million and had expenditures of \$830.4 million including capital expenditures of \$83.2 million. Overall, the government registered a deficit of approximately \$120 million.

The US Central Intelligence Agency (CIA) estimated that in 2005 the Republic of Cyprus's central government took in revenues of approximately \$6.698 billion and had expenditures of \$7.122 billion. Public debt in 2005 amounted to 72% of GDP. Total external debt was \$7.803 billion. For the Turkish region, revenues amounted to \$231.3 million in 2003, and expenditures \$432.8 million.

### 36 TAXATION

Income taxes were first introduced in 1941, and a system of withholding in 1953. The first value-added tax (VAT) was enacted in 1992. With an eye to its hoped-for accession to the EU in 2004, the Greek Cypriot government enacted a series of new tax laws in July 2002, effective as of 1 January 2003, designed to be fully compliant with OECD tax criteria and the EU tax Code of Conduct.

The new corporate income tax rate, applied to both local and international business companies (IBCs), is 10%. Dividends paid to Cypriot tax residents are subject to a 15% withholding tax. A major feature of the new tax code is the integration of corporation and withholding taxes, with income tax on distributed profits. The combination of the income tax and the withholding tax, assuming that 70% of the after-tax profits are distributed, produces a final tax rate of 19.45%, which is below the highest income tax rate of 25% before the reforms. Provisions for "special contributions to defense of the Republic" are changed under the new tax laws. The defense tax on interest income was raised from 3% to 10% except for recipients whose total income is less than €7,000 (about \$13,100), and except on interest from government bonds, pension funds, and deposits with the Housing Finance Corporation (HFC), which are taxed at 3%. With some exceptions, the defense levy on dividends received was increased from 3% to 15%. Interest income is subject to a final 10% withholding tax. All interest earned by individuals and 50% of the interest earned by corporations is exempt from income tax.

Income taxation of companies will no longer depend on where they are registered but on where they are managed and controlled. Companies registered in Cyprus but managed and controlled from another country, will only be taxed in Cyprus on their Cyprus-source income. IBCs will not be entitled to benefits under double taxation treaties, but they will also not be subject to the exchange of information requirements of such treaties.

Cyprus has a progressive individual income tax with a top rate of 30%, with the initial 10,000 Cyprus pounds tax-free. Cyprus residents are subject to a 15% withholding tax on dividends and a 10% withholding tax on interest. The capital gains tax, its rate of 20% unchanged under the new laws, is imposed only on the disposal of property situated in the Republic. Indirect taxes include a value-added tax (VAT) of 15% and a lower 5% rate that applies

#### Public Finance – Cyprus (1998)

(In millions of Cyprus pounds, central government figures)

<b>Revenue and Grants</b>	<b>1,473</b>	<b>100.0%</b>
Tax revenue	955.8	64.9%
Social contributions	223.1	15.1%
Grants	0.7	<1.0%
Other revenue	293.3	19.9%
<b>Expenditures</b>	<b>1,731.7</b>	<b>100.0%</b>
General public services	387.5	22.4%
Defense	68.3	3.9%
Public order and safety	91.8	5.3%
Economic affairs	232.6	13.4%
Environmental protection	...	...
Housing and community amenities	68.2	3.9%
Health	109.4	6.3%
Recreational, culture, and religion	28.5	1.6%
Education	205	11.8%
Social protection	424.7	24.5%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

to new dwellings, hotel services, newspapers, catering, books and gas, and various excise taxes.

Duty free facilities for expatriates were withdrawn in April 2003.

### **37 CUSTOMS AND DUTIES**

As of 1 January 1998, tariffs on many goods imported from the European Union (EU) fell to zero as Cyprus adopted the EU's common customs tariff on most products from third-party countries. In addition, Cyprus is a member of the World Trade Organization (WTO). The Republic of Cyprus also provides a 20% price preference on domestic goods and services for public tenders, although foreign pressure—the EU and WTO forbid such practices—may halt this practice. A 15% VAT is also levied, although food and agricultural products have a reduced rate of 5%.

### **38 FOREIGN INVESTMENT**

Because Turkish Cyprus is recognized as a sovereign nation by no other nation besides Turkey, it has attracted little foreign investment. The majority of factories are owned by domestic companies but, in most of the major industrial concerns, there has been considerable British and Greek capital. The central government encourages foreign investment that results in the import of new technology or new production methods and improves the quality of the goods produced, especially for export. Any purchase of shares in a domestic company by nonresidents requires approval by the Central Bank of Cyprus.

As part of its accession to the EU, Cyprus endeavored to transform itself from an offshore tax haven, featuring a 4.25% corporate tax rate for ring-fence businesses (that is, those having no trade inside Cyprus) to a what it calls a tax incentive country, free from the suspicion usually associated with tax havens. Under the new tax code effective as of effect 1 January 2003, foreign companies already enjoying the tax haven 4.25% (in 1996, for instance, there were some 1,168 offshore companies operating out of Cyprus) could continue to do so until the end of 2005, provided they have not traded inside Cyprus.

Other companies will receive for the most part national treatment, which features a competitive corporate tax rate, (of 19.45% instead of the highest income rate of 25% through the way the income and withholding taxes are combined) but not an offshore rate. In the accession process (or *acquis*), Cyprus has been under intense scrutiny for money laundering. Its anti-money laundering law of 1996 was amended in 1999 to satisfy enforcement concerns. As of 2002, both the IMF and the OECD's Financial Action Task Force on Money Laundering (the TATF) have certified Cyprus as satisfactory on this count.

Cyprus has not been removed, however, from the Flags of Convenience (FOC) black list of the Paris Memorandum of Understanding on Port State Control, known as the Paris MOU, which is an agreement among 19 countries aimed at eliminating substandard shipping. Historically, Cyprus has operated the fourth- or fifth-largest maritime fleet through offering lax safety and inspection regimes on ships registered under its flag. From 1999 to 2001, there were signs of improvement, according to EU reports. The percent of Cyprus-flagged vessels detained by Port State control dropped from 9.97% in 1999 to 8.85% in 2001, compared to an EU average of 3.14% in 2001. In all, 397 of 4,100 Cypriot ships

were detained. To move up to the Paris MOU's "gray list," no more than 319 or 7.7% of Cypriot vessels should have been detained. Also as part of the accession process, Cyprus instituted a more liberalized investment regime, removing interest rate ceilings and capital controls.

The government first made changes in the investment code to encourage foreign investment in 1986, but many restrictions remained. In 1996, the investment code was liberalized to allow foreign participation of up to 49% in Cypriot companies. Certain services were allowed 100% foreign participation. Sector specific restrictions remain, however, in several important areas including electricity, tourism, air transport, and travel offices. The telecommunications sector, also, has not been privatized. To date the inflow of foreign direct investment (FDI) has remained small, averaging 1.3% of GDP 1997 to 2001. The trend, however, is toward an increase. FDI as a percent of GDP doubled during this period, from 9% of GDP in 1997 to 1.8% of GDP in 2001.

The inflow of FDI into Cyprus reached \$1.2 billion in 2004, up from \$1.0 billion in 2003. However, this data pertains solely to the Republic of Cyprus, as there are no official statistics available for North Cyprus (although it is known that most investments come from Turkey, and they mainly target the tourist resorts). Investments in the Republic of Cyprus primarily aimed at real estate and business (41.0%), financial intermediation (24.7%), trading (14.6%), and transport and communications (11.1%). The majority of these investments came from the EU (58.1%) and other European countries (31.1%).

### **39 ECONOMIC DEVELOPMENT**

The first development plan (1962–66), designed to broaden the base of the economy and to raise the standard of living, resulted in an average annual real growth rate of 5.4%. The second development plan (1967–71) called for an annual growth rate of 7% in the GDP; actual growth during this period was nearly 8% annually. The third development plan (1972–76) envisaged an annual economic growth rate of 7.2%, but a drought in 1973 and the war in 1974 badly disrupted development programs. Physical destruction, a massive refugee problem, and a collapse of production, services, and exports made it impossible for Cyprus to reach the targets.

Since 1975, multi-year emergency economic action plans inaugurated by the Republic of Cyprus have provided for increased employment, incentives to reactivate the economy, more capital investment, and measures to maintain economic stability. The 1994–98 Strategic Development Plan emphasized a free-market, private-sector economic approach with a target GDP growth of 4% annually. The plan called for a domestic savings rate of 22.3% of GDP; an increase of labor productivity of 2.8% between 1994–96; an inflation rate of approximately 3%, and unemployment no greater than 2.8%. As of 1996, Cyprus had largely met these goals with the exception of less than target levels of savings and productivity.

While Cyprus used to receive substantial amounts of development aid, due in part to its own improving economy and a recession in the European donor countries, it now receives little direct financial assistance from other nations.

Since its military intervention in 1974, Turkey has provided substantial financial aid to the Turkish Cypriot area. In 1996, this

assistance was estimated to be approximately one-third of the area's GDP, or approximately \$175 million. From 2003–06, Turkey provided approximately \$700 million in grants and loans to the Turkish region, which are usually forgiven.

In 2004, Cyprus joined the EU, and hopes were up that this would contribute to both the political and economic stability of the country. The country boasts an educated work force, good infrastructure, a sound legal system, and relatively low taxes. Tourism drives the economy, and any economic development strategy will likely be engineered around this industry. In North Cyprus, construction and education (numerous students from Turkey, and other parts of the world study at one of the area's five universities) have established themselves as the main engines of growth. However, as long as the dispute between the north and the south areas continues, development figures will not reach the island's potential.

#### **40 SOCIAL DEVELOPMENT**

A social insurance and social assistance system is in effect for all employed and self-employed persons. It provides unemployment and sickness benefits; old age, widows', and orphans' pensions; maternity benefits; missing persons' allowances; injury and disability benefits. There is a universal system for a family allowance and child benefits. The child benefit is available to all residents with four or more children.

Women generally have the same legal status as men. Laws require equal pay for equal work and this is enforced at the white collar level. Sexual harassment is prohibited by law, however incidents are usually not reported. Spousal abuse is a serious social problem and continued to receive attention. Women who are married to foreigners have the right to convey citizenship automatically to their children.

Although human rights are generally respected, police brutality continued to be a problem. There are also reports of the mistreatment of domestic servants, usually of East or South Asian origin. Freedom of movement between the Greek and Turkish zones is restricted.

#### **41 HEALTH**

As of 2002, the birth rate was estimated at 12.9 per 1,000 people. In 2004 there were an estimated 298 physicians and 485 nurses per 100,000 people. There are both public and private medical facilities, including about 50 rural health centers. The island has a low incidence of infectious diseases, but hydatid disease (echinococcosis) is endemic. Malaria has been eradicated and thalassaemia, which affected 15% of the population in 1960, has been eliminated. As of 1999, the number of people living with HIV/AIDS was estimated at 400 and deaths from AIDS that year were estimated at 160. The fertility rate in 1999 was two children per mother. The infant mortality rate was estimated at 7.18 per 1,000 live births in 2005 and the average life expectancy was 77.65 years. In the same year, the general mortality rate was 7.4 per 1,000 inhabitants. In 1994, 83% of children were vaccinated against measles. Approximately 95% of the population had access to health care services and 100% had access to safe water.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,000 people living with HIV/AIDS in the country.

#### **42 HOUSING**

A growing population resulted in a shortage of dwellings, especially in urban areas. This was further aggravated by the 1974 war, which resulted in the displacement of more than 200,000 people and the destruction of 36% of the housing stock. The government provided temporary accommodations for about 25,000 displaced people and embarked on a long-term plan to replace the lost housing units. Between 1974 and 1990, 50,227 families were housed in a total of 13,589 low-cost dwellings.

In 1982, the Cyprus Land Development Corporation was formed to address the housing needs of low- and middle-income families, including the replacement of old housing stock. By 1991, the corporation had disposed of 573 building plots and helped construct 391 housing units. Between 1975 and 1991, the private sector constructed 83,197 housing units.

According to a 2001 census, there were about 292,934 conventional dwellings across the country. Nearly 43% were single, detached houses; another 20% were apartment blocks. About 35,829 conventional dwellings were built in the period 1996–2001. Most dwellings have from four to seven rooms. The average household contained three people. About 68% of dwellings were owner-occupied. About 5.6% of dwellings are temporary housing sites for refugees. Village homes in Cyprus are generally constructed of stone, sun dried mud bricks, and other locally available materials; in the more prosperous rural centers, there are houses of burnt brick or concrete.

#### **43 EDUCATION**

Since 1959, the Greek and Turkish communities have been responsible for their own school systems. In the Republic of Cyprus, education is compulsory for nine years, with children attending six years of primary school and six years of secondary. The secondary education is divided into two stages: Gymnasium and Lykeion. Each stage lasts three years. Students may choose vocational or technical schools for their secondary education as well. In 1995, a comprehensive Lyceum program was established for secondary education, which combines both general and technical or vocational education. In the Turkish region, preschool education is provided for children between the ages of four and six. Primary and secondary education is free and compulsory; primary education lasts for five years and secondary education lasts for three years.

In the Republic of Cyprus, in 2001, about 59% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 96% of age-eligible students. The same year, secondary school enrollment was about 93% of age-eligible students. It is estimated that about 87% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003; the ratio for secondary school was about 12:1.

The University of Cyprus (est. 1992) has five faculties: humanities and social sciences, pure and applied sciences, economics and management, letters, and engineering. There are a total of six universities in northern Cyprus, and one teacher training college. In 2003 in Greek Cyprus, about 32% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 96.8%.

As of 2003, public expenditure for the Republic of Cyprus on education was estimated at 6.3% of GDP.

#### 4<sup>4</sup> LIBRARIES AND MUSEUMS

Cyprus has numerous school, private, and public libraries. The National Library in Nicosia holds 105,000 volumes and serves as the central library for the Republic of Cyprus. There are also municipal libraries in Famagusta, Limassol, Ktima, Larnaca, and Paphos, and bookmobile services in the Nicosia environs. Among the most important specialized libraries are those of the Cyprus Museum (15,000 volumes), the Phaneromeni Library of the Eastern Orthodox Church (33,000), and the Cyprus Turkish National Library (56,000), all in Nicosia. The University of Cyprus holds 150,000 volumes in Nicosia.

The Department of Antiquities is responsible for a wide, continuing program of research at Neolithic and classical sites. On behalf of ecclesiastical authorities, it conserves the cathedrals, mosques, monasteries, and other monuments, and over a period of many years has cooperated with numerous scientific expeditions. The entire range of archaeological discoveries from prehistoric to medieval times is displayed in the Cyprus Museum at Nicosia. In addition to the Cyprus Historical Museum and Archives and the Folk Art Museum in Nicosia, there are important collections in museums at Paphos, Larnaca, and Limassol. In all, there are about 20 museums in Cyprus, the majority being archaeological and historical. There are over 1,000 monuments and historic sites nationwide.

#### 4<sup>5</sup> MEDIA

The Cyprus Telecommunications Authority (CTA) operates the internal communications system. The telephone network is nearly wholly automatic and the CTA connects Cyprus with more than 67 other countries. In 2002, there were about 427,400 mainline phones in use in the Greek Republic of Cyprus and 86,228 in use for the northern Turkish Republic. An additional 417,900 cell phones were in use among the Greek Cypriots and 143,178 among the Turkish Cypriots.

The Cyprus Broadcasting Corp. (CBC) maintains regular service. Commercial spot announcements and a few sponsored programs are permitted on both radio and television. Radio programming in both AM and FM is transmitted by the CBC on two channels in Greek, Turkish, Arabic, and English. Private radio stations have been allowed since 1990, and there were 30 licenses issued by the end of 1992. The CBC has two channels, and licenses have been granted to four private stations (one of them cable) since April 1993. The main television transmitting station is located on Mt. Olympus. Since 1980, the television service has been linked via satellite with the Eurovision network for live transmission of major events in Europe. As of 1998, the Greek sector had 7 AM and 60 FM radio stations; the Turkish sector had 3 AM and 11 FM stations. In 1995, each area had four television stations. In 1997, the Greek Cypriots had about 310,000 radios and 248,000 television sets in use throughout their area. Nationwide, there were about 210,000 Internet subscribers in 2002.

Nicosia has traditionally been the publishing center for the island and the editorial headquarters of nearly all the daily newspa-

pers and weeklies. There is no censorship in the south and newspapers are outspoken on political matters. The major Greek daily newspapers (with political affiliation and estimated 2002 circulations) include *O Phileleftheros* (independent liberal, 26,000), *Alithia* (11,000), *Haravghi* (Communist, 9,000), *I Simerini* (conservative, 9,000), *Apogevmatini* (independent moderate, 8,000), and *Agon* (independent right-wing, 5,000). The leading Turkish newspapers (with political affiliation and estimated 2002 circulations) include *Kibris* (13,000) and *Halkin Sesi* (independent nationalist, 6,000). *Cyprus Mail* is a leading English-language paper with an independent-conservative affiliation and a 2002 circulation total of 4,000.

Freedom of speech and the press are mandated by law and are said to be in full support by the government. Private television and radio stations and university-run stations compete successfully with the government-controlled stations.

#### 4<sup>6</sup> ORGANIZATIONS

The government encourages cooperative societies in many ways, including exemption from certain forms of taxation. The Cyprus Chamber of Commerce and Industry is the main commercial organization. There is also a Turkish Cypriot Chamber of Commerce in Nicosia. The Famagusta Chamber of Commerce and Industry is concerned primarily with international trade. The Employers and Industrialists Federation is based in Nicosia. The Pancyprian Federation of Labor serves as a general organization promoting the writes of employees. Professional and trade organizations cover a wide variety of careers, including those that also serve as forums for education and research, such as the Cyprus Medical Association. Some separate professional associations exist for Turkish Cypriot communities.

The Pancyprian Federation of Students and Young Scientists (POFNE) serves as an umbrella organization for student movements. Some political parties have youth organizations, such as the Cyprus Socialist Youth, the Cyprus Workers Federation Youth Section, and the Democratic Party Youth. The Cyprus Scouts Association and Girl Guides are active in the country and there are branches of the YWCA. The Cyprus Sports Organization represents about 33 national sport federations and 500 athletic clubs throughout the country. There is an active organization of the Special Olympics and a Paralympic Committee.

Volunteer service organizations, such as the Lions Clubs International, are present in the country. There is an active national chapter of Caritas.

#### 4<sup>7</sup> TOURISM, TRAVEL, AND RECREATION

Although Cyprus is located off the main routes of travel and has few luxury hotels, the island's salubrious climate, scenic beauties, extensive roads, and rich antiquarian sites have attracted numerous visitors. Water parks and cultural centers are also popular attractions. There were 2,303,246 tourists who arrived in Cyprus in 2003, of whom 95% came from Europe. In that same year there were 46,706 hotel rooms and 91,139 beds with an occupancy rate

of 57%. The average length of stay was six nights. Tourism expenditure receipts totaled \$2.2 billion.

All visitors must have a valid passport and an onward/return ticket. Visas are not required for stays of up to 90 days.

In 2005, the US Department of State estimated the daily cost of staying in Nicosia at \$289. In other areas, expenses averaged \$226 per day.

#### 48 FAMOUS CYPRIOTS

Most widely known of Cypriots in the pre-Christian world was the philosopher Zeno (335?–263? BC), who expounded his philosophy of Stoicism chiefly in the marketplace of Athens.

Makarios III (1913–77), archbishop and ethnarch from 1950 and a leader in the struggle for independence, was elected the first president of Cyprus in December 1959, and reelected in 1968 and 1973. His successor as president, Spyros Kyprianou (1932–2002), also was twice elected to the office, in 1978 and 1983. Tassos Nikolaou Papadopoulos (b.1934) was elected president in 2003. Rauf Denktash (Denktas b. 1924), the leader of the Turkish Cypriot community, was elected vice president of Cyprus in 1973, became president of the TCFS in 1975, and of the TRNC in 1983; he was reelected in 1985 and served until 2005. He was succeeded by Mehmet Ali Talat (b.1952).

#### 49 DEPENDENCIES

Cyprus has no territories or colonies.

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# EAST TIMOR



**CAPITAL:** Dili

**FLAG:** The national flag is rectangular. Two isosceles triangles, the bases of which form the left edge and overlap each other. One triangle is black and its height is equal to one-third of the length overlapped to the yellow triangle, whose height is equal to half the length of the flag. A white five-pointed star, signifying "the light that guides," is centered on the black triangle. The remaining part of the flag is red.

**ANTHEM:** n/a

**MONETARY UNIT:** East Timor has adopted the US dollar (\$) of 100 cents. There are coins of 1, 5, 10, 25, and 50 cents and 1 dollar, and notes of 1, 5, 10, 20, 50, and 100 dollars.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; Assumption Day, 15 August; Constitution Day, 30 August; All Saints Day, 1 November; Santa Cruz Day, 12 November; Independence Day, 28 November; Feast of the Immaculate Conception, 8 December; Christmas, 25 December. Movable holiday is Good Friday.

**TIME:** 9 pm = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

The main land area of East Timor lies on the eastern half of Timor, an island roughly the size of the Netherlands (32,000 sq km/12,355 sq mi) that forms an arc between Asia and Australia and is situated within the Nusatenggara Archipelago. Opposite the well-traveled island of Bali, East Timor is surrounded by the Indian Ocean at the south at the Pacific Ocean at the north. Its size rivals New Jersey or Israel, and its 15,007-km (9,325-mi) territory extends beyond its mainland to include the enclave of Ocussi-Ambeno in West Timor, and the islands of Atauro in the N and Jaco in the E. Dili, a small port city on the northern coast, is the capital.

## <sup>2</sup> TOPOGRAPHY

The landscape offers a patchwork of rugged mountains, waterfalls, coastal lagoons, and diverse features that support variable vegetation, dry grasslands, savannah forests, gullies, and patches of dense rain forest. Gunung Tata Mai Lau, a mountain that forms the highest point on East Timor, reaches 2,963 m (9,721 ft) just south of the capital city of Dili, and the Laclo river in the north stretches some 80 km (50 mi), forming the longest river.

## <sup>3</sup> CLIMATE

Temperatures in the dry season, from May to November, average 20–33°C (68–91°F). The weather during this season is pleasant and dry. Around October or November, oppressive humidity arrives and monsoon cloud activity builds up. The wet season, from December to April, sees average temperatures of 29–35°C (84–95°F), with heavy rains and flooding. In the mountains, daytime temperatures are warm to hot, but are cool to cold at night. Earthquakes, tsunamis, and tropical cyclones occur.

## <sup>4</sup> FLORA AND FAUNA

The primary forest area of East Timor has been reduced to around 88,000 hectares (220,000 acres), or 1% of the territory. Dense forests are found only on the south coast or in mountainous areas. The vegetation consists mostly of secondary forests, savannah, and grasslands. Flora includes ironwood, eucalyptus, black eucalyptus, redwood, sandalwood, cendana, and lontarwood. Fauna include deer, monkeys, cockatoos, horses, cows, and beo kakoaks.

## <sup>5</sup> ENVIRONMENT

The main environmental threats come from the widespread use of slash-and-burn agriculture, which has led to deforestation and soil erosion. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included seven species of birds, one type of reptile, and three species of fish. Threatened species include the albacore tuna, Everett's tree frog, black kite, Timor sparrow, shirt-toed eagle, Japanese sparrow eagle, and red-cheeked parrot.

## <sup>6</sup> POPULATION

The population of East Timor in 2005 was estimated by the United Nations (UN) at 947,000, which placed it at number 153 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 41% of the population under 15 years of age. There were 108 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.7%, a rate the government viewed as satisfactory. The projected popula-

tion for the year 2025 was 1,938,000. The population density was 64 per sq km (165 per sq mi).

The UN estimated that 8% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 4.22%. The capital city, Dili, had a population of 49,000 in that year.

## **7 MIGRATION**

“Timor” may be the Malay word for “Orient,” but East Timor’s people betray a long procession of migrations from the west, north, and east. The Portuguese arrived on the island in the early 16th century. At the end of 2002, there were approximately 30,000 East Timorese refugees living in settlements in the west Timorese countryside. By late 2004 there were 448 individuals who were of concern to the United Nations High Commissioner for Refugees (UNHCR); there were also 221 refugees in East Timor. There were zero migrants per 1,000 population in 2005.

## **8 ETHNIC GROUPS**

Historically the ethnic population was largely defined by the Atoni and the more dominant Belu, which was a blend of Malay, Melanesian, and Austronesian peoples who were fluent in the Tetum language. At independence in 2002, the approximate ethnic divisions in the population were as follows: 78% Timorese, 20% Indonesian, and 2% Chinese.

## **9 LANGUAGES**

In addition to Tetum, there are about 15 other indigenous languages spoken within East Timor. Tetum, Galoli, Mambai, and Tokodede are classified as Austronesian languages, while Bunak, Kemak, Makassai, Dagada, Idate, Kairui, Nidiki, and Baikenu are the non-Austronesian tongues. Tetum and Portuguese are official languages. Indonesian and English are also prominent.

## **10 RELIGIONS**

The last available figures on religion were collected in 1992 (before independence), at which time the population was 90% Roman Catholic, 4% Muslim, 3% Protestant, 0.5% Hindu, and an undetermined number, Buddhist. As of 2004, the dominant religion still appeared to be Catholicism; however, it is believed that a number of registered Catholics actually practice traditional animism, a religious category that had not been officially recognized by the Indonesian government. The largest Protestant group was the Assembly of God.

The new government has generally respected the regulations for freedom of religion that were established by the United Nations Transitional Administration in East Timor (UNTAET). Though public opinion had leaned toward making Catholicism the national religion, the presiding bishop, Carlos Filipe Ximenes Belo (a Nobel Peace Prize laureate), encouraged members of the Constituent Assembly not to make such a designation. The 2002 constitution instead provides for the freedom of conscience, religion, and worship and this right is generally respected in practice. Religious organizations must register with the Ministry of Interior if most or all of their members are foreigners. Due to past associations with Indonesian occupation groups, some Muslim and Protestant minorities have reported social harassment.

## **11 TRANSPORTATION**

Rebuilding the transportation infrastructure has been a key concern for the nation. As of 2002, there were no railways reported. Highways stretched across about 3,800 km (2,361 mi), but only about 428 km (266 mi) were paved, and these roads were poorly maintained. Driving accidents are frequent due to poor road conditions, lack of illumination, and the absence of required driving permits. Roads are widely shared by pedestrians and vendors, especially in city areas. Taxis, small buses, and minivans provide public transportation, but the system is generally overcrowded and not reliable.

There were eight airports operating in 2004, but only three had paved runways. There were also nine heliports (as of 2005).

## **12 HISTORY**

Since the 1500s, the island of Timor and its lush offering of sandalwood lured both Portuguese and Dutch explorers, who contested for the territory until an official territorial division was determined through the *Sentenca Arbitral* in April 1913. Unlike the Dutch, Portugal’s sphere of influence was concentrated in the local leadership of the East Timorese *liurai rei*—rulers, chieftains, and biracial families known as the “Black Portuguese” who were of mixed Timorese and Portuguese descent. While Portugal’s colonial hold on East Timor failed to avail the local population of educational and general advancement opportunities, even leaving the island with barely 30 km (19 km) of paved asphalt road, its detachment enabled the East Timorese cultural identity to remain largely intact and unscathed by modernity.

Ironically, efforts to crush the East Timorese are not traced to the Portuguese, but to the Indonesian people and their brutal tactics for integration following Portugal’s exodus from the island. When the “Carnation Revolution” of April 1974 in Portugal prompted the demise of nearly 50 years of dictatorship, the decolonization of East Timor, among Portugal’s other colonies, seemed a favorable consequence. By the start of May 1974 three political parties surfaced within the island: the Apodeast Timori (Timorese Democratic People’s Union), largely a device of the Indonesian government that advocated that East Timor be integrated into Indonesia; the UDT (Democratic Union of Timor), advocating a progressive process of autonomy under Portugal; and the ASDT (Timorese Social Democratic Association), which later became the left-wing independence movement Fretilin (Revolutionary Front for an Independent East Timor), advocating the island’s total independence.

The subsequent union and mounting popularity of UDT and Fretilin by January 1975 proved threatening enough to the Indonesian government that President Suharto, whose integrationist stance was already endorsed by the United States, Australia, Japan, and other nations, justified his military intervention in East Timor through the “Operasi Komodo.” Authored by the president’s intelligence advisor Ali Moertopo (1924–84), Operasi Komodo essentially slandered Fretilin, asserting that the party was secretly Communist and serving to splinter its alliance with the UDT by May. Consequently, on 6 June 1975, Indonesia already occupied the Oecussi-Ambeno enclave under the guise of restoring order in East Timor, which had not endured any form of foreign occu-

pation, with the exception of a brief but brutal occupation by the Japanese during World War II (1939–34).

Despite Indonesian presence and pressure within East Timor, Fretilin still gained 55% of the popular vote in local elections on 29 July 1975. Thus again threatened, Indonesia manipulated the UDT to counter Portuguese authority and Fretilin's influence through a coup staged 11 August–24 September 1975. However, the coup against Fretilin failed; in fact, Fretilin instead gained control of the entire East Timorese territory and launched humanitarian advancements (in education, medical treatment, and local decision-making) that had been historically denied to the islanders. Still, reports generated by the US Central Intelligence Agency discerned Indonesian infiltration and fighting within East Timor and around its borders mid-September–October 1975. After capturing the violence on videotape, four foreign journalists were executed by Indonesian militia on 17 October 1975, and tension between pro- and anti-independence forces was heightened. On 28 November 1975, Fretilin's formal assertion of an independent state of East Timor was answered the very next day by Moertopo's "petition" for the integration of East Timor into Indonesia through the "Balibo" Declaration, which UDT leaders were forced to sign.

On 7 December 1975, only one day after a visit to Jakarta by President Gerald Ford and Secretary of State Henry Kissinger of the United States, Indonesia deployed 10,000 troops—by sea, air, and land—into Dili, after an already devastating naval and aerial bombardment led by General Benny Murdani. Within days of an invasion marked by public torture, rape, and the random killing of mass civilians, Portuguese governor Mario Lemos Pire and his remaining administration made a covert and final exodus during the night to the island of Atauro, marking the end of over 460 years of colonization, without decolonization achieved. On 17 July 1976, Indonesia claimed East Timor its 27th province, despite condemnation from the United Nations (UN). Indonesia kept up full-scale attacks through March 1979 through weaponry largely supplied by the United States under the administration of President Jimmy Carter. Within a year of the attack, an estimated 60,000 East Timorese had been killed, while tens of thousands sought refuge from the Armed Forces of the Republic of Indonesia (ABRI) in the rugged mountainous interior of East Timor, where Fretilin guerrilla forces remained; others were forced into Indonesian resettlement camps, where disease, malnutrition, and death were rampant. The island was relegated to a "closed colony" status by the military from December 1975 through 1 January 1989.

It has been estimated that some 250,000 were killed since 1975 when warfare seized the island. Mass terror and killings were widespread, including 1,000 in Aitana in July 1981, 400 in Lacluta in September 1981, and, finally securing international attention, some 270 during the Santa Cruz massacre of 12 November 1991, in which peaceful mourners and demonstrators were killed by Indonesian troops' open fire in a cemetery in Dili. While Indonesia experienced a shift in leadership with the forced resignation of President Suharto in 1997 and rise to power of his vice president, B. J. Habibie, East Timor endorsed Fretilin leader José Alexandre "Xanana" Gusmão, then the president of the National Council of Timorese Resistance (CNRT). Their continued resistance against military occupation and terror, coupled with heightened international scrutiny of the atrocities within the island, may



LOCATION: 8° 50' S, 125° 55' E. BOUNDARY LENGTHS: Indonesia, 228 km (142 mi). COASTLINE: 706 km (439 mi).

have prompted Habibie in January 1999 to extend the choice to East Timorese citizens: autonomy under Indonesian rule or outright independence. An overwhelming 99% of eligible voters were present during the 30 August 1999 referendum, which secured the vote for independence.

However, postelection violence and killings led by pro-Indonesian militias and the army killed more than 1,000 people and drove some 250,000 from East Timor. This was a dark reminder of East Timor's subjugation to the Indonesian military, which has long remained the source of ultimate government authority. Following a unanimous decision on 25 October 1999 by the UN Security Council, East Timor was governed by the UN Transitional Administration in East Timor (UNTAET) and the National Consultative Council (originally formed by 15 East Timorese whose representation was later increased to 33), with the mission to rebuild the island and establish a new government by the close of 2001. In September 2001, a Constituent Assembly was elected and given with the task of writing a constitution for East Timor. In April 2002, José Alexandre "Xanana" Gusmão defeated Xavier do Amaral for the presidency, and on 20 May 2002 East Timor became an independent nation. A successor mission to UNTAET, the United Nations Mission of Support in East Timor (UNMISSET) was established to provide assistance to East Timor over a period 12 months, especially in matters of law enforcement and security. East Timor became the 191st UN member state on 27 September 2002.

Indonesia's attempts to bring to justice those responsible for the 1999 violence in East Timor were heavily criticized. Under intense international pressure, Indonesia set up a special human rights court to try those responsible for the violence. The court's

record—in both investigating the involvement of Indonesia's most senior security officials and its apparent willingness to acquit others with what was considered to be overwhelming evidence—was condemned. The court indicted 18 suspects for atrocities in East Timor, but only one conviction stood. A "Truth and Friendship Commission" was also formed by East Timor and Indonesia as a way to promote fact-finding about the 1999 human rights violations, and to achieve reconciliation. But the commission had no power of prosecution and was considered a diversion from the need for actual accountability.

Bishop Carlos Ximenes Belo, who shared the Nobel Peace Prize with José Ramos Horta in 1996, announced his resignation in November 2002. He won the prize for his stand in defense of Timorese rights. In 1999, militia gangs attacked and burned his residence where hundreds of refugees were being sheltered. In December 2002, the Indonesian human rights court sentenced the first Indonesian military official convicted in the 1999 violence for failing to prevent pro-Indonesian militiamen from attacking Belo's home. The official, Lt. Col. Soedjarwo, was sentenced to five years in prison.

Disputes between Australia and Indonesia over parts of the oil and gas-rich seabed of the Timor Sea led to the signing of the 1989 Timor Gap Treaty, which specified a 50–50 split of the royalties from the shared zone of undersea exploration between Australia and Indonesia. In May 2002, the treaty was renegotiated, and newly independent East Timor was granted 90% of the royalties, with Australia receiving 10%. However, the terms of the agreement were conditional on East Timor foregoing its territorial claim to almost the entire oil and gas field. Foreign officials estimated a potential revenue flow of several tens of millions of dollars a year to East Timor. In 2005 the Timor Gap fields were considered to be a source of tension, with East Timor's government accusing Australia of cutting humanitarian aid as a way to pressure East Timor into acceding to its contract terms.

In spring and early summer 2006, violence spread across Dili, driving an estimated 100,000 residents to flee to villages in the countryside. The unrest, triggered when striking military were dismissed by the government in March 2006, was undermining peace in the young nation, whose economy and government were struggling to maintain order.

### **13 GOVERNMENT**

A parliamentary system of government with a largely ceremonial president was established in 2001. In the elections for the Constituent Assembly held 30 August 2001, Fretilin took 55 of the 88 seats. Twenty-three of the candidates, or 27% of the total, were women. The assembly was charged with drafting a constitution for East Timor. On 22 March 2002, the Constituent Assembly approved East Timor's constitution, which was modeled largely on that of Portugal, although the German and US constitutions were consulted as well. Key components of the constitution include a ban on the death penalty, and the provision for fundamental political rights and civil liberties, including due process rights.

The Constituent Assembly was transformed into the National Legislative Assembly, or National Parliament, in May 2002. The unicameral National Legislative Assembly is composed of a minimum of 52 and a maximum of 65 members, serving five-year terms. Thirteen of the members are district representatives, cor-

responding to East Timor's 13 districts. For its first term of office, the parliament was comprised of 88 members on an exceptional basis.

The first presidential elections were held on 14 April 2002. José Alexandre "Xanana" Gusmão defeated Xavier do Amaral for the presidency, winning with 82.7% of the votes cast. Mari Alkatiri was chosen as East Timor's first prime minister. The next presidential election was scheduled to be held in April 2007. A Council of State advises the president. It is composed of former presidents who were not removed from office, the prime minister, the speaker of parliament, five members elected from parliament, and five members appointed by the president. A Council of Ministers is comprised of the prime minister, any deputy prime ministers, and the ministers of state. East Timor's Catholic Church led prolonged demonstrations in Dili during 2005, resulting in the signing of an agreement on social issues by the government.

### **14 POLITICAL PARTIES**

There were 16 registered parties for the Constituent Assembly elections held in August 2001. Fretilin won 57.37% of the national votes and elected 12 of the 13 district representatives. The 12 parties represented in East Timor's first 88-member Parliament were: Fretilin (Revolutionary Front of Independent East Timor), 55 seats; the Democratic Party (PD), 7 seats; the Social Democratic Party (PSD) and the Social Democratic Association of Timor (ASDT), 6 seats each; the Democratic Union of Timor (UDT), the Christian Democratic Party (PDC), the People's Party of Timor (PPT), the Nationalist Party of Timor (PNT), and the Timorese Monarchist Association also called Sons of the Mountain Warriors (KOTA), 2 seats each; the Liberal Party (PL), the Christian Democratic Party of Timor (UDC/PDC), the Socialist Party of Timor (PST), and an independent candidate, 1 seat each. Other parties include the Maubere Democratic Party (PDM) and the Timor Labor Party (PTT). The Popular Council for the Defense of the Democratic Republic of East Timor (CPD-RDTL) and Kolimau 2000 are opposition organizations.

### **15 LOCAL GOVERNMENT**

East Timor is divided into 13 districts: Aileu, Ainaro, Baucau, Bobonaro, Covalima, Dili, Ermera, Lautem, Liquiçá, Manatuto, Manufahi, Oecussi, and Viqueque. The districts are further divided into 68 postos (sub-districts). A posto is further divided into sucos, or clusters of villages. There are approximately 500 sucos in the country. Sucos are divided into aldeias (villages); there are approximately 2,100 aldeias in East Timor. Local elections were held throughout East Timor in 2004 and 2005.

### **16 JUDICIAL SYSTEM**

A Ministry of Justice was established in East Timor to guarantee an independent and impartial judiciary. A department of judicial affairs is responsible for the recruitment, appointment, and training of judges, prosecutors and public defenders. The Supreme Court of Justice is the highest court in the nation, with the power of judicial review. Other courts include a High Administrative, Tax, and Audit Court; military courts; and maritime and arbitration courts.

In March 2000, the UN Transitional Administration in East Timor (UNTAET) created a civil law court system with 13 dis-

district courts and one national Court of Appeal. The law later was amended to include a court system of only four district courts and one national Court of Appeal. The four district courts are located in Dili, Baucau, Suai, and the Oecussi enclave. The district courts have jurisdiction over criminal and noncriminal offenses referred to as “ordinary crimes,” whereas special panels within the Dili district court have exclusive jurisdiction over “serious criminal offenses.”

The judicial system was considered the weakest government function in East Timor after independence. A backlog of cases raised human rights concerns, as cases pending trial and appeal were unable to be heard within a reasonable amount of time. From 2004, civil laws based on Portuguese codes began to supplant the UNTAET legal framework. Portuguese and Tetum became the official languages of the court system.

## **17 ARMED FORCES**

In January 2001, East Timor’s armed forces began training, with the goal of deploying 1,500 active military personnel and an additional 1,500 reservists into two infantry battalions. As of 2005, East Timor had an army of 1,250 personnel, including 30 women. There was also a 36-member naval element. Basic training for the first group of recruits was aided by Portugal, with special training programs aided by Australia. In April 2002, UN peacekeeping forces totaled about 6,200 members from 20 countries. The number of UN forces was expected to decline as the government and the UN continued to make arrangements for national security, although it appeared that UN troops would be needed again in May–June 2006 to quell factional violence. As of 2005, the number of UN troops had fallen to 181 personnel from 9 countries. The general military age is 18–21 years old. Both male and female recruits have been accepted. Military expenditures for 2003 were estimated to be at about \$4.4 million.

## **18 INTERNATIONAL COOPERATION**

East Timor joined the United Nations in September 2002; it has participated in the FAO, the World Bank, IFAD, the IFC, ILO, IMF, UNESCO, UNIDO, and WHO. The nation is also a member of the ACP Group, the Asian Development Bank, and G-77. It became a member of the ASEAN Regional Forum (ARF) in July 2005 and is applying for observer status in ASEAN. The United Nations Mission of Support in East Timor (UNMISSET) was established in May 2002 to provide assistance in public security and law enforcement while the country establishes political stability following independence from Indonesia; 16 countries have offered support for the mission.

## **19 ECONOMY**

As a result of the postindependence referendum violence in 1999 led by Indonesian troops and anti-independence militias, approximately 70% of the economic infrastructure was devastated and some 250,000 people moved into West Timor. Reconstruction efforts undertaken by the UN Transitional Administration in East Timor (UNTAET) improved both urban and rural areas. Agriculture remained the main source of income in most of the country’s villages, with only a small percentage of people selling a significant proportion of their rice or maize harvest. During 2000–01, the agriculture sector expanded, due to a rebuilding of seed stocks

and irrigation systems, improved access to fertilizer and transportation, a reduced threat of violence, and high demand resulting from the large international presence in the country. The services sector also registered strong growth in 2000–01 in order to meet the needs of the international staff and reconstruction efforts. After mid-2002, however, growth was held back as a result of the winding-down of the international presence and of a drought in 2003. As of 2004, however, GDP growth had recovered somewhat (1%). During the Indonesian occupation, tourism was not a large industry, but there is a great potential growth in this area. The East Timorese economy stands to benefit in the long term from the development of the oil- and gas-rich seabed of the Timor Sea.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reported that in 2005 East Timor’s gross domestic product (GDP) was estimated at \$370.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$400. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2004 was 1.8%. It was estimated that agriculture accounted for 25.4% of GDP, industry 17.2%, and services 57.4%.

It was estimated that in 2003 about 42% of the population had incomes below the poverty line.

## **21 LABOR**

The labor force in 1998 was 397,131. Subsistence agriculture accounted for three-fourths of employment. The unemployment rate, including underemployment, stood at approximately 50% in 2002.

In 2004, official registration procedures for employer organizations and trade unions were established. As of 2005, workers were permitted to form and join labor organizations without getting prior approval; they were also allowed to engage in collective bargaining. However, inexperience and a lack of organizational and negotiating skills have hampered attempts at organizing workers and at making them aware of their rights.

Children under the age of 18 are generally prohibited from working, but there are exceptions for minors between the ages of 15 and 18, and even for those under 15.

Although there is no legal minimum wage rate, a monthly wage rate of \$85 was used by employers and employees as a minimum standard. The standard legal workweek was put at 40 hours per week, and included standard benefits such as days off, overtime, and health and safety standards.

## **22 AGRICULTURE**

As of 2003, there are only about 190,000 hectares (469,000 acres) of arable land and permanent crops in East Timor, or about 12.8% of the land area. With generally poor and shallow soil, steep terrain, and an unreliable climate, most farming was at a subsistence level. The farming system was based on slash-and-burn. In the north and a few fertile areas of the south, maize, cassava, cowpeas, and sweet potatoes are primary crops. Rice is cultivated in lowlands with the help of irrigation systems. The main harvest for maize occurs from February through April. The main harvest for

rice occurs from May through September in the north and from August through November in the south. Other agricultural products include soybeans, cabbage, mangoes, bananas, vanilla, mung beans, taro (swamp and upland), onions, peanuts, sago, coconuts, and tobacco.

Coffee serves as an important cash crop, with over 60% of the country's organic coffee being produced in the Ermera district. Bobanaro, Oecussi, Viqueque, and Baucau are the most important food producing districts. In 2003, agriculture accounted for about 25% of the GDP.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

Most livestock production is based on household farms, with larger animals kept primarily for household use and consumption, while pigs and smaller animals are sold for cash. Although there are some large herds of cattle, buffalo, sheep, and goats, most farms keep smaller numbers of a variety of animals. In 2005, the estimated livestock populations were: 80,000 goats, 25,000 sheep, 360,000 pigs, 2.2 million chickens, 171,000 cattle, 100,000 buffalo, and 48,000 horses.

## **2<sup>4</sup> FISHING**

Coastal communities have historically relied on fishing as a main source of food and income, with catches that include large tuna, flying fish, coral reef fish, and deepwater snapper. The violence following independence caused serious damage and destruction to nearly 90% of the boats and gear of these communities, as well as to the onshore processing infrastructure. The industry was slowly moving toward recovery through the work of the Department of Fisheries and the Marine Environment (DFME) in the Ministry of Agriculture and Fisheries and with the help of various international volunteers and agencies. In 2003 officials from the DFME met with Australia's minister for primary industry and fisheries in Australia's Northern Territory to discuss training opportunities in tropical fisheries management.

Besides working to recover maritime fishing activities, the DFME was exploring options for inland hatcheries and freshwater fish production. One such project included breeding fish in rice fields.

In 2002, the DFME estimated that of the 20,000 fishermen in East Timor, over 50% were involved in fishing as their primary source of food and income. In 2003, the total catch was estimated at 350 tons.

## **2<sup>5</sup> FORESTRY**

Data from the government of Indonesia has shown the alarming trends of deforestation on the once forest-rich lands of East Timor. In 1975, about 50% of East Timor's land was primary and secondary forest. By 1989, the figure dropped to about 41% and by 1999, only 1% of the land was forested. Most of the deforestation was conducted under logging operations for teak, redwood, sandalwood, and mahogany for export. The use of wood as a primary fuel source has added to the problem of diminishing forests.

In 2000, the UN Transitional Administration in East Timor (UNTAET) issued Regulation 2000-17 to prohibit any logging operations that would include the export of logs, lumber, and/or

furniture from East Timor. Burning and destruction of remaining forests for any reason was also prohibited. The UN Development Program (UNDP) launched several programs to counter deforestation as well as begin reforestation. These included a nationwide seed propagation program to establish community nurseries and encourage replanting of forestlands, particularly on hillsides and in areas where erosion is a problem. There were also subsidy programs proposed to provide low-cost kerosene and cookers to rural residents in an effort to reduce dependency on wood as fuel.

## **2<sup>6</sup> MINING**

There are small deposits of gold, manganese, and copper throughout the nation, but not enough to be considered for major commercial industries. Marble is present in significant quantities, but it seems uncertain as to whether or not the exploitation of such deposits would have a significant impact on the country's economy in the near future.

## **2<sup>7</sup> ENERGY AND POWER**

East Timor's ability to develop its oil and gas reserves in the Timor Sea will greatly affect the economy. By 2003, the government planned to introduce a petroleum fund, designed to enhance transparency and accountability in the management of oil and gas revenues. A \$1.8 billion gas recycling project in the Bayu Undan offshore gas field began in April 2004; a \$1.2 billion liquid natural gas production operation began at Bauy Undan in February 2006. Revenues from that and other projects began to flow in 2006. Fossil fuels account for 100% of electricity production.

## **2<sup>8</sup> INDUSTRY**

Before the Indonesian invasion in 1975, East Timor was self-sufficient in food and enjoyed revenue from the coffee industry. The US Agency for International Development (USAID) was one organization supporting East Timor's coffee industry in the early 2000s, especially through Cooperative Coffee Timor (CCT). East Timor at that time was heavily dependent upon food aid, however, and the agriculture industry was in need of development. Other industries include printing, soap manufacturing, handicrafts, and woven cloth. In 2004, industry accounted for 17.2% of GDP. The industrial production growth rate in 2005 was an estimated 8.5%.

As of 2006, the development of oil and gas resources had begun to raise government revenues ahead of schedule and above expectations, largely due to high petroleum prices, although factional violence threatened to undermine the progress that had been made.

## **2<sup>9</sup> SCIENCE AND TECHNOLOGY**

There was no university in East Timor under the Portuguese. The Universitas Timor Timur (UNTIM) was established in 1986 under Indonesian rule. By 1998/99, it had nearly 4,000 students in three main faculties—agriculture, social and political sciences, and education and teacher training. The Indonesian government closed the UNTIM following the April 1999 demonstrations demanding an independence referendum. The Polytechnic in East Timor had technical courses based in Becora and at a campus in Hera; it provided courses in electrical and mechanical engineering, civil construction, and accounting. The education system was

a target for destruction by the Indonesian military and their militias. The UNTIM and Polytechnic buildings in Dili and Hera were looted and burned. A new university was established by former UNTIM and Polytechnic staff and students, without funding from UNTAET. In September 2000, the government allotted \$1.3 million to the university from East Timor's education budget. The National University of East Timor (Universidade Nacional Timor Lorosae—UNTL) opened for classes on 27 November 2000. There are five faculties: agriculture, political science, economics, education and teacher training, and engineering.

### **30 DOMESTIC TRADE**

Local businesses realized weak performance in the early 2000s, as they attempted to recover from violence that followed the referendum on independence. Traditional markets are filled by the local community, while foreign-owned businesses are largely patronized by the wealthy. In 2001, the World Bank launched a \$4.85 million small enterprises project, offering loans of \$500 to \$50,000 to East Timorese with viable business plans. The project also financed the delivery of business skills training to small and medium-sized enterprises.

### **31 FOREIGN TRADE**

Trade in East Timor is dominated by foodstuffs, construction materials, electronics, and clothing. Some 97% of manufactured goods are imported, with coffee being the sole significant export. Indonesia, Australia and Portugal are East Timor's principal trade partners. East Timor in the mid-2000s was seeking trade partners to develop its oil and gas reserves, among them China and Malaysia. Coffee is exported to the United States, Australia, New Zealand, Italy, and the Netherlands, among other countries.

### **32 BALANCE OF PAYMENTS**

The external current account was in large deficit by 2003 (-\$230 million), resulting in large measure from imports associated with donor-assisted reconstruction activities. The deficit was more than financed by official transfers, however, and, inclusive of these transfers, the external current account was in surplus (\$37 million). In 2005, the CIA estimated exports at \$10 million, excluding oil, and imports at \$202 million in 2004. Development assistance during the 1990s totaled \$81 million, increasing from \$1 million in 1989 to more than \$12 million in 1999. As of 2002, East Timor was receiving \$2.2 billion in economic aid.

### **33 BANKING AND SECURITIES**

The finance sector is small, with a limited central bank role played by the Banking and Payments Authority (formerly the Central Payments Office). There are two operating branch offices of overseas banks (the ANZ Banking Group and the Banco Nacional Ultramarino) and informal lenders comprise the remainder of the finance sector.

### **34 INSURANCE**

It is possible to obtain insurance for vehicles in East Timor, although virtually no one does so. Most individuals involved in traf-

fic accidents settle them informally. Third-party motor vehicle insurance is unavailable. Information on life or other forms of insurance was unavailable as of mid-2006.

### **35 PUBLIC FINANCE**

The US Central Intelligence Agency (CIA) estimated that in 2004 central government took in revenues of approximately \$107.7 million and had expenditures of \$73 million. Revenues minus expenditures totaled approximately \$34.7 million.

### **36 TAXATION**

In 2000, the UN Transitional Administration in East Timor (UNTAET) issued a Revenue System for East Timor, providing the basis for a tax regime. It largely adopted the Indonesian income tax law with some modifications. East Timor's tax system is designed to tax business profits and designated passive income. Business profits include capital gains. Passive income includes interest, royalties, and rental and dividend income. The standard income tax rates for resident companies and individuals are 10% on the first \$3,368; 15% on the next \$3,368; and 30% on income over \$6,737.

Employment-related income initially was not subject to income tax; however, a wage income tax (WIT) was levied for wages received on or after 1 January 2001. WIT applies to employment-related remuneration only, as opposed to general personal income. WIT is due as follows: the rate is 0% on monthly salaries of \$0 to \$100; 10% on monthly salaries of \$101 to \$650; and 30% on monthly salaries of \$651 or more.

### **37 CUSTOMS AND DUTIES**

Excise taxes are imposed on the import or domestic production (but not both) of certain goods. Goods are exempt from excise taxes if they are exported from East Timor within 28 days of production and are exempt from import duty, or if they relate to the Timor Gap Agreement. Goods subject to excise taxes included (but are not restricted to) the following: confectionery, fruit juices, ice cream, soft drinks, tobacco, gasoline, diesel fuel, beer, wine, other alcohol, make-up, shampoos, toiletries, electrical goods, mobile phones, televisions, automobiles, motorcycles, and arms and ammunition.

As of 2001, all imported goods were subject to an import duty of 5% of the customs value (CIF value).

### **38 FOREIGN INVESTMENT**

Most foreign investment was from Singapore and Australia, and was centered in the hotel and restaurant business, the importation of used cars, and construction. The government encouraged foreign investment in light industries such as textile, garment, and shoe factories. Fishing and ecotourism also have potential for foreign investment (East Timor has some of the best scuba diving in Asia). Rudimentary infrastructure and a lack of skilled labor hamper investment. Investors have few guarantees regarding property rights, insurance, or bankruptcy. The labor law also serves to inhibit foreign investment because it is difficult for employers to fire

East Timorese workers, and businesses are prohibited from hiring replacement employees during a strike.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Although East Timor was expected to rely upon significant amounts of foreign aid in the mid-2000s, it was on the path to greater self-reliance. In the context of a reduced international presence, the government was improving its administrative capacity and taking steps toward nation-building in accordance with its National Development Plan (NDP). The country stood to benefit from the development of oil and gas reserves in the Timor Sea, which were expected to sharply increase government revenues. The NDP covering the fiscal years 2002/03–06/07 set out certain objectives, including the attainment of 5% growth in GDP over the medium term and the alleviation of poverty. The government indicated the need to develop the private sector and build up local institutions in addition to maintaining a stable macroeconomic environment. Other NDP goals included promoting good governance and creating jobs. The high-technology oil and gas industry, while providing much-needed income, does little to create jobs for the unemployed. In 2005, the parliament approved the creation of a Petroleum Fund to serve as a repository for all petroleum revenues and preserve the value of the country's petroleum wealth for future generations. The eruption of violence in mid-2006, which observers hope would be temporary, halted economic progress.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

As of 2003, humanitarian concerns remained at the forefront of social development in East Timor. The rehabilitation of roads was providing access to rural areas that otherwise would have remained isolated. Electricity was being brought to rural areas, which would increase the potential for social benefits. Water-supply projects improved access to safe water, and freed women and children from the task of collecting water. Increased emphasis was being placed upon nutrition and health programs. Market vendor loans were being granted equally to men and women, but certain group loans were disproportionately awarded to women. These loans were geared to support employment on farms and in households and small trading businesses.

Some customary practices continue to discriminate against women, especially in remote villages. Domestic abuse and violence is a problem exacerbated by the failure of officials to investigate or prosecute. East Timorese women under Indonesian occupation were systematically raped, tortured, and imprisoned as sex slaves, and the process of recovery from that period was ongoing.

East Timor's constitution includes important human rights protections, including the right to a fair trial, criminal due process, freedom of expression, freedom of association, and freedom of religion. The constitution forbids the death penalty and life imprisonment, and includes the right to be free from torture, servitude, and cruel or degrading treatment. However, problems relating to the criminal justice system, including lengthy pretrial detentions and abuse of authority, remained unresolved as of 2006. In addition, the status of refugees wishing to return but fearful of reprisal remained unclear.

### **4<sup>1</sup> HEALTH**

A large number of health centers and hospitals were severely damaged or destroyed due to independence-related violence. The new nation also found itself lacking medical professionals, since the vast majority of health workers were Indonesian nationals who left the area. Postindependence, most health care has been provided by international nongovernmental organizations (NGOs) under the general direction of the Division of Health Services, which works in cooperation with the World Health Organization (WHO) to develop healthcare policies and coordinate services throughout the country.

Health care was provided by 15 international NGOs, 6 local NGOs, 23 religious organizations, 4 military groups, and 2 private/business agencies. There were two hospitals operating in Dili and one in Baucau. In 2001, a program of District Health Plans included 64 community health centers, 88 health posts, and 117 mobile clinics. There is a laboratory in Dili. There were an estimated 2,000 health workers in the country, including 28 East Timorese doctors.

Estimates suggest that the 2005 life expectancy rate was 65.90. The same year, infant mortality was estimated at 47.41 deaths per 1,000 live births. The fertility rate was estimated at 3.88 children born per woman. The birth rate was estimated at 28.07 births per 1,000 people. The most common causes of infant deaths have been infections, prematurity, and birth trauma. It was further estimated that 125 out of 1,000 children died before the age of five. In 2001, maternal mortality was estimated at 890 per 100,000 live births, with the most common cause of death being severe postpartum bleeding.

In 2000, the World Health Organization reported that 3–4% of all children ages six months to five years were acutely malnourished and 20% were chronically malnourished. Intestinal parasitic infections affect about 80% of all children. Other common childhood illnesses include acute respiratory diseases, diarrheal conditions, malaria, and dengue fever. An immunization program was reinstated in March 2000, which included a special campaign to immunize 45,000 children against measles. In November and December 2000, a nationwide polio immunization campaign reached about 84% of the population.

Endemic diseases include malaria, leprosy, and lymphatic filariasis. Tuberculosis is a major problem as well, affecting over 8,000 people as of 2000. Sexually transmitted diseases are prevalent. The major causes of death are communicable diseases (60%), noncommunicable diseases, chronic diseases, traffic accidents, and others.

### **4<sup>2</sup> HOUSING**

Housing has been a serious problem since independence. Nearly 85,000 houses (about 70% of the nation's entire housing stock) were destroyed by the Indonesian military in September 1999. Though the UN Transitional Administration in East Timor (UNTAET) and a number of international aid organizations responded quickly with temporary shelter kits, rebuilding of permanent housing has been slow and property ownership disputes have not been fully addressed.

Tens of thousands of residents fled the country during the violence and those who remained sought shelter in abandoned

homes. As property owners returned to their homes, many found occupants claiming ownership and unwilling to leave. Some occupants have demanded large payments from the owners for “house-sitting” or “improvements” made to the homes in the owner’s absence. Through a proposed Land and Property Commission, it has been generally recognized that the original owners or tenants of a property have the right to eventual restitution and reoccupancy, but administration and enforcement of such rights has been a low priority as the government struggled to rebuild an entire nation and care for the emergency needs of its people.

As of 2006, it was still difficult to estimate housing demand. Besides the vast number of those within the country who have been left homeless and/or with inadequate shelter and facilities, there were (as of the close of 2002) thousands of East Timorese refugees waiting to return from the West Timor territory and Australia.

In urban areas such as Dili, Bacau, and Alieu, homes have been typically built from concrete. A majority of the population lives in rural areas with homes made from bamboo, wood, and thatch.

### 43 EDUCATION

Over 90% of all school buildings were severely damaged or destroyed by the Indonesian military and in the exodus of Indonesians out of East Timor, the nation lost 20% of its primary school teachers and 80% of secondary teachers, most of whom are not expected to return. UNICEF and other international aid organizations responded fairly quickly, however, reestablishing classes for 420 of the country’s 800 primary schools by December 1999 plus an additional 273 schools by April 2000.

In 2001, East Timor appointed its first minister of education. At the beginning of the 2001 academic year, there were about 240,000 primary and secondary school students enrolled in classes with over 700 primary schools, 100 junior secondary schools, 40 pre-schools, and 10 technical colleges. About 6,000 teachers were employed.

The education system includes six years of primary education and six years of secondary education. In 2000, the language of instruction was Indonesian, but this has been a subject of debate. Many are encouraging a switch to the national language of Tetum as a primary language with Portuguese and English as secondary languages.

The National University of East Timor (Universidade Nacional Timor Lorosae—UNTL) opened for classes on 27 November 2000 and had about 5,000 students in attendance in 2003. There are five faculties at the university: agriculture, political science, economics, education and teacher training, and engineering. All new students follow a course including human rights, ethics, philosophy of science, and Timorese history.

The literacy rate as of 2002 was 58.6% of the population ages 15 and over.

### 44 LIBRARIES AND MUSEUMS

As of 2002, it was proposed that a new National Library of East Timor would be established in the old Vila-Verde building, along with a National Archive. As of 2006, a progress report toward this initiative was unavailable. The new university, the Universidade Nacional Timor Lorosae (UNTL), was established in 2000 as an amalgamation of the UNTIM and the Polytechnic. The new UNTL library, housed in a former gymnasium, opened for stu-

dent access on 21 January 2002. A variety of Australian organizations have been raising funds to support the reconstruction of an East Timor public library system.

With assistance from UNESCO and the World Bank, work on a National Museum and Culture Center of East Timor began in late 1999, but at the time there were no artifacts to display and no one to administer the museum. The Japan International Cooperation Agency (JICA) providing training for the establishment of the museum. Following the renovation of the first wing of the museum, an exhibition of Timorese textiles and artifacts from the former national museum were to be held.

### 45 MEDIA

Telecommunication services, which were cut off by the Indonesian government, are being restored through the help of Australian companies, one of which had established a cellular telephone network service. International communication authorities have approved an individual country code (670) for East Timor.

As of 2004, there were two daily newspapers, three weeklies, and several bulletin-type newspapers with sporadic publication and circulation. These include the *Suara Timor Lorosae* (daily), *Timor Post* (daily), and *Jornal Nacional Semanario* (weekly).

The government-operated Public Broadcast Service (PBS) has a radio station with nationwide reception and a television station that broadcasts only in Dili and Baucau. There were 16 community radio stations, with at least one in each district. The new constitution provides for the freedom of speech and press and the government generally respects these rights in practice. In 2005, there were an estimated 1,000 Internet users, with approximately 200 Internet service providers. In January 2005, the country’s domain name extension was officially changed from .tp to .tl.

### 46 ORGANIZATIONS

Student organizations in East Timor were influential in the nation’s independence campaign and have continued to speak out for civil rights. The National Student Resistance of East Timor (Resistencia Nacional Dos Estudantes De Timor Leste) began in 1988 as an underground organization of Indonesian university students. The East Timor Students Solidarity Council originated in 1998 at the National University of East Timor. It has since set up regional groups throughout the country to represent the views of university and high school students and faculty. Catholic youth organizations have formed. There are also youth scouting groups active in the new nation.

There are a number of women’s groups, covering political, health, and social issues, including Rede Feto Timor Lorosae, which serves as a network of about 15 individual groups.

The Cooperative Coffee Timor (CCT) is a federation of Timorese-owned organic coffee cooperatives that has received aid and developmental support from USAID. The Chamber of Commerce of East Timor and the National Association of East Timor Entrepreneurs are two major business associations in good standing.

There is a national chapter of the Red Cross Society.

### 47 TOURISM, TRAVEL, AND RECREATION

Tourism is limited due to a lack of infrastructure and tourist facilities. There are at least 25 hotels in Dili; one of Dili’s 2 luxury ho-

tels is an anchored cruise ship. Scuba diving and whale- and dolphin-watching are tourist attractions, in addition to the country's beaches. The northern coast features white sand beaches, while the southern coast is rocky with occasional black sand beaches. There are elaborate intact coral reefs, populated by over 1,000 aquatic species. East Timor's colonial towns and rugged mountains are also popular with visitors.

Passports are required. Visas may be obtained upon arrival for a fee, and are valid for 30 days. A certificate of vaccination against yellow fever is required if traveling from an infected area.

In 2005, the US Department of State estimated the daily cost of staying in East Timor at us\$165.

#### **48 FAMOUS EAST TIMORESE**

Martinho da Costa Lopes (1918–1991) was a Timorese priest with close ties to the Portuguese colonial government and an early advocate for the Timorese people. In 1996, exiled pro-independence leader José Ramos-Horta (b.1949) and Bishop Carlos Filipe Ximenes Belo (b.1948) shared the Nobel Peace Prize. Bishop Belo was the highest representative of the Roman Catholic Church in predominantly Catholic East Timor, and was a strong advocate of nonviolent resistance. Ramos-Horta served as the UN representative for the East Timorese cause from 1976–89. José Alexandre “Xanana” Gusmão (b.1946) was a former Falintil (Armed Forces of National Liberation of East Timor) and Fretilin (Revolutionary Front for an Independent East Timor) guerrilla leader and East Timor's first president. He was imprisoned by the Indonesian army in 1992 and released in 1999. He was elected president in April 2002.

#### **49 DEPENDENCIES**

East Timor has no territories or colonies.

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# FIJI

Republic of Fiji

**CAPITAL:** Suva

**FLAG:** The national flag of Fiji consists of the red, white, and blue Union Jack in the upper left corner of a light blue field, with the Fiji shield centered on the right side.

**ANTHEM:** *God Bless Fiji.*

**MONETARY UNIT:** The Fiji dollar (F\$) of 100 cents is the national currency. There are coins of 1, 2, 5, 10, 20, and 50 cents, and notes of 1, 2, 5, 10, and 20 Fiji dollars. F\$1 = US\$0.57700 (or US\$1 = F\$1.7331) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is official, but some British weights and measures are still in use.

**HOLIDAYS:** New Year's Day, 1 January; Constitution Day, 24 July; Independence Day, 10 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, Dewali, and Milad an-Nabi.

**TIME:** 12 midnight = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Fiji, situated in the South Pacific about 4,450 km (2,765 mi) sw of Hawaii and 1,770 km (1,100 mi) n of New Zealand, comprises some 850 islands, of which only about 100 are inhabited. The island of Rotuma, added to Fiji in 1881, is geographically separate from the main archipelago and has an area of 44 sq km (17 sq mi). The total area (including Rotuma) is 18,270 sq km (7,054 sq mi). Comparatively, the area occupied by Fiji is slightly smaller than the state of New Jersey. Fiji (not including Rotuma) extends 595 km (370 mi) SE–NW and 454 km (282 mi) NE–SW. The largest islands are Viti Levu, with an area of 10,386 sq km (4,010 sq mi), and Vanua Levu, with 5,535 sq km (2,137 sq mi). Fiji's total coastline is 1,129 km (702 mi).

Fiji's capital city, Suva, is located on the island of Viti Levu.

## <sup>2</sup>TOPOGRAPHY

The larger Fiji islands are volcanic, with rugged peaks and flatland where rivers have built deltas. Coral reefs surround the islands. Viti Levu's highest point, Tomanivi, is 1,323 m (4,340 ft). About 28 other peaks are over 910 m (3,000 ft). The lowest point is at sea level (Pacific Ocean). The main river, the Rewa, is about 150 km (95 mi) long, but only navigable by small boats for 113 km (70 mi).

## <sup>3</sup>CLIMATE

Temperatures at sea level range from 20–29°C (68–85°F); easterly trade winds blow during the greater part of the year. Annual rainfall is well distributed and averages 305 cm (120 in) in Suva. At sea level on the leeward sides of the islands there are well-defined wet and dry seasons, with a mean annual average of 178 cm (70 in) of rain.

The cyclone season, from November to April, brings storms that generally cause extensive property damage and loss of crops as well as numerous deaths.

## <sup>4</sup>FLORA AND FAUNA

The larger islands have forests on the windward side and grassland on the leeward slopes. Mangroves and coconut plantations fringe the coasts. Among indigenous fauna are bats, rats, snakes, frogs, lizards, and many species of birds. A red and white flowering plant called the tagimaucia is found only on the banks of the Tagimaucia River in the mountains of Taveuni island.

## <sup>5</sup>ENVIRONMENT

The main challenges to the environment in Fiji are deforestation, soil erosion, and pollution. Approximately 30% of Fiji's forests have been eliminated by commercial interests. The rainfall pattern, the location of agricultural areas, and inadequate agricultural methods contribute to the loss of valuable soils. Fiji is also concerned about rising sea levels attributed to global warming caused by the burning of fossil fuels in the industrial world.

The land and water supply are polluted by pesticides and chemicals used in the sugar and fish processing industries. The nation has about 6.9 cu mi of water with roughly 60% used for farming purposes and 20% used for industrial activity.

Fiji's natural environment is protected by the National Trust, which under the 1981–85 development plan began to establish national parks to conserve the island's unspoiled landscape, reefs, and waters, as well as indigenous flora and fauna. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 types of mammals, 13 species of birds, 6 types of reptiles, 1 species of amphibian, 8 species of fish, 2 types of mollusks, and 66 species of plants. Threatened species included the Fiji banded iguana and crested iguana, the Fiji petrel, the insular flying-fox, and the Samoan flying-fox. The bar-winged rail has become extinct.

## **6<sup>POPULATION</sup>**

The population of Fiji in 2005 was estimated by the United Nations (UN) at 842,000, which placed it at number 154 in population among the 193 nations of the world, but ranked it second (after Papua New Guinea) among the Pacific Island nations. In 2005, approximately 4% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.5%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 939,000. The population density was 46 per sq km (119 per sq mi), with about 70% of the population living on the island of Viti Levu.

The UN estimated that 46% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.11%. The capital city, Suva, had a population of 210,000 in that year.

## **7<sup>MIGRATION</sup>**

In the late 19th and early 20th centuries, about 50,000 Indian laborers arrived in the islands to work on sugar plantations. Recent immigrants have come from neighboring islands. There has been steady internal migration from rural to urban areas. There are no restrictions on emigration, and 40,000 have done so since 1987, following the coup. Most of these emigrants were professionals or Indo-Fijians. In 1996, it was estimated that Indians emigrated at a rate of between 4,000 and 5,000 a year. In 2002 Fiji received \$53 million in remittances.

In 2005 the net emigration rate was estimated as -3.04 migrants per 1,000 population.

## **8<sup>ETHNIC GROUPS</sup>**

The indigenous Fijian population is predominantly Melanesian, with a Polynesian admixture. The population was estimated to be 54% indigenous Fijian and 40% Indian. European, other Pacific Islanders, and overseas Chinese are the minorities.

## **9<sup>LANGUAGES</sup>**

English is the official language, but Fijian and Hindi are also used in Parliament. Fijian dialects belong to the Malayo-Polynesian language group; the Bau dialect is used throughout the archipelago except on Rotuma, where Rotuman is spoken. Hindustani (a local dialect of Hindi) is the lingua franca of the Indians of Fiji.

## **10<sup>RELIGIONS</sup>**

About 52% of Fijians are Christians, primarily Methodist (37%) and Roman Catholic (9%). About 33% of the people are Hindu and 7% are Muslim (Sunni). Religion tends to run along ethnic lines. Most of the indigenous Fijians are Christian while the Indians are Hindu or Muslim. Confucianism is practiced by a portion of the Chinese community.

The constitution provides for freedom of religion, and the government reportedly respects this right in practice. Though there is no state religion, the Methodist Church has been supported by a large number of the country's chiefs, leading to accusations that the government is leaning toward the establishment of a Chris-

tian state. Certain Christian, Muslim, and Hindu holidays are observed as national holidays.

## **11<sup>TRANSPORTATION</sup>**

During the late 1970s, Fiji completed a new highway between Suva and Nadi and constructed 885 km (550 mi) of rural roads. As of 2002, Fiji had 3,440 km (2,138 mi) of main roads, of which 1,692 km (1,051 mi) were paved. Registered vehicles numbered 128,350 in 2003, of which 76,000 were passenger cars and 52,350 commercial vehicles. A private rail system of about 597 km (371 mi) serves most of the sugar-producing areas. Major ports are Suva, Lautoka, and Levuka. In 2005, Fiji had seven merchant ships in service, of 1,000 GRT or over, with a capacity of 6,372 GRT. Inland waterways consist of 203 km (126 mi), of which 122 km (76 mi) are navigable by motorized craft and 200-ton barges. There were an estimated 28 airports in 2004, but only 3 had paved runways as of 2005. An international airport at Nadi serves regularly scheduled flights to neighboring Pacific islands, Australia, and New Zealand, via Air Pacific. Fiji Air provides domestic and charter service. In 2001 (the latest year for which data was available), 612,700 passengers were carried on scheduled domestic and international airline flights.

## **12<sup>HISTORY</sup>**

Voyagers from the east settled Fiji at least 2,500 years ago. Some of their descendants later moved on to settle the Polynesian islands to the west. The first known European contact came when the Dutch navigator Abel Tasman sighted the Fiji group in 1643. English Captain James Cook visited it in 1774, and Charles Wilkes headed a US expedition there for three months in 1840.

European sandalwood traders, army deserters, and shipwreck survivors also landed on the islands during the first half of the 19th century, a period in which the chiefs of Bau rose to a dominant position. Protestant missionaries from Tonga arrived in 1835, and French Catholic priests in 1844. After a few chiefs had been converted, more and more Fijians embraced Christianity, usually in the form of Wesleyan Methodism.

In the course of a civil war in the 1850s, Cakobau, the most powerful chief in Fiji, combined forces with the king of Tonga to become paramount chief of western Fiji. The growing presence of Europeans contributed to political and economic instability. In 1871, some 3,000 Europeans supported Cakobau's claim to rule as king of all Fiji, but unrest continued. Cakobau's government appealed to Britain for assistance and, on 10 October 1874, Fijian chiefs signed a Deed of Cession making Fiji a British Crown Colony.

From 1879 to 1916, more than 60,000 indentured laborers from India arrived to work on European-owned sugar plantations, and by 1920 they had settled as free farmers. European settlers were granted elective representation in the Legislative Council in 1904, and Indians were admitted in 1929. Ethnic Fijian representation was based on traditional hierarchies until 1963, when the council was reconstituted; the franchise was extended to women, and direct election of Fijian members was provided. In 1966, the council was enlarged and again reconstituted, and Fiji attained virtual internal self-government.

On 10 October 1970, Fiji became a sovereign and independent state within the Commonwealth of Nations, with Kamisese K. T.

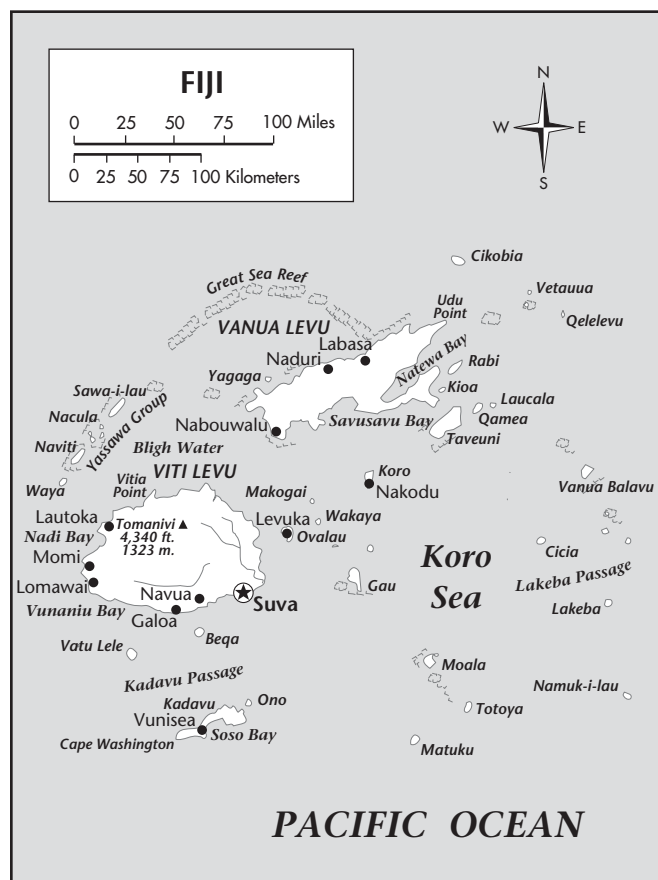
Mara, head of the Alliance Party, as prime minister. He and his majority party won elections in 1972, 1977, and 1982, but lost the April 1987 elections to a coalition of the Indian-based National Federation Party and the Labour Party. The new government was short-lived, however. Within a month, it was toppled by a military coup led by Lt. Col. Sitiveni Rabuka and aimed at restoring political leadership to ethnic Fijians. On 20 May thousands of rioting Fijians attacked Indians. Under a compromise reached the next day, the governor-general temporarily was to head the government, assisted by an 18-member advisory council, including the coup leader and former Prime Minister Mara. Elections were to be held within six months, and the council was to propose constitutional revisions that would safeguard the political dominance of indigenous Fijians.

On 25 September 1987, however, Rabuka led a second coup. He subsequently suspended the constitution, dissolved the parliament, and declared Fiji a republic. The governor-general, Ratu Sir Penaia Ganilau, was appointed president of the republic, and Mara was reappointed prime minister. Full civilian rule returned in January 1990 when Rabuka gave up his position as minister of home affairs and returned to barracks as head of the armed forces.

The second coup in 1987 and the adoption of the 1990 constitution, which favored ethnic Fijian control of the government, led to heavy Indian emigration, especially among those Indians with sufficient capital to move. This emigration caused serious economic difficulties for Fiji, but it also ensured that the native Fijian population became the majority. In May of 1992 the Soqosoqo ni Vakavulewa ni Taukei (SVT) or the Fijian Political Party, led by now Major-General Rabuka, won 30 of the 37 seats reserved for ethnic Fijians. Rabuka formed a coalition government with the General Voters Party (GVP) and with the informal support of the Fijian Labour Party (FLP), and became prime minister. After President Ganilau's death in December 1993, the Council of Chiefs elected Ratu Sir Kamisese Mara as the new president in January 1994. Rabuka's government fell in November 1993 when the legislature defeated the government's budget. New elections were held in February 1994. The SVT won 31 seats, and Rabuka was able to form a coalition government with the GVP. However, Rabuka's hold on power was tenuous as pressure mounted from within and outside the country for constitutional reform.

Beginning in 1995, a Constitutional Review Commission spent almost two years to develop a system that would avoid purely ethnic politics and, at the same time, take account of the concerns of the native Fijian community. Its recommendations were unanimously adopted by Parliament in July 1997. In 1999, parliamentary elections were held that resulted in a government led by Mahendra Chaudhry, leader of the Fiji Labour Party (FLP), who became the first Indian prime minister of Fiji.

On 19 May 2000, ethnic Fijian nationalist George Speight, a failed businessman and son of Sam Speight, an opposition member of Parliament, took Parliament by show of force and held Prime Minister Chaudhry and most of his multiracial cabinet hostage for 56 days. In exchange for the hostages' release, the military—which imposed martial law during the crisis—agreed to replace Chaudhry's government, grant an amnesty to the rebels taking part in the coup, and to abolish Fiji's multiracial constitution. One of Speight's demands was a new constitution that would permit only indigenous Fijians to hold the posts of prime minister



LOCATION: 15°43' to 21°2' S; 176°54' E to 178°28' W (not including Rotuma, which is at 12°30' S; 177°5' E). TERRITORIAL SEA LIMIT: 12 miles.

and president. The coup resulted in widespread civil unrest and attacks against ethnic Indians, and caused a drop of 41% in tourism. Speight and 369 of his supporters were arrested in July 2000, and the military installed ethnic Fijian Laisenia Qarase as prime minister in a caretaker government. He was charged with organizing Fiji's next general election and drawing up a new constitution. Fiji's Great Council of Chiefs appointed Ratu Josefa Iloilo—a former father-in-law of Speight's brother—president.

Eighteen political parties fielded 351 candidates for office in parliamentary elections held in August and September 2001. Qarase was elected prime minister as the head of his newly created party, the nationalist Soqoso Duavata ni Lewenivua Party (Fijian United Party or SDL), which took 32 out of 71 parliamentary seats. Qarase's campaign focused on indigenous Fijians' fears of political domination by ethnic Indians, who make up 44% of the population. Almost all ministers in Qarase's new government were indigenous Fijians. In February 2002, the Fijian Supreme Court ruled that Laisenia Qarase had to include ethnic-Indian members of the Fiji Labour Party in his cabinet.

Speight won a seat in Parliament while facing treason charges in court, but was later denied parliamentary status. He was originally sentenced to death for treason in February 2002, but the sentence was commuted to life imprisonment.

As of January 2003, more than 14,000 ethnic Indians had left the country since the May 2000 coup, mainly professionals and skilled workers. In May 2005 Prime Minister Qarase sought to

heal the wounds left by the coup with the release of the Promotion of Reconciliation, Tolerance, and Unity Bill 2005. This proposed legislation called for the creation of a Reconciliation and Unity Committee, which would undertake inquiries into human rights violations during the period from 19 May 2000 to 15 March 2001, and a National Council on Reconciliation, Tolerance, and Unity. The goals of this act were based upon restorative rather than retributive justice, and included granting both amnesty and reparations. The bill was met with controversy, particularly in regards to the offering of amnesty to those convicted of complicity in the 2000 coup. In October 2005 the bill was still under parliamentary review. Prime Minister Qarase pledged to modify the amnesty clause in response to the opposition it generated.

### **13 GOVERNMENT**

Before December 1987, the head of state was the British monarch, as represented by a governor-general. The cabinet, responsible to the parliament of Fiji, consisted of a prime minister and ministers appointed by the governor-general on the former's advice. The electoral process was distinctive in establishing communal, or ethnic rolls, in which only members of a specified group might vote, versus national rolls in which anyone could vote. The senate consisted of 22 members: eight nominated by the council of chiefs, a traditional body that had veto power over bills passed by the house involving native Fijians' customs or land rights; seven by the prime minister; six by the leader of the opposition; and one by the Rotuman Council.

The new postcoup constitution went into effect in July 1990. It established Fiji as a sovereign, democratic republic with a bicameral legislature. Fiji's president was to be appointed to a five-year term by the Great Council of Chiefs, which would also nominate 24 Fijians to the 34-member Senate. Nine seats were guaranteed to Indians and other races, and one to Rotuma. The senate would have veto power over legislation affecting Fijians. The 71-member House of Representatives was to be elected every five years by universal suffrage under the communal system. In addition to stipulating that the office of the prime minister must be held by an ethnic Fijian, the 1990 constitution also guaranteed a majority of seats to the Fijian community. This constitution prohibited cross-race voting; that is, Fijians could only vote for Fijians and Indians only for Indians. It provided for an independent judiciary.

The 1997 constitution specifies that the president, who is head of state, must always be a native Fijian. It also gives considerable recognition to the Great Council of Chiefs, which not only nominates and participates in electing the president, but also maintains its responsibility for matters relating to native Fijians. Parliament consists of two houses. The lower, where all legislation must originate, has 71 members. Of these, 46 are communal: 23 for Fijians, 19 for Indians, 3 for general electors, and 1 for Rotumans. The remaining 25 are "open" seats contested on a common roll basis without any reference to ethnicity, either for the voters or for the candidates.

The president appoints as prime minister the member of parliament who commands majority support in the lower house, or House of Representatives. The constitution also provides for mandatory power sharing in cabinet. Any party holding more than eight lower house seats is invited to join the cabinet in proportion to the number of seats it holds. The upper house or Senate consists

of 32 appointed members: 14 nominated by the Great Council of Chiefs, 9 by the prime minister, 8 by the leader of the opposition, and 1 by the Council of Rotuma. Parliament serves for a maximum of four years after a general election, though the president on the advice of the prime minister can dissolve it.

In the May 1999 election, the first held under this constitution, the Fiji Labour Party won a stunning victory, gaining 37 seats and an absolute majority of the house of representatives. Rabuka's SVT took only eight seats, and the once powerful NFP won no seats at all. Mahendra Chaudhry, leader of the FLP, became the first Indian prime minister of Fiji. The 1999 election was the first test of the amended constitution and introduced open voting for the first time at the national level.

In the August 2001 election, Prime Minister Laisenia Qarase's nationalist Soqoso Duavata ni Lewenivua Party (Fijian United Party or SDL) took 32 seats in the house of representatives and the FLP took 27. In March 2002, Qarase was ordered by the supreme court to allow for 8 seats in the senate from the opposition FLP, as stipulated by the constitution, 4 more than he had originally awarded it.

In October 2005 the public service commission developed a plan to improve productivity and better manage the budget by consolidating the 16 departments of the Civil Service into 7 departments: education, finance and economic development, foreign affairs, government administration, health, law and order, and natural resources.

### **14 POLITICAL PARTIES**

Fiji's political parties were in a state of flux after the FLP's unexpected victory in 1999. FLP is a multiethnic party, though some see it as Indian-dominated. After SVT's disappointing showing, Sitiveni Rabuka resigned as leader, and this Fijian-based party was headed by Ratu Inoke Kabuabola, leader of the opposition. As of 2005, it was headed by Felipe Bole. The Fijian Association Party, also focused on ethnic interests, was led by a woman, Adi Kuini Speed. It is not clear if the Indian-based National Federation Party will ever come back from its stunning defeat. After the August 2001 parliamentary elections, the NFP, for nearly 40 years the dominant Indian party, was entirely eliminated, as was the SVT. The FLP, led by Mahendra Chaudhry, has a support base of trade unions, workers and farmers, providing it with an efficient, grass-roots campaigning structure. The Soqoso Duavata ni Lewenivua Party (Fijian United Party or SDL) was created by caretaker Prime Minister Laisenia Qarase in an attempt to consolidate his support and unite the Fijian vote. The SDL has been accused of not broadening its appeal to Indian voters, and some have accused it of racism.

The next parliamentary election was due in 2006.

### **15 LOCAL GOVERNMENT**

Local government is organized under provincial and urban councils. Fiji is divided into 4 administrative divisions, which are subdivided into 14 provinces, each with its own council. Some members are appointed, but each provincial council has an elected majority. The councils have powers to make bylaws and to draw up their own budgets, subject to central government approval. Within the provinces, districts and councils are organized around extended family networks, and have their own chiefs and councils. Cities

Suva and Lautoka have city councils, Nadi a town council, and certain other urban areas are administered by township boards. A few members of urban councils are appointed, but most members are elected on a common roll of taxpayers and residents.

## **16 JUDICIAL SYSTEM**

The 1990 constitution reorganized the judicial system, but it retains elements of the British system. The courts include the Magistrate Courts, a High Court, the Court of Appeals, and the Supreme Court. There are no special courts, and the military courts try only members of the armed forces.

The Magistrate Courts are courts of first instance that try most cases. The High Court hears more serious cases in first instance and hears appeals from decisions in the Magistrate Courts. The appellate courts, including the High Court, may engage in constitutional review. The High Court has jurisdiction to review violations of individual rights provided by the constitution.

The 1990 constitution makes the judiciary independent of the other branches of government. Due process rights are similar to those in English common law.

Dependents have the right to a public trial and to counsel. A public legal adviser assists indigent persons in family law cases. Detainees must be brought before a court within 24 to 48 hours. Incommunicado and arbitrary detention are illegal. The criminal law permits corporal punishment as a penalty for certain criminal acts, but this provision is seldom invoked.

## **17 ARMED FORCES**

Fiji's armed forces in 2005 numbered 3,500 active personnel, supported by some 6,000 reservists. The Army totaled 3,200 with 300 in the Navy. The Army's equipment consists of 16 artillery pieces, 1 support, and 1 utility helicopter. The Navy operates 9 patrol/coastal vessels and 2 logistics/support ships. Of Fiji's seven infantry battalions, one is deployed abroad in Egypt (MFO), while two observers were stationed in Sudan. There was also an infantry company in the Solomon Islands. Fiji's defense budget in 2005 totaled \$32.9 million.

## **18 INTERNATIONAL COOPERATION**

Since joining the UN on 13 October 1970, Fiji has been a leading spokesman for Pacific island states and has contributed contingents to UN peacekeeping forces in Lebanon (1978) and the Sinai (1982). The country has also supported UN efforts in Kosovo (est. 1999) and East Timor (est. 2002). In September 2002, Prime Minister Laisenia Qarase reaffirmed Fiji's continued willingness to participate in UN peacekeeping operations. Fiji belongs to ESCAP and all UN nonregional specialized agencies except IAEA. A member of the WTO, Fiji also is a member of the Asian Development Bank, the Colombo Plan, the ACP Group, G-77, the Alliance of Small Island States (AOSIS), Sparteca, and the Pacific Island Forum (formally called the South Pacific Forum). Its membership in the Commonwealth of Nations was said to have "lapsed," according to a meeting of Commonwealth heads of government held shortly after the September 1987 coup. However, Fiji rejoined the Commonwealth in 1997.

On 10 December 1982, Fiji became the first nation to ratify the UN Convention on the Law of the Sea. Fiji's delegates had taken a prominent role in framing the document. Other efforts in

environmental cooperation include participation in the Convention on Biological Diversity, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## **19 ECONOMY**

Agriculture, mining and fishing have dominated the economy in the past, but manufacturing and tourism are becoming progressively more important in Fiji. The first five years after independence (1970–75) were years of high growth for Fiji, when growth averaged 5.9%, driven by primary commodities. In the next five years, growth continued but at a slower rate—about 3.5% per year. In 1980–86, Fiji suffered the effects of high inflation, especially in energy prices. It also endured three recessions. In 1986, growth rebounded, with GDP increasing 8.1%. This was immediately stopped by the 1987 coup. From 1987 to 1996 the economy grew at average annual rate of 2.5%; counting from independence to 1996, the average annual growth rate for GDP was 3.3%. In 1996, the economy grew 3%, but then, caught in the Asian financial crisis, it declined 3.9% in 1997 and grew at only 1.4% in 1998. Fiji saw a burst of recovery in 1999, as GDP shot up 9.7% (7.8% in real terms), only to be cut short, as happened in 1987, by a coup that sent the economy into recession, registering a 2.85% fall in GDP for 2000. Amid continued high political tensions the GDP increased in real terms only 1% in 2001, an improvement attributed mainly to some recovery in tourism.

The economy expanded by 3.8% in 2004, up from 3.0% in 2003, but down from 4.2% in 2002; in 2005, the GDP growth rate was estimated at 3.1%. The inflation rate was fairly stable, and at 3.3% in 2004 it did not pose a problem to the economy. Fiji is one of the most developed economies in the Pacific, but it continued to have a large subsistence sector, and more than a quarter of its population lives under the poverty line. Tourism and sugar processing are the major sources of foreign exchange, but while visitor numbers have recently increased, the sugar sector is threatened by a subsidy cut by the European Union—the main export market for this commodity.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Fiji's gross domestic product (GDP) was estimated at \$5.4 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$6,000. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2002 was 1.6%. It was estimated that agriculture accounted for 16.6% of GDP, industry 22.4%, and services 61%.

It was estimated that in 1991 about 25.5% of the population had incomes below the poverty line.

## **21 LABOR**

In 1999, the latest year for which data was available, the entire labor force in Fiji totaled 137,000 workers. Subsistence agriculture

and farming accounted for an estimated 70% of the workforce in 2001. The unemployment rate was about 7.6% in 1999.

The law protects the right of workers to unionize with some restrictions. All unions must be registered, but they are not controlled by the government. Wages and conditions of employment are regulated by agreements between trade unions and employers. The only central labor organization is the Fiji Trade Union Congress (FTUC). Workers have the right to collective bargain and strike, although a union may not strike in connection with a union recognition dispute. About 36% of the paid workforce was unionized as of 2005.

The normal workweek ranges from 40 to 48 hours but there is no statutory regulated workweek for adult males. Adult females are prohibited from working in mines, but are free to work elsewhere. There is no national minimum wage and the enforcement of child labor regulations are ineffective. Minors under 12 years of age cannot be employed except in a family-owned business or agricultural enterprise. Children between 12 and 15 can be employed in nonindustrial work that does not involve machinery, and under the provision that every night, they return home to their parents or guardian. Minors between the ages of 15 and 17 cannot be employed in occupations where heavy machinery is used and they must also receive specified hours and rest breaks. Health and safety standards are not closely monitored.

## **22 AGRICULTURE**

In 2004, agriculture comprised about 31% of Fiji's export earnings. More than three-quarters of all households engage in agriculture, livestock production, forestry, or fishing. A total of 285,000 hectares (704,000 acres), or over 15.6% of Fiji's area, was used for crop production in 2003. Sugarcane production was 3,000,000 tons in 2004. In 2004, sugar exports accounted for about 15% (\$103 million) of total exports and 48% of agricultural exports. Fijians retain legal ownership of the lands, but Indians farm it and produce about 90% of Fiji's sugar. In 1995, the average sugarcane farm was four hectares (9.9 acres), produced 183 tons of cane, and made F\$9,810. Cane is processed into raw sugar and molasses by the Fiji Sugar Corporation, which is 68% owned by the government. The sugar industry is vital to the national economy; as such, the government plays a leading role in all aspects of its production and sale.

Production of coconuts in 2004 was 140,000 tons; paddy rice output was 15,000 tons. Corn, tobacco, cocoa, ginger, pineapples, bananas, watermelons, and other fruits and vegetables are also grown.

## **23 ANIMAL HUSBANDRY**

Beef production was some 8,400 tons in 2005; pork, 3,900 tons; and goat meat, 1,000 tons. A breed of sheep highly adapted to the tropics was introduced in 1980. Fiji's poultry production was 13,000 tons in 2005, and egg production was 2,700 tons that same year.

## **24 FISHING**

The fishing industry has expanded in recent years, and a new cannery has increased tuna exports. The fish catch in 2003 was 35,963 tons, 30% of which was tuna. Barracuda, snapper, grouper, mackerel, and mullet are other principal species caught. In the early

1980s, several new fish farms began to produce carp, prawns, oysters, eels, and mussels. In 2003, prepared and preserved fish exports were valued at \$45 million.

## **25 FORESTRY**

Some 45% of the land area is forested, and 253,000 hectares (625,000 acres) are suitable for commercial use. Large-scale planting of pines under the 1986–90 development plan involved reforestation of 50,000 hectares (120,000 acres). Output of logs in 2003 totaled 303,000 cu m (13,520,000 cu ft). Exports of sawn timber and other wood products were valued at \$20.6 million in 2003. The first exports of pine logs started in 1980.

## **26 MINING**

Fiji's mining sector in 2003 is centered on gold, produced solely at the Vatukoula Mine by Australian-based, Emperor Mines Ltd., which is also the second-largest private employer, with more than 2,100 employees. Gold has been mined and exported continuously since 1933. The country was also richly endowed with deposits of copper, lead, and zinc. Gold production rose steadily in the mid-1990s, reaching 4,671 kg in 1997. It has since remained relatively static, with the 2003 total at 3,250 kg, down from 3,731 kg in 2002. Silver was also produced in 2003. Silver mine production that year totaled an estimated 1,500 kg. Hydraulic cement production was estimated at 100,000 metric tons in 2003. In addition to resources at existing sites, 930 million tons of copper (in Viti Levu) and gold reserves have been reported, and prospecting continued for oil and phosphates, and at base-metal sulfide deposits, disseminated porphyry copper deposits, epithermal precious-metal deposits, residual bauxite deposits, and manganese and heavy-mineral sand deposits that have previously been identified and evaluated. None has been shown to have sufficient tonnage to be economically viable. Ownership of minerals was vested in the state, which granted mining and prospecting rights.

## **27 ENERGY AND POWER**

The Fiji Electricity Authority, set up in 1966, is responsible for the generation and distribution of electricity, which provides only about 10% of energy consumed. Sugar mills generate their own power, as do hotels and other establishments outside town limits. To lessen dependence on imported oil, the Monasavu hydroelectric project was completed in 1984, with a capacity of 80 MW. Total generating capacity in 2002 was 0.199 million kW, of which conventional thermal was 0.120 million kW and hydroelectric was 0.079 million kW. Electricity production in 2002 came to 0.750 billion kWh, of which 0.605 billion kWh and 0.145 billion kWh came from hydropower and conventional thermal sources, respectively. Consumption of electricity in 2002 was 0.698 million kWh. Exploration for oil and natural gas has taken place, but has been unsuccessful. In the 1990s, the government formed a state-owned petroleum company, Finapeco, to act as the exclusive petroleum importer to Fiji.

With no known reserves of oil, as of 2002, all refined petroleum products must be imported. In 2002 refined petroleum products came to 10,490 barrels per day, with consumption at 8,220 barrels per day. Finapeco is also a supplier of petroleum to smaller countries in the region (Kiribati, Tonga, and Tuvalu). Refined oil product exports in 2002 totaled 2,260 barrels per day.

## 28 INDUSTRY

Fiji's industry is based primarily on processing of agricultural products, mainly sugarcane and coconut, and on mining and processing of gold and silver. Other major product groups are processed foods, and garments. In 2001 sugar production fell 14% to 293,000 cubic tons, well short of previous norms of close to 350,000 cubic tons. The government ascribes problems with sugar production to expiring land leases, poor mill performance, high incidence of cane burning, and cane transportation problems. Years of underinvestment in farms, sugar mills and power, water, and transportation infrastructure have resulted in declining quality as well as quantity. In February 2003 the Japanese rejected a shipment of Fiji sugar because of poor quality.

The gold industry suffered due to low world market prices (below \$300 oz.) prevailing from late 1998 to mid-2002, but faces better prospects in the sharp rise to over \$370 oz. in early 2003. Gold production is concentrated in the 66-year-old Vatukoula mine operated by Emperor Mines, which calculates that the mine will last another 10 or 15 year.

The garment industry in Fiji began in 1988 and in 2002 produced a record value of about \$150 million. In 1996, there were at least 68 garment manufacturing factories operating in tax-free zones, earning \$141 million. About a dozen factories were closed in 2001, with a loss of 5000 to 6000 jobs, but other operations were expanding. Garment industry exports, at \$143 million for 2001, were down, however, due to disruptions in relations with customers from trade sanctions.

Overall, the value of merchandise trade declined about 9% in 2001, and is not expected to surpass the \$557 million of 1997 or even the \$532 million of 1999 until 2003. Tourism receipts were \$228.9 million in 2001, an improvement on 2000, but still constrained by post-coup political uncertainties. Expensive power, lack of trained labor, and the limited local market have also inhibited industrial production. Overall, the value of manufacturing in Fiji, which had declined 6.2% in 2000, increased an estimated 11.5% in 2001, but is projected, by the IMF, to have increased only 1.5% in 2002, with non-sugar manufacturing down .9% in value.

Most of the country's revenues come from the services sector, with industry taking the second spot, and sugar processing accounting for a third of all industrial activity. Agriculture is the smallest contributor to the GDP, but the largest employer in the country, with a considerable number of people being engaged in subsistence agriculture.

## 29 SCIENCE AND TECHNOLOGY

The University of the South Pacific at Suva, founded in 1968, has schools of agriculture and pure and applied science. Other institutions of higher education are the Fiji College of Agriculture at Nausori, and the Fiji Institute of Technology and the Fiji School of Medicine, both at Suva. The major learned societies are the Fiji Society, concerned with subjects of historic and scientific interest to Fiji and other Pacific islands, and the Fiji Medical Association, both in Suva.

## 30 DOMESTIC TRADE

Fiji has several large trading corporations and hundreds of small traders. The corporations own retail stores, interisland ships, plan-

tations, hotels, travel services, copra-crushing mills, and breweries. Small enterprises range from a single tailor or shopkeeper to larger family businesses, most of which are operated by Indians or Chinese.

Businesses are normally open from 8 AM to 1 PM and from 2 to 4:30 PM on weekdays, and from 8 or 8:30 AM to 1 PM on Saturdays. Retail outlets are generally open from Monday through Friday, with half a day on Saturday. Most nonessential services and retail establishments are closed on Sundays. Though most major businesses and retail enterprises accept credit cards and travelers' checks, a number of smaller, local businesses and shops operate on cash only.

## 31 FOREIGN TRADE

Like most developing countries that export primarily basic commodities—which are subject to wide market price fluctuations—and import high-valued manufactured products, Fiji has traditionally run a merchandise trade deficit. The years of 1995 and 1996 saw unprecedented trade surpluses while the 1998 merchandise trade deficit was \$263 million. In 2000, however, the country reversed again to a trade surplus, this time totaling \$227 million.

Clothing production dominates Fiji's export commodities, with over a third of export revenues tied to the apparel trade (33%). Sugar and honey are in second place in export sales (24%). Other exports include fish (7.2%) and gold (7.0%). Most of Fiji's exports go to Australia, the United Kingdom, and New Zealand.

In 2004, exports reached \$862 million (FOB—Free on Board), while imports grew to \$1.2 billion (FOB). The bulk of exports went to the United States (24%), Australia (19%), the United Kingdom (12.6%), Samoa (6.5%), and Japan (4.1%). Imports machinery and transport equipment, manufactured goods, food, and mineral fuels, and mainly came from Australia (25.9%), Singapore (23.1%), and New Zealand (21.1%).

## 32 BALANCE OF PAYMENTS

Fiji has traditionally had an annual trade deficit and an annual deficit on current accounts. Long-term capital inflows, both public and private, generally cover the deficits; however in 1991, the trade deficit was \$37 million, down from \$84 million in 1990.

### Principal Trading Partners – Fiji (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	503.0	1,087.1	-584.1
Australia	137.6	407.5	-269.9
United States	123.4	99.7	23.7
United Kingdom	98.2	7.3	90.9
New Zealand	28.1	204.1	-176.0
Japan	22.7	58.3	-35.6
US Miscellaneous Pacific Islands	16.7	...	16.7
Portugal	8.9	...	8.9
Samoa	8.3	...	8.3
China, Hong Kong SAR	7.9	32.5	-24.6
Tonga	6.0	...	6.0

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Fiji (1999)**

(In millions of US dollars)

<b>Current Account</b>		<b>12.7</b>
Balance on goods	-115.6	
Imports	-653.3	
Exports	537.7	
Balance on services	135.3	
Balance on income	-35.5	
Current transfers	28.5	
<b>Capital Account</b>		<b>14.0</b>
<b>Financial Account</b>		<b>-104.0</b>
Direct investment abroad	-53.0	
Direct investment in Fiji	-33.2	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-62.2	
Other investment liabilities	44.4	
<b>Net Errors and Omissions</b>		<b>32.5</b>
<b>Reserves and Related Items</b>		<b>44.9</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

By 1992, the current account balance registered a surplus (as in 1989), due to increased earnings from exported sugar cane and growing tourism. The next year, however, deficits returned, but by 1996, the government was again posting a surplus. In 1997, Fiji just about broke even, but the 1998 figure reported a current account deficit equal to 2.5% of the GDP. A banking collapse due to mismanagement and corruption in the National Bank of Fiji severely damaged the financial account that year.

In addition to sugar exports, strong garment exports and agricultural exports other than sugar were expected to improve the balance of payments situation in the early 2000s.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Fiji's exports was \$572 million while imports totaled \$833 million resulting in a trade deficit of \$261 million.

The International Monetary Fund (IMF) reported that in 1999 Fiji had exports of goods totaling \$538 million and imports totaling \$653 million. The services credit totaled \$525 million and debit \$390 million.

Exports of goods and services reached \$1.2 billion in 2003, while imports grew to \$1.5 billion. The resource balance was consequently negative, reaching -\$264 million. The current account balance was also negative, slightly improving from -\$249 million in 2003, to -\$152 million in 2004. Foreign exchange reserves (including gold) grew to \$478 million in 2004.

**3<sup>3</sup> BANKING AND SECURITIES**

The Reserve Bank of Fiji is the central bank, (formerly the Central Monetary Authority), created in 1983 to replace the currency board; the Fiji Development Bank is the main development finance agency. Commercial banking facilities consist of the National Bank of Fiji (NBF) and branches of several foreign banks. As of 2000, there were six commercial banks in Fiji. The NBF enjoys the status of a commercial bank, but it does little business.

The troubled NBF is undergoing a process of restructuring following revelations of a high level of nonperforming loans. The government had to spend upwards of \$105 million to keep the bank operating. Other banks include two Australian banks, one Indian bank, one Pakistani bank, and the Bank of Hawaii. The government-owned Fiji Development Bank provides financing for development projects.

Growth in money supply has fluctuated widely in response to trends in foreign trade, affecting the level of reserves. The government tends to follow a cautious monetary policy, which has concentrated on maintaining price stability and on managing high levels of liquidity in the commercial banking system resulting from low levels of private investment. Total assets of financial institutions in 1997 reached \$2.3 billion, an increase of only 0.7% from 1996. The government devalued the currency by 20% in January 1998 due to economic woes. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$272.7 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$644.4 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 0.79%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 1.75%.

The Suva Stock Exchange operates in Suva, Fiji.

**3<sup>4</sup> INSURANCE**

In 1986, there were 11 insurance companies, five of which were life insurance firms. Premiums were divided almost equally between life (49%) and nonlife (51%) insurance. Third-party motor liability coverage is compulsory. Some of the companies listed as doing business in Fiji in 1995 were Dominion Insurance, Fiji Reinsurance Corp., Guardian Royal Exchange Assurance, National Insurance Co., the New India Assurance Co., Panpacific Insurance Com., and Queensland Insurance.

**3<sup>5</sup> PUBLIC FINANCE**

From 1985–96, Fiji suffered a crisis in both private and public investment. Total investment—both public and private—stood at 21.3% of GDP in 1985 and had dropped to 15.8% in 1994. Investment in public enterprises rose for the same period, however, from 3.2% of GDP in 1985 to 6.5% in 1994. The fiscal position of the government also worsened after 1996 due to the collapse of the National Bank of Fiji. During that time, the public deficit increased to 6.5% of GDP, but fell to 2.4% of GDP in 1998.

The US Central Intelligence Agency (CIA) estimated that in 2000 Fiji's central government took in revenues of approximately \$427.9 million and had expenditures of \$531.4 million. Revenues minus expenditures totaled approximately -\$103.5 million. Total external debt was \$188.1 million.

**3<sup>6</sup> TAXATION**

Local councils levy taxes to meet their own expenses. National taxes include a nonresident dividend withholding tax (15%), an interest withholding tax (10%), and a 15% tax on royalties. Dividends from a resident company paid to other resident companies are tax exempt. The standard corporate tax rate in 2005 was 31% on resident companies. Other taxes include a land sales tax, an

excise tax, and a value-added tax (VAT) of 12.5%. Gambling and financial services however, are exempt from the VAT.

### **37 CUSTOMS AND DUTIES**

About one-third of Fiji's revenues derive from customs duties. Tariffs range from 0–35% on most goods except motor vehicles, alcohol and tobacco, and chemical products, for which the tariffs imposed can be up to 60%, 60%, and 70%, respectively. Duties are levied on the cost, insurance, and freight (CIF) value of the goods.

There are several tax-free zones (TFZs) in Fiji, and 133 tax-free factories as of 1996. TFZs offer a 13-year tax holiday, duty exemptions on capital goods and raw materials, and free repatriation of profits.

### **38 FOREIGN INVESTMENT**

The development of existing industries has been made possible largely by foreign investment. Fiji continued to promote overseas capital investment through the Fiji Trade and Investment Board because it requires foreign goods and services to meet many of its needs, including domestic employment. Tax and tariff concessions are offered to approved new industries, and special incentives apply to fuel-efficient or export-oriented enterprises. However, since the coup against the Chaudhry government in May 2000 political tensions have seriously hampered Fiji's prospects for attracting foreign investment in two major ways: through concerns over nativist restrictions and labor problems and through concerns that trade sanction could be imposed on the defiantly unconstitutional government. Most of current foreign investments are focused on resort hotel constructions and the tourism industry in general.

### **39 ECONOMIC DEVELOPMENT**

Under the development plan for 1986 to 1990, the government emphasized diversification of industries and expansion of tourism, and set the goal for real GDP growth at 5% annually. Four key areas that were supported for future economic growth were domestic and foreign development in the sugar sector; trade liberalization in major export markets; the resolution of industrial disputes; and the replacement of middle-level skills lost to emigration caused by political turmoil. During the 1990s, Fiji attempted to diversify its economy away from the sugarcane industry by focusing on the garment manufacturing and exporting trade. Bad weather conditions and political turmoil conspire to hinder economic development in the future.

The tourism sector is booming, with major investments being made in resort hotels, and with growing numbers of visitors—532,000 in 2005, up from 507,000 in 2004; by 2008, tourist numbers were expected to soar to 658,000. The sugar processing industry however suffers from technical obsolescence, and was under threat by EU subsidy cuts. Another source of hard currency are the remittances from Fijians working in Kuwait and Iraq.

### **40 SOCIAL DEVELOPMENT**

Employed workers are eligible for retirement, disability, and survivor benefits, to which they contribute 8% of their wages, matched by their employers. Retirement is set at age 55, but is available at any age upon leaving the country permanently. Employers also pay for workmen's compensation, covering both temporary and

permanent disability benefits. Benefits include medical and hospital care, surgery, medicine, appliances, and transportation.

The constitution provides women with equal rights and includes affirmative action provisions for the disadvantaged. Fijian women primarily fulfill traditional roles, although some do attain leadership roles in the public and private sectors. Women are generally paid less than men for comparable work. Domestic abuse, incest, and rape remained pervasive problems. Women's rights groups continued to press for more effective prosecution and punishment for violence against women. Foreign governments provide funding for crisis centers.

The government overtly promotes the rights of ethnic Fijians over that of other ethnic groups. Ethnic Fijians predominate in senior government positions and in the ownership of land. Although Indo-Fijians may be found in senior positions in the private sector, few are in government. Indo-Fijians are sometimes subject to discrimination. Human rights abuses are occasionally reported.

### **41 HEALTH**

Fiji's health standards are relatively high. Medical facilities included three main hospitals and three specialized hospitals; a total of 27 hospitals had 1,743 beds. In 2004, there were 34 physicians, 196 nurses, and 4 dentists per 100,000 people. Cardiovascular disease and cancer have become the top two causes of death in hospitals during the last few years. The increasing mortality has been attributed to hypertension and diabetes mellitus. Diabetes, once relatively unknown in the Fijian community, increased tenfold among Fijian urban dwellers between 1967 and 1980. A cancer survey conducted in 1989 showed extremely high dietary intakes of fat and cholesterol.

The fertility rate was an estimated 2.8 in 2002. In 2005, the infant mortality rate was estimated at 12.62 per 1,000 live births and estimated average life expectancy was 69.53 years. The estimated overall death was 5.7 per 1,000 people and the birth rate was 23.2 per 1,000. Between 1991 and 1994, 96% of children were immunized against measles. Venereal diseases have increased in recent years and infantile diarrhea persists. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 600 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

### **42 HOUSING**

According to government estimates, Fiji requires more than 4,200 new houses each year to maintain adequate housing standards. Natural disasters such as cyclones and tropical storms have caused problems in creating and maintaining adequate housing stock.

The Fiji Housing Authority provides accommodations for urban workers and extends credit for houses it builds and sells. At last estimate, housing stock exceeded 126,000 units, of which about 30% were made of corrugated iron or tin; 30% were concrete; more than 25% were wood. At the last government census (1996), there were about 144,239 households. About 59.9% of all households had piped water; 13.4% used well or river water. Only 62% of all households had electricity. About 43.6% had flush toilets. The average number of people per household was about 5.3.

### 43 EDUCATION

There are government schools as well as private schools operated by individual groups or by missions under government supervision. Primary education lasts for eight years. This is followed by four years of junior secondary and two years of senior secondary school. Students may choose a final year of study known as seventh form, the completion of which is required for continuing in higher education. The academic year runs from February to November. The primary language of instruction is English.

Primary school enrollment in 2001 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was about 77% of age-eligible students; 73% for boys and 80% for girls. Most students complete their primary education. The student-to-teacher ratio for primary school was at about 28:1 in 2003; the ratio for secondary school was about 17:1.

The University of the South Pacific opened in Suva in 1968. Its students are drawn from several Pacific island states. In 2001, there were about 115,000 students enrolled in higher education programs. The adult literacy rate for 2004 was estimated at about 92.9%, with 94.5% for men and 91.4% for women.

As of 2003, public expenditure on education was estimated at 5.6% of GDP, or 19.4% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The Ministry of Education runs the Library Service of Fiji in Suva and provides public, special, and school services through 3 mobile libraries and 33 government libraries with a total collection of over 960,000 volumes. Suva maintains its own public library of 77,000 volumes, most of which is a children's collection. The library at the University of the South Pacific contains 750,000 volumes and serves as a depository library site for the United Nations. There are several libraries associated with theological institutions and colonial cultural centers. The Fiji Library Association was established in 1972. The Fiji Museum, established at Suva in 1906, has a collection of Fijian artifacts and documents Fijian oral traditions.

### 45 MEDIA

Suva and its surrounding area are served by an automatic telephone exchange that had 80,901 mainline telephones in 1999. Fiji is a link in the world Commonwealth cable system and has radio-telephone circuits to other Pacific territories. In 2003, there were about 102,000 mainline telephones in use nationwide, along with an additional 109,900 mobile phones.

The Fiji Broadcasting Commission offers programs in Fijian, English, and Hindustani over Radio Fiji on three channels. In 1998, there were 13 AM and 40 FM radio stations. As of 2001, there is one television broadcast station, Fiji One TV, which is owned by private and government interests. In 1999, Fiji had 541,476 radios and 88,100 television sets nationwide. In 2003, 493 Internet hosts were serving 55,000 subscribers.

The two daily newspapers, both published at Suva, are the English-language *Fiji Times* (with an estimated circulation of 34,000 in 2002) and *Fiji Daily Post* (9,000). The Fijian *Nai Lalakai* and the Hindi *Shanti Dut* (1995 circulations, respectively, 9,600 and 10,750) are two of the most widely read periodicals.

Freedom of speech and press are said to be generally respected by the government and political figures, and other citizens can speak out against the government freely.

### 46 ORGANIZATIONS

The main chamber of commerce is located in Suva. Two organizations representing the interests of employers and business owners are the Fiji Employers' Federation and the Fiji National Training Council. The Fiji Trades Union Congress serves as a larger advocate for worker's rights. At last estimate there were more than 1,200 registered cooperatives. The International Labour Organization has an office in Suva.

Unions and professional associations exist for several occupations, including manufacturing industries, sugar cane growers, teachers, and optometrists. The Fiji Medical Association promotes research and education on health issues and works to establish common policies and standards in healthcare. There are also several associations dedicated to research and education for specific fields of medicine and particular diseases and conditions. The Fiji Law Society promotes ethical standards and practices in the legal profession.

Youth organizations include the Fiji Youth and Student League, Junior Chamber, YMCA/YWCA, the Fiji Scout Association, and Fiji Girl Guides. There are several sports organizations promoting amateur competition in such pastimes as baseball, badminton, track and field, and tae kwon do. There is also a Fiji Islands Blind Sport Association. Oceania National Olympic Committees encourages regional participation in the Olympic Games. National women's organizations include The National Council of Women, Women's Action for Change, and the Fiji Women's Rights Movement.

The Fiji Council of Social Services serves as an umbrella organization to promote the work of social and community welfare and development groups. There is a national chapter of the Red Cross Society.

### 47 TOURISM, TRAVEL, AND RECREATION

Popular tourist attractions are the beach resorts and traditional Fijian villages. Visitors must have a valid passport, proof of sufficient funds, and an onward/return ticket. A certificate of vaccinations against yellow fever is required if traveling from an infected area. Spectator sports include football (soccer), cricket, rugby, and basketball; Fiji has excellent golf facilities.

In 2000, there were 294,070 tourist arrivals, nearly 60% from East Asia and the Pacific region. In that same year, gross receipts from tourism amounted to US\$537 million. There were 6,142 rooms in hotels and other establishments with 14,292 beds and an occupancy rate of 56%.

In 2005, the US Department of State estimated the cost of staying in Suva at US\$208 per day. The cost of a stay in Nadi was estimated at US\$258 per day in 2004.

### 48 FAMOUS FIJIANS

The best-known Fijians are Ratu Sir Lala Sukuna (d.1958), the first speaker of the Legislative Council in 1954; Ratu Sir George Cakobau (1911–89), the first Fijian to be governor-general; and Ratu

Sir Kamisese K. T. Mara (1920–2004), considered the “founding father” of modern Fiji, who served as prime minister from 1970–92 and as president from 1993–2000. Ratu Josefa Iloilovatu Uluivuda (b.1920) has been president since 2000.

#### 49 DEPENDENCIES

Fiji has no territories or colonies.

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# FRENCH PACIFIC DEPENDENCIES

## FRENCH POLYNESIA

The overseas territory of French Polynesia (Polynésie Française) in the South Pacific Ocean includes five island groups. The Society Islands (Îles de la Société) were discovered by the British in 1767 and named after the Royal Society, are the most important. They include Tahiti (at 17° 40' s and about 149° 20' w), the largest French Polynesian island with an area of 1,042 sq km (402 sq mi); Moorea; and Raiatea. The French established a protectorate in 1844 and made the islands a colony in 1880. The Marquesas Islands (Îles Marquises, between 8° and 11° s and 138° and 141° w), about 1,500 km (930 mi) NE of Tahiti, were discovered by Spaniards in 1595 and annexed by France in 1842. The Tuamotu Islands, about 480 km (300 mi) s and sw of the Marquesas and consisting of 78 islands scattered over an area of 800 sq km (310 sq mi), were discovered by Spaniards in 1606 and annexed by France in 1881. The Gambier Islands, SE of the Tuamotus, were discovered by the British in 1797 and annexed by France in 1881. Three of the islands, Mangareva, Taravai, and Akamaru, are inhabited. The Tubuai or Austral Islands (Îles Australes), south of the Society Islands, were discovered in 1777 by James Cook and annexed by France in 1880. Clipperton Island (10° 18' N and 109° 12' W), an uninhabited atoll sw of Mexico and about 2,900 km (1,800 mi) west of Panama, was claimed by France in 1858 and given up by Mexico, which also had claimed it, in 1932. In 1979, it was placed under direct control of the French government. Total area of the territory is between 3,600 and 4,200 sq km (1,400 and 1,600 sq mi).

The estimated mid-2005 population was 270,485, of whom about 78% were Polynesian, 12% Chinese, and 10% European. About 55% of the population is Protestant and 30% is Roman Catholic; there are also small animist and Buddhist minorities. French and Polynesian are the official languages; English is also spoken. Marine life is abundant, both in the surrounding ocean and in rivers and streams; there are no indigenous mammals.

The territory is divided into five administrative areas (circonscriptions). A 57-member territorial assembly is elected every five years by universal suffrage. A council of ministers, headed by a president picked by the assembly, chooses a vice-president and other cabinet ministers. The president assists the French-appointed high commissioner, who is the administrator for the whole territory of French Polynesia. The Economic Social and Cultural Council, composed of representatives of industry and professional groups, is a consultative body. Two deputies and a senator represent the territory in the French parliament.

Tourism accounts for one-fourth of GDP and is a primary source of hard-currency earnings; visitor numbers exceeded 250,000 for the first time in 2000. A number of international airlines operate to and from French Polynesia. Tropical fruit, vanilla, coffee, and coconuts are the principal agricultural products. Fishing has intensified in especially for tuna and shark meat. Phosphate depos-

its, mined on Makatea in the Tuamotu Islands, were exhausted by 1966. The Pacific Nuclear Test Center, constructed on the atoll of Mururoa in the 1960s, the Office for Overseas Scientific and Technical Research, and the Oceanological Center of the Pacific (which experiments with shrimp and oyster breeding) operate in the region. A space telecommunications station is based at Tahiti. In 1996, France definitively halted all nuclear testing in French Polynesia, after it had resumed nuclear testing on the Mururoa atoll in 1995.

Currency is the Comptoirs Française du Pacifique franc, linked to the euro at a rate of €1=CFP Fr119.25. Exports in 2004 totaled US\$385 million (mostly cultured black pearls and coconut products); imports, US\$1.437 billion.

There are a number of hospitals and private clinics on the island, and one large government hospital on Tahiti. The educational system is well-developed, and the Université de la Polynésie Française (UPF) was created in 1999, out of the former Université Française du Pacifique. The UPF had 2,649 students preparing for a diploma during the 2004/05 academic year. Agricultural and technical schools also offer postsecondary education.

French Polynesia in 1998 had 2 AM stations, 14 FM radio stations, and 7 TV stations. There were 35,000 Internet users in 2002. That year, 90,000 mobile telephones were in use, more than the number of main line telephones in use (52,500).

## FRENCH SOUTHERN AND ANTARCTIC TERRITORIES

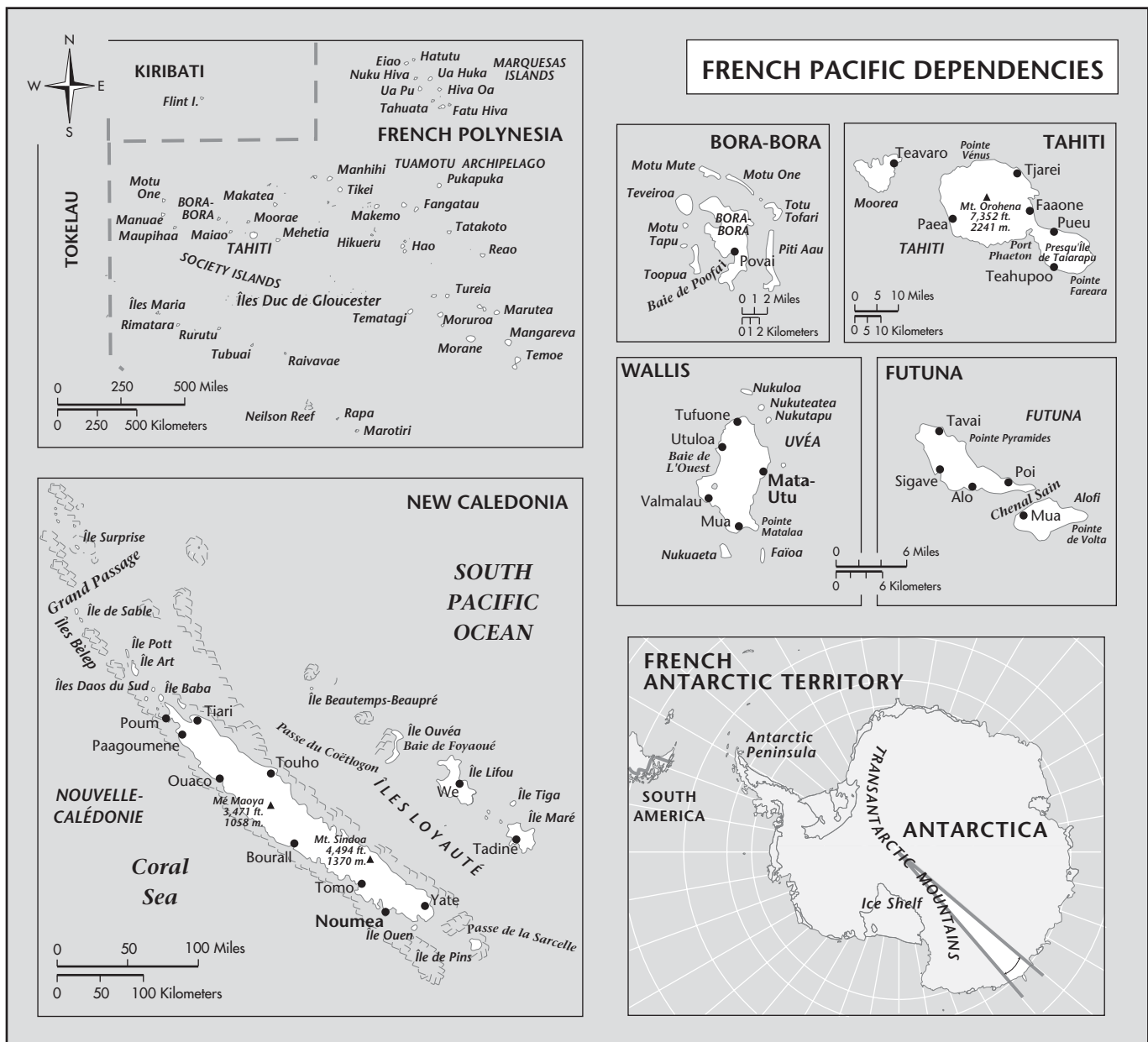
The French Southern and Antarctic Territories (Terres Australes et Antarctiques Françaises), an overseas territory of France, have a total area of 7,781 sq km (3,004 sq mi), not including Adélie Land, and are administered by an appointed administrator and consultative council from Paris. Most of the population (145 in 2005) in the territories were researchers.

The Kerguelen Archipelago, situated at 48° to 50° s and 68° to 70° E, about 5,300 km (3,300 mi) SE of the Cape of Good Hope, consists of one large and about 300 small islands with a total area of 7,215 sq km (2,786 sq mi). France maintains a captive register for French-owned merchant ships in the archipelago.

Crozet Archipelago, at 46° s and 50° to 52° E, consists of 5 main and 15 smaller uninhabited islands, with a total area of 505 sq km (195 sq mi).

St. Paul, at about 38° 25' s and 77° 32' E, is an uninhabited island with an area of about 7 sq km (2.7 sq mi). Some 80 km (50 mi) to the north, at about 37° 50' s and with an area of about 54 sq km (21 sq mi), is Amsterdam Island.

Adélie Land (Terre Adélie), comprising some 432,000 sq km (167,000 sq mi) of Antarctica between 136° and 142° E, s of 67° s, was discovered in 1840 by Dumont d'Urville and claimed by him for France.



## NEW CALEDONIA

New Caledonia (Nouvelle-Calédonie), a French overseas territory ne of Australia in the South Pacific Ocean, lies between 18° and 23° s and 162° and 169° E. The main island is about 400 km (250 mi) long and 50 km (30 mi) wide, with a surface area of 16,192 sq km (6,252 sq mi). Mountainous and partly surrounded by coral reefs, the island is mostly forested or covered with low bush. With its dependencies and protectorates, it has an overall area of 18,576 sq km (7,172 sq mi). Native fauna is sparse, but plant life is abundant; among the plants unique to the territory is niaouli, a tree of the eucalyptus family whose leaves are processed for the pharmaceutical industry.

Total population in 2005 was estimated to be 216,494, of whom 42.5% were native Melanesians and 37% were Europeans. French and various Melanesian and other local languages are spoken. Roman Catholicism is the majority religion.

New Caledonia was discovered in 1768 by Louis Antoine de Bougainville and was named by James Cook, who landed there in 1774. Local chiefs recognized France's title in 1844, and New Caledonia became a French possession in 1853. In 1946, it became a French overseas territory, and in 1958, its assembly voted to maintain that status. Under 1976, 1984, and 1985 laws, New Caledonia is administered by an appointed high commissioner, an executive council, and a 54-seat territorial congress, consisting of the membership of the three provincial assemblies. New Caledonia has two representatives in the French national assembly and one in the senate. The territory is divided into three provinces (Îles Loyauté, Nord, and Sud); municipal communes play a role in primary education and social welfare.

The economy is based on agriculture and mining. Coffee, copra, potatoes, cassava, corn, wheat, and fruits are the main crops, but agricultural production does not meet the domestic demand.

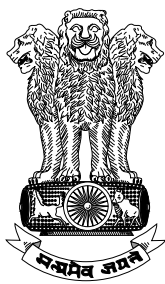
In 2003, New Caledonia was the fifth-largest source of nickel in the world, after Russia, Australia, Canada, and Indonesia. Nickel mining and smelting accounted for an estimated 12% of GDP and 80% of export earnings in 2000. New Caledonia has approximately 25% of the world's known nickel reserves. Coffee, copra, and chromium make up most of the other exports. Trade is mainly with France, Australia, and Japan. In 2004, exports totaled us\$999 million, imports totaled us\$1.636 billion.

## WALLIS AND FUTUNA

Wallis Island and the Futuna, or Hoorn, Islands in the Southwest Pacific constitute a French overseas territory, with the capital at Mata-Utu, on Wallis (also called Uvéa). Lying about 400 km (250 mi) w of Pago Pago, American Samoa, at 13° 22' s and 176° 12' w, Wallis, 154 sq km (59 sq mi) in area, is surrounded by a coral reef with a single channel. The Futuna Islands are about 190 km (120 mi) to the sw at 14° 20' s and about 177° 30' w. They comprise two

volcanic islands, Futuna and Alofi, which, together with a group of small islands, have a total area of about 116 sq km (45 sq mi).

The Futuna group was discovered by Dutch sailors in 1616; Wallis (at first called Uvéa) was discovered by the English explorer Samuel Wallis in 1767. A French missionary established a Catholic mission on Wallis in 1837, and missions soon followed on the other islands. In 1842, the French established a protectorate, which was officially confirmed in 1887 for Wallis and in 1888 for Futuna. As of mid-2005, Wallis and Futuna had an estimated 16,025 inhabitants. Most of the population is Polynesian; only 2.5% are European. French and Uvean are the principal languages spoken; 99% of the population is Roman Catholic. A high administrator, representing the French government, is assisted by a 20-seat territorial assembly. Principal commercial activities are the production of copra and fishing for trochus. The chief food crops are yams, taro, bananas, manioc, and arrowroot.



# INDIA

Republic of India  
*Bharat Ganarajya*

**CAPITAL:** New Delhi

**FLAG:** The national flag, adopted in 1947, is a tricolor of deep saffron, white, and green horizontal stripes. In the center of the white stripe is a blue wheel representing the wheel (chakra) that appears on the abacus of Asoka's lion capital (c.250 BC) at Sarnath, Uttar Pradesh.

**ANTHEM:** *Jana gana mana (Thou Art the Ruler of the Minds of All People)*. A national song of equal status is *Vande Mataram (I Bow to Thee, Mother)*.

**MONETARY UNIT:** The rupee (₹) is a paper currency of 100 paise. There are coins of 5, 10, 20, 25, and 50 paise, and 1, 2, and 5 rupees, and notes of 2, 5, 10, 20, 50, 100, and 500 rupees. ₹1 = 0.02294 (or \$1 = ₹43.6) as of 2005.

**WEIGHTS AND MEASURES:** Metric weights and measures, introduced in 1958, replaced the British and local systems. Indian numerical units still in use include the lakh (equal to 100,000) and the crore (equal to 10 million).

**HOLIDAYS:** Republic Day, 26 January; Independence Day, 15 August; Gandhi Jayanti, 2 October. Annual events—some national, others purely local, and each associated with one or more religious communities—number in the hundreds. The more important include Shivarati in February; and Raksha Bandhan in August. Movable religious holidays include Holi, Ganesh Chaturthi, Durga Puja, Dussehra, 'Id al-Fitr, Dewali; and Christmas, 25 December.

**TIME:** 5:30 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Republic of India, Asia's second-largest country after China, fills the major part of the South Asian subcontinent (which it shares with Pakistan, Nepal, Bhutan, and Bangladesh) and includes the Andaman and Nicobar Islands in the Bay of Bengal and Lakshadweep (formerly the Laccadive, Minicoy, and Amindivi Islands) in the Arabian Sea. The total area is 3,287,590 sq km (1,269,345 sq mi), including 222,236 sq km (85,806 sq mi) belonging to Jammu and Kashmir; of this disputed region, 78,932 sq km (30,476 sq mi) are under the de facto control of Pakistan and 42,735 sq km (16,500 sq mi) are held by China. Comparatively, the area occupied by India is slightly more than one-third the size of the United States. China claims part of Arunachal Pradesh. Continental India extends 3,214 km (1,997 mi) N–S and 2,933 km (1,822 mi) E–W.

India is bordered on the N by the disputed area of Jammu and Kashmir (west of the Karakoram Pass), China, Nepal, and Bhutan; on the E by Myanmar, Bangladesh, and the Bay of Bengal; on the S by the Indian Ocean; on the W by the Arabian Sea; and on the NW by Pakistan. The total boundary length is 21,103 km (13,113 mi), of which 7,000 km (4,340 mi) is coastline.

India's capital city, New Delhi, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

Three major features fill the Indian landscape: the Himalayas and associated ranges, a geologically young mountain belt, folded, faulted, and uplifted, that marks the nation's northern boundary and effectively seals India climatically from other Asian countries;

the Peninsula, a huge stable massif of ancient crystalline rock, severely weathered and eroded; and the Ganges-Brahmaputra Lowland, a structural trough between the two rivers, now an alluvial plain carrying some of India's major rivers from the Peninsula and the Himalayas to the sea. These three features, plus a narrow coastal plain along the Arabian Sea and a wider one along the Bay of Bengal, effectively establish five major physical-economic zones in India.

Some of the world's highest peaks are found in the northern mountains: Kanchenjunga (8,598 m/28,208 ft), the third-highest mountain in the world, is on the border between Sikkim and Nepal; Nanda Devi (7,817 m/25,645 ft), Badrinath (7,138 m/23,420 ft), and Dunagiri (7,065 m/23,179 ft) are wholly in India; and Kamet (7,756 m/25,447 ft) is on the border between India and Tibet.

The Peninsula consists of an abrupt 2,400-km (1,500-mi) escarpment, the Western Ghats, facing the Arabian Sea; interior low, rolling hills seldom rising above 610 m (2,000 ft); an interior plateau, the Deccan, a vast lava bed; and peripheral hills on the north, east, and south, which rise to 2,440 m (8,000 ft) in the Nilgiris and Cardamoms of Kerala and Tamil Nadu. The Peninsula holds the bulk of India's mineral wealth, and many of its great rivers—the Narbada, Tapti, Mahanadi, Godavari, Krishna, and Kaveri—flow through it to the sea. The great trench between the Peninsula and the Himalayas is the largest alluvial plain on earth, covering 1,088,000 sq km (420,000 sq mi) and extending without noticeable interruption 3,200 km (2,000 mi) from the Indus Delta (in Pakistan) to the Ganges-Brahmaputra Delta (shared by India and

Bangladesh), at an average width of about 320 km (200 mi). Along this plain flow the Ganges, Brahmaputra, Son, Jumna, Chambal, Gogra, and many other major rivers, which provide India with its richest agricultural land.

India is located in a seismically active region prone to destructive earthquakes. On 26 January 2001, a 7.7 magnitude earthquake hit northwest India with tremors felt through most of Pakistan as well. Over 20,000 people were killed and over 166,800 were injured. It was recorded as the deadliest earthquake of the year worldwide. The disastrous tsunami that struck Indonesia on 26 December 2004 also impacted India. The tsunami was caused by an underwater earthquake 324 km (180 mi) south of Indonesia's Sumatra island. More than 100,000 people were affected and there were more than 10,000 casualties. On 8 October 2005, an earthquake measuring 7.6 on the Richter scale, struck the Kashmir region. There were more than 140 aftershocks recorded; many measured 5 in magnitude. More than 1,300 were killed and at least 32,000 homes were destroyed.

### **3 CLIMATE**

The lower east (Coromandel) and west (Malabar) coasts of the Peninsula and the Ganges Delta are humid tropical; most of the Peninsula and the Ganges-Brahmaputra Lowland are moist subtropical to temperate; and the semiarid steppe and dry desert of the far west are subtropical to temperate. The northern mountains display a zonal stratification from moist subtropical to dry arctic, depending on altitude.

Extremes of weather are even more pronounced than the wide variety of climatic types would indicate. Thus, villages in western Rajasthan, in the Thar (Great Indian) Desert, may experience less than 13 cm (5 in) of rainfall yearly, while 2,400 km (1,500 mi) eastward, in the Khasi Hills of Assam, Cherrapunji averages about 1,143 cm (450 in) yearly. Sections of the Malabar Coast and hill stations in the Himalayas regularly receive 250–760 cm (100–300 in) yearly; many areas of the heavily populated Ganges-Brahmaputra Lowland and the Peninsula receive under 100 cm (40 in).

Winter snowfall is normal for the northern mountains and Kashmir Valley, but for most of India, scorching spring dust storms and severe hailstorms are more common. The northern half of the country is subject to frost from November through February, but by May a temperature as high as 49°C (120° F) in the shade may be recorded. High relative humidity is general from April through September. Extratropical cyclones (similar to hurricanes) often strike the coastal areas between April and June and between September and December.

The monsoon is the predominant feature of India's climate and helps to divide the year into four seasons: rainy, the southwest monsoon, June–September; moist, the retreating monsoon, October–November; dry cool, the northeast monsoon, December–March; hot, April–May. The southwest monsoon brings from the Indian Ocean the moisture on which Indian agriculture relies. Unfortunately, neither the exact times of its annual arrival and departure nor its duration and intensity can be predicted, and variations are great. In 1987, the failure of the southwest monsoon resulted in one of India's worst droughts of the century.

### **4 FLORA AND FAUNA**

Almost one-fourth of the land is forested. Valuable commercial forests, some of luxuriant tropical growth, are mainly restricted to the eastern Himalayas, the Western Ghats, and the Andaman Islands. Pine, oak, bamboo, juniper, deodar, and sal are important species of the Himalayas; sandalwood, teak, rosewood, mango, and Indian mahogany are found in the southern Peninsula. Some 15,000 varieties of midaltitude, subtropical, and tropical flowers abound in their appropriate climatic zones. The neem tree, a native tropical evergreen tree, has been called the "village pharmacy" because many parts of the tree have been used for a variety of medicines and lotions.

India has over 300 species of mammals, 900 species of breeding birds, and a great diversity of fish and reptiles. Wild mammals, including deer, Indian bison, monkeys, and bears, live in the Himalayan foothills and the hilly section of Assam and the plateau. In the populated areas, many dogs, cows, and monkeys wander as wild or semiwild scavengers.

### **5 ENVIRONMENT**

Among India's most pressing environmental problems are land damage, water shortages, and air and water pollution. During 1985, deforestation, which, especially in the Himalayan watershed areas, aggravates the danger of flooding, averaged 1,471 sq km (568 sq mi) per year. India also lost 50% of its mangrove area between 1963 and 1977. In 2000, about 21% of the total land area was forested.

Despite three decades of flood-control programs that had already cost an estimated \$10 billion, floods in 1980 alone claimed nearly 2,000 lives, killed tens of thousands of cattle, and affected 55 million people on 11.3 million hectares (28 million acres) of land. As of the mid-1990s, 60% of the land where crops could be grown had been damaged by the grazing of the nation's 406 million head of livestock, deforestation, misuse of agricultural chemicals, and salinization.

Due to uncontrolled dumping of chemical and industrial waste, fertilizers and pesticides, 70% of the surface water in India is polluted. The nation has 1,261 cu km of renewable water resources, of which 92% is used for farming. Safe drinking water is available to 96% of urban and 82% of rural dwellers.

Air pollution is most severe in urban centers, but even in rural areas, the burning of wood, charcoal, and dung for fuel, coupled with dust from wind erosion during the dry season, poses a significant problem. Industrial air pollution threatens some of India's architectural treasures, including the Taj Mahal in Agra, part of the exterior of which has been dulled and pitted by airborne acids. In what was probably the worst industrial disaster of all time, a noxious gas leak from a Union Carbide pesticide plant in Bhopal, the capital of Madhya Pradesh, killed more than 1,500 people and injured tens of thousands of others in December 1985. In 1992 India had the world's sixth-highest level of industrial carbon dioxide emissions, which totaled 769 million metric tons, a per capita level of 0.88 metric tons. In 2000, the total carbon dioxide emissions was reported at 1 billion metric tons.

The environmental effects of intensive urbanization are evident in all the major cities, although Calcutta—once a symbol of urban blight—has been freed of cholera, and most of the city now has



LOCATION: 8°4' to 37°6' N; 68°7' to 97°25' E. BOUNDARY LENGTHS: Nepal, 1,690 kilometers (1,050 miles); Bhutan, 605 kilometers (373 miles); Myanmar, 1,463 kilometers (910 miles); Bangladesh, 4,053 kilometers (2,520 miles); total coastline, 7,000 kilometers (4,360 miles); Pakistan, 2,912 kilometers (1,800 miles).

TERRITORIAL SEA LIMIT: 12 miles.

water purification and sewer services. Analogous improvements have been made in other leading cities under the Central Scheme for Environmental Improvement in Slum Areas, launched in 1972, which provided funds for sewers, community baths and latrines, road paving, and other services.

The National Committee on Environmental Planning and Coordination was established in 1972 to investigate and propose solutions to environmental problems resulting from continued population growth and consequent economic development; in 1980, the Department of the Environment was created. The sixth development plan (1979–84), which for the first time included a section on environmental planning and coordination, gave the planning commission veto power over development projects that might damage the environment; this policy was sustained in the seventh development plan (1985–90). The National Environmental Engineering Research Institute has field center areas throughout the country.

The Wildlife Act of 1972 prohibits killing of and commerce in threatened animals. There are about 20 national parks and more than 200 wildlife sanctuaries, including 5 natural UNESCO World Heritage Sites and 19 Ramsar wetland sites. As of 2003, 5.2% of India's total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 85 types of mammals, 79 species of birds, 25 types of reptiles, 66 species of amphibians, 28 species of fish, 2 types of mollusks, 21 species of other invertebrates, and 246 species of plants. Endangered species in India include the lion-tailed macaque, five species of langur, the Indus dolphin, wolf, Asiatic wild dog, Malabar large-spotted civet, clouded leopard, Asiatic lion, Indian tiger, leopard, snow leopard, cheetah, Asian elephant, dugong, wild Asian ass, great Indian rhinoceros, Sumatran rhinoceros, pygmy hog, swamp deer, Himalayan musk deer, Kashmir stag or hangul, Asiatic buffalo, gaur, wild yak, white-winged wood duck, four species of pheasant, the crimson tragopan, Siberian white crane, great Indian bustard, river terrapin, marsh and estuarine crocodiles, gavial, and Indian python. There are at least ten extinct species. Although wardens are authorized to shoot poachers on game reserves, poaching continues, with the Indian rhinoceros (whose horn is renowned for its supposed aphrodisiac qualities) an especially valuable prize.

## 6 POPULATION

The population of India reached one billion in March 2001. In 2005 the population was estimated by the United Nations (UN) at 1,103,596,000, which placed it at number 2 (behind China) in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 36% of the population under 15 years of age. There were 105 males for every 100 females in the country. The projected population for the year 2025 was 1,363,000,000. The population density was 336 per sq km (869 per sq mi).

The US Census Bureau expected India's population to surpass China's by 2035. India's population grew rapidly from the 1920s until the 1970s, mostly due to a sharp decline in the death rate because of improvements in health care, nutrition, and sanitation. In 1921, when India's population stood at 251,321,213, the birth rate was 48.1 but the death rate was 47.2; by 1961, when the population reached 439,234,771, the birth rate was still high at 40.8, but

the death rate had dropped by more than half to 22.8. The birth rate dropped from 41.1 in 1971 to 30.2 in 1990–91, presumably attributable to an aggressive program of family planning, contraception, and sterilization, but had little immediate impact on the compounded population growth rate, which averaged 2.1% in the 1980s and 1.9% in 1990–95. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.7%. Despite the fact that the population growth rate had been steadily declining for several decades, the government in 2005 continued to seek ways to slow population growth. The government considers the rapid population growth a serious problem, particularly in relation to reducing poverty. The goal of the Indian government is to reach zero population growth by 2050 with a population of 1.3 billion.

The majority of people live in some 555,315 villages with fewer than 10,000 residents each. The UN estimated that just 28% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.38%. The capital city, New Delhi, had a population of 14,146,000 in that year. Other large urban areas and their estimated population were Mumbai (formerly Bombay) (18,336,000); Delhi (15,334,000); Calcutta (14,299,000); Chennai (Madras) (6,900,000); Bangalore (6,532,000); Hyderabad (6,145,000); Ahmadabad (5,897,000); Pune (4,485,000); Surat (3,671,000); Kānpur (3,040,000); Jaipur (2,796,000); Lucknow (2,589,000); and Nāgpur (2,359,000).

## 7 MIGRATION

The partitioning of the South Asian subcontinent to create India and Pakistan in 1947 produced one of the great mass migrations in human history, involving some 20 million people. Historically, major migratory movements have been to and from Sri Lanka, Malaysia, Myanmar, and Bangladesh. The influx of Muslim refugees (estimated at 280,000 in 1983) from Bangladesh to Assam state since the 1970s has sparked protests among Hindus. Persons of Indian origin domiciled abroad (excluding Pakistan) reside mainly in Sri Lanka, Malaysia, Nepal, Myanmar, South Africa, Mauritius, Trinidad and Tobago, Guyana, Fiji, the United States, and the United Kingdom. Indian minority groups in foreign countries generally do not become assimilated with the local population but live as separate groups, intermarry, and retain their own distinctive culture even after a residence of several generations.

There has been a steady migration within India from rural to urban areas. Linguistic differences limit the degree of interstate migration, as do efforts by some states to limit job opportunities for migrants and to give preference in public employment to long-time local residents. Sri Lankans began arriving in the early 1990s. Since 1992, 54,000 repatriated voluntarily. However, repatriation stopped in 1995 due to violence in Sri Lanka. Some 3,800 people arrived in 1998, and arrivals continued. In 1999 there were around 66,000 Sri Lankan refugees located in 133 camps in the southern state of Tamil Nadu. An estimated 40,000 Sri Lankans live outside the camps. Indian authorities have not requested international assistance for Sri Lankan refugees, and the repatriation of Sri Lankans to their country is voluntary.

In 2000 there were 6,271,000 migrants living in India, including 170,900 refugees. In 2004, India had 162,687 refugees from China, Sri Lanka, and Afghanistan, and 314 asylum seekers from Myan-

mar and Afghanistan. In 2004, there were also 650,000 internally displaced people in India.

India receives more remittances from migrant workers than any other country, \$23 billion in 2004, up from \$10 billion in 2001. Most Indian migrants are unskilled workers. However, increasingly skilled health care and information technology workers emigrate, some returning to participate in India's rapid economic growth. In 2004, some 14,341 Indians applied for asylum in 17 countries, nearly 3,000 to Slovakia and over 1,000 each to Austria, South Africa, the United Kingdom, Germany, and Canada. In that same year 5,659 Indians entered the United States as refugees.

In 2005 the net immigration rate was estimated as -0.07 migrants per 1,000 population. The government views the migration levels as satisfactory.

## <sup>8</sup>ETHNIC GROUPS

India's ethnic history is extremely complex, and distinct racial divisions between peoples generally cannot be drawn clearly. However, Negroid, Australoid, Mongoloid, and Caucasoid stocks are discernible. The first three are represented mainly by tribal peoples in the southern hills, the plateau, Assam, the Himalayas, and the Andaman Islands. The main Caucasoid elements are the Mediterranean, including groups dominant in much of the north, and the Nordic or Indo-Aryan, a taller, fairer-skinned strain dominant in the northwest. The dark-complexioned Dravidians of the south have a mixture of Mediterranean and Australoid features. In 2000, 72% of the population was Indo-Aryan, 25% Dravidian, and 3% Mongoloid and other.

## <sup>9</sup>LANGUAGES

The 1961 census recorded 1,652 different languages and dialects in India; one state alone, Madhya Pradesh, had 377. There are officially 211 separate, distinct languages, of which Hindi, English, and 15 regional languages are officially recognized by the constitution. There are 24 languages that are each spoken by a million or more persons.

The most important speech group, culturally and numerically, is the Indo-Aryan branch of the Indo-European family, consisting of languages that are derived from Sanskrit. Hindi, spoken as the mother tongue by about 240 million people (30% of the total population), is the principal language in this family. Urdu differs from Hindi in being written in the Arabic-Farsi script and containing a large mixture of Arabic and Farsi words. Western Hindi, Eastern Hindi, Bihari, and Pahari are recognized separate Hindi dialects. Other Indo-Aryan languages include Assamese, Bengali, Gujarati, Kashmiri, Marathi, Oriya, Punjabi, Rajasthani, and Sindhi. Languages of Dravidian stock are dominant in southern India and include Telugu, Tamil, Kannada, and Malayalam. A few tribal languages of eastern India, such as Ho and Santali, fit into the aboriginal Munda family, which predates the Dravidian family on the subcontinent. Smaller groups in Assam and the Himalayas speak languages of Mon-Khmer and Tibeto-Chinese origin.

English is spoken as the native tongue by an estimated 10–15 million Indians and is widely employed in government, education, science, communications, and industry; it is often a second or third language of the educated classes. Although Hindi in Devanagari script is the official language, English is also recognized for official purposes. According to government policy, Hin-

di is the national language; for that reason, Hindi instruction in non-Hindi areas is being rapidly increased, and large numbers of scientific and other modern words are being added to its vocabulary. However, there has been considerable resistance to the adoption of Hindi in the Dravidian-language areas of southern India, as well as in some of the Indo-Aryan-speaking areas, especially West Bengal.

The importance of regional languages was well demonstrated in 1956, when the states were reorganized along linguistic boundaries. Thus, multilingual Hyderābād state was abolished by giving its Marathi-speaking sections to Mumbai (formerly Bombay, now in Maharashtra), its Telugu sections to Andhra Pradesh, and its Kannada sections to Mysore (now Karnataka). The Malayalam-speaking areas of Madras were united with Travancore-Cochin to form a single Malayalam state, Kerala. Madhya Bharat, Bhopal, and Vindhya Pradesh, three small Hindi-speaking states, were given to Madhya Pradesh, a large Hindi state, which, at the same time, lost its southern Marathi areas to Mumbai (formerly Bombay) state. Many other boundary changes occurred in this reorganization. Mumbai state originally was to have been divided into Gujarati and Marathi linguistic sections but remained as one state largely because of disagreement over which group was to receive the city of Mumbai (formerly Bombay). In 1960, however, it, too, was split into two states, Gujarat and Maharashtra, on the basis of linguistic boundaries. In 1966, the government of India accepted the demand of the Punjabi-speaking people, mainly Sikhs, to divide the bilingual state of Punjab into two unilingual areas, with the Hindi-speaking area to be known as Haryana and the Punjabi-speaking area to retain the name of Punjab.

India has almost as many forms of script as it has languages. Thus, all of the Dravidian and some of the Indo-Aryan languages have their own distinctive alphabets, which differ greatly in form and appearance. Some languages, such as Hindi, may be written in either of two different scripts. Konkani, a dialect of the west coast, is written in three different scripts in different geographic areas.

## <sup>10</sup>RELIGIONS

India is the cradle of two of the world's great religions, Hinduism and Buddhism. The principal texts of Hinduism—the *Rig Veda* (*Verses of Spiritual Knowledge*), the *Upanishads* (*Ways of Worship*), and the *Bhagavad-Gita* (*Song of the Lord*)—were written between 1200 and 100 bc. The teachings of Buddha, who lived during the 6th–5th centuries bc, were first transmitted orally and then systematized for transmission throughout Asia. Jainism, a religion that developed contemporaneously with Buddhism, has largely been confined to India. The Sikh religion began in the 15th century as an attempt to reconcile Muslim and Hindu doctrine, but the Sikhs soon became a warrior sect bitterly opposed to Islam.

An estimated 82% of the population are Hindus. Hindus have an absolute majority in all areas except Nagaland, Jammu, and Kashmir, and the tribal areas of Assam. Sikhs account for about 2% of the population and are concentrated in the state of Punjab, which since 1980 has been the site of violent acts by Sikh activists demanding greater autonomy from the Hindu-dominated central government. Other religious groups include Muslims (12% of the population, mostly Sunni) and Christians (2.3%). Large Muslim populations are located in Utar Pradesh, Bihar, Maharashtra, West Bengal, Andhra Pradesh, Kerala, Jammu, and Kashmir. The

northeastern states of Nagaland, Mizoram, and Meghalaya have Christian majorities. Buddhists, Jains, Parsis (Zoroastrians), Jews, and Baha'is make up less than 2% of the total population.

The caste system is a distinct feature of Hinduism, wherein every person either is born into one of four groups—Brahmans (priests and scholars), Kshatriyas (warriors and rulers), Vaisyas (shopkeepers, artisans, and farmers), and Sudras (farm laborers and menial workers)—or is casteless and thus untouchable. The untouchables are commonly known as Dalits or as Harijan (from the term used by Mahatma Gandhi). Although the constitution outlaws caste distinctions and discrimination, especially those applying to untouchability, progress in changing customs has been slow. Many Dalits have converted to other faiths in order to escape widespread discrimination in some areas; but several states have anticonversion laws in place for Dalits.

Freedom of worship is theoretically assured under the constitution; however, the government has the right to religious organizations that are considered to provoke public disorder. There are also a number of laws in place on both the federal and state level that regulate the activities of religious groups and even the right to religious conversions. There is a great deal of animosity between Muslims and Hindus, as well as Christians and Hindus; violent outbursts between these groups are not uncommon.

## <sup>11</sup>TRANSPORTATION

India's railway system is highly developed and constitutes the country's primary means of long-distance domestic transport. In 2004, the Indian railway system consisted of 63,230 km (39,329 mi), of broad and narrow gauge rail lines, of which 16,693 km (10,383 mi) were electrified. Broad gauge lines were the most extensive at 45,718 km (28,437 mi), with three sizes of narrow gauge line accounting for the remainder. Virtually all of India's railways are state-owned, and are the nation's largest public enterprise. It is also the largest railroad system in Asia and the fourth-largest in the world. In October 1984, India's first subway began operation in Calcutta over 3 km (1.9 mi) of track.

The national and state road network in 2002 consisted of about 3,319,644 km (2,064,818 mi), of which 1,517,077 km (942,712 mi) were paved. In 2003, there were 10,694,000 motor vehicles, including 6,669,000 automobiles and 4,025,000 commercial vehicles.

As of 2004, India had about 14,500 km (9,019 mi) of inland waterways, with 5,200 km (3,234 mi) on major rivers and 485 km (302 mi) on canals accessible by motorized vessels. Most important are the Ganges, Brahmaputra, Godavari, and Krishna rivers and the coastal plain canals of Kerala, Chennai, Andhra Pradesh, and Orissa.

In 2005, India's merchant fleet totaled 299 vessels of 1,000 GRT or more, with a combined total of 6,555,507 GRT, sufficient to handle almost all of the country's coastal trade and much of its trade with adjacent countries. The rest of India's trade is handled by foreign ships. Eleven major ports handle the bulk of the import-export traffic; the leading ports are Mumbai (formerly Bombay) and Mormugao. There are 140 smaller ports along the Indian coastline.

In 2004, there were an estimated 333 airports. As of 2005, a total of 239 had paved runways and there were also 27 heliports. International airports are at Mumbai, formerly Bombay (Santa Cruz); Calcutta (Dum Dum); Delhi (Indira Gandhi); Chennai, formerly

Madras (Meenambakkam); and Trivandrum. The Indian Airlines Corp., a nationalized industry, operates all internal flights and services to neighboring countries with daily flights to 60 cities. Air India, also government-owned, operates long-distance services to foreign countries on five continents. A national airline, Vayudoot, was established in 1981 to provide service to otherwise inaccessible areas in the northeast. Private airlines are growing in importance as well. In 2003, about 19.456 million passengers were carried on scheduled domestic and international airline flights.

## <sup>12</sup>HISTORY

India is one of the oldest continuously inhabited regions in the world. In Harappa, an area in the Indus Valley (now in Pakistan), between 3000 and 2000 BC, scores of thriving municipalities developed a distinct urban culture. This riverain civilization fell into decay around 1500–1200 BC, probably owing to the arrival of Aryan (Indo-European-speaking) invaders, who began entering the northern part of the subcontinent via Afghanistan. There followed over a thousand years of instability, of petty states and larger kingdoms, as one invading group after another contended for power. During this period, Indian village and family patterns, along with Brahmanism—one form of Hinduism—and its caste system, became established. Among the distinguished oral literature surviving from this period are two anonymous Sanskrit epics, the *Ramayana* (traditionally attributed to the legendary poet Valmiki) and the *Mahabharata* (the longest poem in the world, containing over 100,000 verses, including one of Hinduism's more sacred texts, the *Bhagavad-Gita*).

The South Asian subcontinent already had a population of about 30 million, of whom approximately 20 million lived in the Ganges Basin, when Alexander the Great invaded the Indus Valley in 326 BC. His successors were absorbed by the new Maurya dynasty (c.321–c.184 BC); under Chandragupta (r. c.321–c.297 BC), from his capital at Pataliputra (now Patna), the Mauryans subdued most of northern India and what is now Bangladesh. His successor, Asoka (r.273–232 BC), put all of India under unified control for the first time; an early convert to Buddhism, his regime was remembered for its sectarian tolerance, as well as for remarkable administrative, legal, and cultural achievements. Many Buddhist monuments and elaborately carved cave temples found at Sarnath, Ajanta, Bodhgaya, and other places in India date from the reigns of Asoka and his Buddhist successors.

In the years following Asoka, India divided again into a patchwork of kingdoms, as other invaders arrived from central and western Asia. In the process, Hinduism prevailed over Buddhism, which found wide acceptance elsewhere in Asia but remained widely practiced in India, its birthplace. Hindu kingdoms began to appear in what is present-day southern India after the 4th century AD. The era of the Gupta dynasty rule (AD 320–c.535) was a golden age of art, literature, and science in India. Hindu princes of the Rajput sub-caste, ruling in the northwest, reached their peak of power from AD 700 to 1000, although their descendants retained much of their influence well into British days.

In the 8th century, the first of several Islamic invaders appeared in the northwest; between 1000 and 1030, Mahmud of Ghazni made 17 forays into the subcontinent. The first Muslim sultan of Delhi was Kutb-ud-din (r. c.1195–1210), and Islam gradually spread eastward and southward, reaching its greatest territorial

and cultural extent under the Mughal (or Mogul) dynasty. “Mughal” comes from the Farsi word for Mongol, and the earlier Mughals were descendants of the great 14th-century Mongol conqueror Timur (also known as “Timur the Lame” or Tamerlane), a descendant in turn of Genghis Khan. Much of the population of the subcontinent began converting to Islam during the Mughal period, however, which helped weave Islam into the social fabric of India.

One of the Timurid princes, Babur (r.1526–30), captured Kabul in 1504 and defeated the Sultan of Delhi in 1526, becoming the first of the Mughals to proclaim himself emperor of India. In 1560, Akbar (r.1556–1605), Babur’s grandson, extended the dynasty’s authority over all of northern India. Akbar also attempted to establish a national state in and it was Akbar who was the first of the Muslim emperors to attempt the establishment alliance with Hindu rajahs (kings). Though illiterate, he was a great patron of art and literature. Among his successors were Shah Jahan and his son Aurangzeb, who left their imprint in massive palaces and mosques, superb fortresses (like the Lahore fort), dazzling mausoleums (like the Taj Mahal at Agra), elaborate formal gardens (like those in Srinagar), and the abandoned city of Fatehpur Sikri (37 km/23 mi w of Agra). Under Aurangzeb (r.1658–1707), who seized his father’s throne, the Mughal Empire reached its greatest extent and then began its decline, largely the result of his repressive policies. The Hindu Marathas fought the Mughals and established their own empire in western India.

Vasco da Gama reached India’s southwest coast by sea in 1498, and for a century the Portuguese had a monopoly over the Indian sea. Although it continued to hold bits of Indian territory until 1961, Portugal lost its dominant position as early as 1612 when forces controlled by the British East India Company defeated the Portuguese and won concessions from the Mughals. The company, which had been established in 1600, had permanent trading settlements in Chennai (formerly Madras), Mumbai (formerly Bombay), and Calcutta by 1690. Threatened by the French East India Company, which was founded in 1664, the two companies fought each other as part of their nations’ struggle for supremacy in Europe and the western hemisphere in the 18th century. They both allied with rival Indian princes and recruited soldiers (*sepoys*) locally, but the French and their allies suffered disastrous defeats in 1756 and 1757, against the backdrop of the Seven Years’ War (1756–63) raging in Europe. By 1761, France was no longer a power in India. The architect of the British triumph, later known as the founder of British India, was Robert Clive, later Baron, who became governor of the Company’s Bengal Presidency in 1764, to be followed by Warren Hastings and Lord Cornwallis in the years before 1800. The Company’s rule spread up the Gangetic plain to Oudh and Delhi, and eventually, to western India where the Maratha Confederacy, the alliance of independent Indian states that had succeeded the Mughal Empire there, was reduced to a group of relatively weak principalities owing fealty to the British in 1818.

The British government took direct control of the East India Company’s Indian domain during the Sepoy Mutiny (1857–59), a widespread rebellion by Indian soldiers in the company’s service, and in 1859, Queen Victoria was proclaimed Empress of India. The succeeding decades were characterized by significant economic and political development, but also by a growing cultural

and political gap between Indians and the British. Indian troops were deployed elsewhere in the world by the Crown in defense of British interests but without any recourse of Indian views.

### Nationalism and Independence

While the British moved gradually to expand local self-rule along federal lines, British power was increasingly challenged by the rise of indigenous movements challenging its authority. A modern Indian nationalism began to grow as a result of the influence of Western culture and education among the elite, and the formation of such groups as the Arya Samaj and Indian National Congress. Founded as an Anglophile debating society in 1885, the congress grew into a movement leading agitation for greater self-rule in the first 30 years of this century. Under the leadership of Mohandas Karamchand Gandhi (called the Mahatma, or Great Soul) and other nationalist leaders, such as Motilal and Jawaharlal Nehru, congress began to attract mass support in the 1930s with the success of noncooperation campaigns spearheaded by Gandhi and its advocacy of education, cottage industries, self-help, an end to the caste system, and nonviolent struggle. Muslims had also been politicized, beginning with the abortive partition of Bengal during the period 1905–12. And despite the INC leadership’s commitment to secularism, as the movement evolved under Gandhi, its leadership style appeared—to Muslims—uniquely Hindu, leading Indian Muslims to look to the protection of their interests in the formation of their own organization, the All-India Muslim League.

National and provincial elections in the mid-1930s, coupled with growing unrest throughout India, persuaded many Muslims that the power the majority Hindu population could exercise at the ballot box could leave them as a permanent electoral minority in any single democratic polity that would follow British rule. Sentiment in the Muslim League began to coalesce around the “two nation” theory propounded by the poet Iqbal, who argued that Muslims and Hindus were separate nations and that Muslims required creation of an independent Islamic state for their protection and fulfillment. A prominent attorney, Muhammad Ali Jinnah, led the fight for a separate Muslim state to be known as Pakistan, a goal formally endorsed by the Muslim League in Lahore in 1940.

Mahatma Gandhi, meanwhile, had broadened his demand in 1929 from self-rule to independence in 1929; in the 1930s, his campaigns of nonviolent noncooperation and civil disobedience electrified the countryside. In 1942, with British fortunes at a new low and the Japanese successful everywhere in Asia, Gandhi rejected a British appeal to postpone further talks on Indian self-rule until the end of World War II. Declining to support the British (and Allied) war effort and demanding immediate British withdrawal from India, he launched a “Quit India” campaign. In retaliation, Gandhi and most of India’s nationalist leaders were jailed.

The end of World War II and the British Labor Party’s victory at the polls in 1945 led to renewed negotiations on independence between Britain and the Hindu and Muslim leaders. Jawaharlal Nehru and the Congress leadership pressed anew for a single, secular nation in which the rights of all would be guarded by constitutional guarantees and democratic practice. But Jinnah and the Muslim League persevered in their campaign for Pakistan. In mid-August 1947, with Hindu-Muslim tensions rising, British India was divided into the two self-governing dominions of India and Pakistan,

the latter created by combining contiguous, Muslim-majority districts in the western and eastern parts of British India, with the former, the new republic of India, consisting of the large remaining land mass in between. Partition resulted in one of the world's largest mass movements of people: Hindus, Muslims, and Sikhs who found themselves on the "wrong" side of new international boundaries sought to cross over. As many as 20 million people moved, and up to 3 million of these were killed as violence erupted along the borders. Gandhi, who opposed the partition and worked unceasingly for Hindu-Muslim amity, became himself a casualty of heightened communal feeling; he was assassinated by a Hindu extremist five months after Partition.

### Kashmiri Dispute

The Partition did not address the more than 500 princely states with which the British Crown had treaty ties. Most princely rulers chose one or the other dominion on grounds of geography, but the state of Jammu and Kashmir, bordering both new nations, had a real option. A Muslim-majority state with a Hindu maharaja, Kashmir opted first for neither but sought protection when invaded in 1948 by tribesmen from Pakistan. Quickly, Indian and Pakistani armed forces were engaged in fighting that cut to the heart of the "two-nation" theory and brought the dispute to the fledgling United Nations. A UN cease-fire in 1949 left the state divided, one-third with Pakistan and the rest, including the Vale of Kashmir, under Indian control. An agreement to hold an impartial plebiscite broke down when the antagonists could not agree on the terms under which it would be held. India and Pakistan went to war again in 1965, and relationships over Kashmir remained tense. A 1971 agreement formed an informal border, known as the Line of Control, which both nations agreed to honor. Both nations have stood by the agreement for the most part, although militant activity in Kashmir since the late 1980s has led to periodic clashes between Indian and Pakistani troops. Such clashes came close to war in 1999 when insurgents that India claimed were backed by Pakistan entered the Indian-held Kargil region in Kashmir. Heavy fighting between Indian and Pakistani troops ensued, until Pakistan withdrew from Kargil that year. On 24 December 1999, Kashmiri militants hijacked an Indian Airlines plane flying between Nepal and Delhi to Afghanistan, an incident India blamed on Pakistan. In July 2002, the United States announced that it did not support Pakistan's persistent demand for a plebiscite in Kashmir, a statement welcome to India.

An upsurge in violence marked the run-up to state elections held in Indian-administered Jammu-Kashmir in September–October 2002. More than 800 people were killed in the violence. The elections were fought among pro-India parties, with separatists boycotting the elections. The elections resulted in an upset for the National Conference; it was the first time the party had been voted out of office since independence. The NC won 28 seats out of 87 in the State Assembly. The People's Democratic Party, which firmly stood against human rights abuses in Kashmir, emerged as victor, along with the Congress Party. India had seven million troops amassed on the Line of Control in Kashmir.

Nearly 80,000 people had died in the India-controlled portion of Kashmir as of early 2006.

India and Pakistan declared a formal cease-fire in Kashmir in November 2003, and relations between the two countries were

slowly improving. A bus link between the India- and Pakistan-controlled portions was established in April 2005, and both countries cooperated to some degree with the distribution of humanitarian aid following a deadly earthquake that struck the region on 8 October 2005.

In a second border dispute, India and China have been at odds about their Himalayan border since the Chinese occupation of Tibet in 1959, leading to clashes between Indian and Chinese troops at a number of locations along the disputed Himalayan border, including remote areas of Ladakh. In 1962, Chinese troops invaded—then withdrew from—Chinese claimed areas along the border, defeating India's under-equipped and badly led forces. The border dispute with China remained unresolved, although tensions have been eased by a standstill accord signed by the two countries in September 1993. An "agree to disagree" stance persisted between the two population-heavy nations until 2005 when talks were initiated to resolve the long-standing dispute.

After Nehru's death on 27 May 1964, his successor, Lal Bahadur Shastri, led India in dealing with an unprecedented round of Hindu-Muslim violence occasioned by the theft of a holy Islamic relic in Kashmir. In August and September 1965, his government successfully resisted a new effort by Pakistan to resolve the Kashmir dispute by force of arms. India was victorious on the battlefield, and an agreement both nations signed at Tashkent in January 1966, essentially restored the status quo ante. Shastri died of a heart attack at Tashkent, while at the height of his power, and his successor, Indira Gandhi (Nehru's daughter), pledged to honor the accords. India again went to war with Pakistan in December 1971, this time to support East Pakistan in its civil war with West Pakistan; Indian forces tipped the balance in favor of the separatists and led to the creation of Bangladesh from the former East Pakistan; in Kashmir, there were minor territorial adjustments. International tensions were heightened again, however, in April 1974 when India became the first Third World country to conduct a successful test of an atomic bomb.

### Weakening of Congress

Domestically, Indira Gandhi consolidated her power. The party lost its accustomed majority in parliament in the 1967 elections, but she continued to govern with the support of other parties and independents, winning again in 1972. In June 1975, after her conviction on minor election law violations in the 1972 polls, which required her to resign, she continued in power by proclaiming a state of emergency. By decree, she imposed press censorship, arrested opposition political leaders, and sponsored legislation that retroactively cleared her of the election law violations. These actions, although later upheld by the Supreme Court, resulted in widespread public disapproval.

Two years later, she held parliamentary elections in which she was defeated, forcing the Congress Party into the parliamentary opposition for the first time. The state of emergency was lifted, and Morarji Desai, formerly Nehru's deputy prime minister and the compromise choice of the winning five-party Janata coalition, became prime minister. But Janata did not last. Formed solely to oppose Indira Gandhi, the Janata coalition had no unity or agreed program, and soon collapsed. Indira Gandhi's newly reorganized Congress Party/I ("I" for Indira) courted Hindu votes to win a huge election victory in January 1980, and she regained office.

### Rise of Communal Violence

Indira Gandhi's rule ended with her assassination by her Sikh bodyguards in October 1984. The assassination stemmed from her ordering of troops in 1983 to storm the Golden Temple in Amritsar, where Sikh militants agitating for an independent nation of Khalistan in the Sikh-dominant Punjab province were alleged to be storing arms. The Sikh factionalism occurred against a backdrop of communal violence that plagued India in 1983. Hindu mobs in the state of Assam attacked Muslims from Bangladesh and West Bengal, killing at least 3,000 persons. After widespread violence in Punjab, Indira Gandhi had imposed direct rule in the state.

Rajiv Gandhi immediately succeeded his mother as prime minister and, in parliamentary elections held in December 1984, led the CP/I to its largest victory. But during the next two years, Rajiv Gandhi's popularity declined precipitously as the public reacted to government-imposed price increases in basic commodities, his inability to stem escalating sectarian violence, and charges of military kickbacks and other scandals. In October 1987, Indian troops were sent to Sri Lanka to enforce an agreement he and the Sri Lankan president had signed in July, aimed at ending the conflict between the country's Sinhalese majority and Tamil minority.

In September 1989, Rajiv agreed with Sri Lanka's request to pull his 100,000 troops out of their bloody standoff with Tamil separatists by the end of the year. In elections later that fall, his Congress/I Party won only a plurality of seats in the Lok Sabha, and he resigned. Vishwanath Pratap Singh, formerly Rajiv's rival in the CP and leader of the second-largest party (Janata Dal) in the house, formed a government with the support of two other parliamentary groups. Despite an encouraging start, V.P. Singh's government lost first its momentum, then its ability to command a majority in the parliament. He resigned on losing a confidence vote 11 months later and was succeeded, with Congress/I support, by longtime Janata and Congress leader Chandra Shekhar, who resigned after four months.

During the election campaign that followed in the spring of 1991, Rajiv Gandhi was assassinated by a disgruntled Sri Lankan Tamil while in Tamil Nadu. Congress/I rallied around longtime party stalwart P. V. Narasimha Rao, a former minister under both Rajiv and Indira Gandhi, drawing on a sympathy vote, to finish close enough to a majority to form a minority government. As prime minister, Rao—who was also Congress Party president—faced one of the worst outbreaks of Hindu-Muslim violence since Partition. The violence was focused on a dispute over the Babri Masjid mosque in Ayodhya, Uttar Pradesh. Hindus had claimed that the mosque had been built on the site of a former temple, and a pro-Hindu political party, the Bharathiya Janata Party (BJP) exploited the long-simmering dispute into a carefully orchestrated grab for political power. Hindu militants succeeded in destroying the mosque on 6 December 1992, an act that led to widespread communal riots in Uttar Pradesh, Mumbai (formerly Bombay) and much of the rest of the country. Communal riots have flared up throughout India ever since, and remained a persistent threat to the country's long-term stability. The worst outbreak of communal violence following the 1992 rioting occurred in February and March 2002, a group of Muslims in the town of Godhra in the state of Gujarat attacked and set fire to two train cars carrying Hindu activists returning from Ayodhya. Fifty-eight Hindus

were killed in the 27 February attack. Starting the following day, Hindus attacked Muslims in Gujarat, leaving hundreds dead and tens of thousands displaced. In three months of violence, much of it sanctioned by India's Hindu nationalist-dominant federal and Gujarati state governments, approximately 2,000 individuals were killed, mostly Muslims.

In more positive developments, Rao initiated economic reforms that, beginning in the early 1990s, opened India to foreign investors and market economics. He lost his hold on power in 1996, and in May of that year, President Shankar Dayal Sharma appointed Hindu nationalist Atal Bihari Vajpayee as prime minister, beginning a whirlwind of power struggles and political instability during which India changed governments four times in 11 months, with power shifting between the BJP and a United Front/Congress coalition. In an effort to retain its traditional grasp of power, Rajiv Gandhi's widow, Sonia Gandhi, was named president of the Congress Party. Her magnetism did little, however, to boost Congress' fortunes, and the power struggles culminated with Vajpayee's BJP-led party forming a government in 1998 after emerging as the largest single party in India's Parliament. The BJP held power until general elections in 2004 dealt it a loss. Power was returned to the Congress Party for the first time in nearly a decade.

### Nuclear Politics and World Terrorism

In May 1998, Vajpayee's government surprised the world by exploding several underground nuclear devices. Pakistan responded by holding its own nuclear tests later in the month. The tests brought economic sanctions against both India and Pakistan from the United States and other countries. Tensions eased somewhat in February 1999, however, when Vajpayee inaugurated the first ever bus service between India and Pakistan by traveling to Lahore to meet Pakistan's prime minister. This resulted in the Lahore Declaration (signed 21 February 1999), by which India and Pakistan pledged to resolve their differences peacefully and work for nuclear security. Nevertheless, both countries continued to test medium-range missiles capable of delivering nuclear warheads on targets throughout the region.

Following the September 2001 terrorist attacks on the United States, the United States lifted sanctions imposed on India following its 1998 nuclear tests, citing India's support in the US-led war on terrorism. India began to insist that Pakistan play a larger role in curtailing "cross-border terrorism" in Kashmir and India itself. On 13 December 2001, the Indian Parliament was attacked by five suicide fighters. Fourteen people died in the raid, including the five attackers. India blamed the attacks on two Pakistan-based organizations, Lashkar-e-Taiba and Jaish-e-Muhammad, which the United States also listed as terrorist groups. Following the attacks on Parliament, diplomatic contacts were curtailed, rail, bus, and air links were severed, and close to one million troops amassed on India's and Pakistan's shared border, the largest military build-up since the 1971 war. In January 2002, India successfully test-fired the Agni, a nuclear-capable ballistic missile, off its eastern coast. In May, Pakistan test-fired three medium-range surface-to-surface Ghauri missiles, capable of carrying nuclear warheads. In June, the United States and the United Kingdom undertook a diplomatic offensive to avert war, and urged their citizens to leave India and Pakistan. In October, India announced its troops had

begun withdrawing from Pakistan's border, but Pakistan stated it wanted proof of the pullback before starting its own.

On 19 March 2003, the US-led coalition launched war in Iraq. The war was seen as setting a precedent for authorizing preemptive strikes on hostile states. The notion that India and Pakistan might adopt such a policy toward one another caused international concern. In April 2003, spokesmen from both India and Pakistan asserted that the grounds on which the US-led coalition attacked Iraq also existed in each other's country. The situation became more uncomfortable in March 2006 when US president George W. Bush, in a visit to India, signed a deal that allowed India to import nuclear fuel and technology, a privilege unlikely to be extended to Pakistan.

### 13 GOVERNMENT

India is a sovereign socialist secular democratic republic. Its constitution, which became effective 26 January 1950, provides for a parliamentary form of government, at the center and in the states. The constitution also contains an extensive set of directive principles akin to the US Bill of Rights. Legislative acts and amendments have weakened some of those guarantees, while a number of decisions by the supreme court have left some weakened and others—like the commitment to secularism and to representative government—strengthened. Suffrage is universal at age 18.

The parliament, or legislative branch, consists of the president, the Council of States (Rajya Sabha), and the House of the People (Lok Sabha). The Rajya Sabha has a membership of not more than 250 members, of whom 12 are appointed by the president and the remainder indirectly elected by the state legislatures and by the union territories for six-year terms, with one-third chosen every two years. The Lok Sabha has 543 directly elected members (530 from the states, 13 from the union territories) and two members appointed by the president to represent the Anglo-Indian community. More than 22% of the seats are reserved for so-called “backward classes,” that is, schedule castes (formerly “Untouchables”) and scheduled tribes. The Lok Sabha has a maximum life of five years but can be dissolved earlier by the president. The next elections were to take place before May 2009.

The president and vice president are elected for five-year terms by an electoral college made up of the members of both parliamentary houses and the legislative assemblies of the states. Legally, all executive authority, including supreme command of the armed forces, is vested in the president, as head of state, who, in turn, appoints a council of ministers headed by a prime minister. The prime minister serves as the head of government. That individual is chosen by legislators of the political party, or coalition of parties, that commands the confidence of the parliament. The prime minister forms—and the president then appoints—the council of ministers, consisting of cabinet ministers, ministers of state, and deputy ministers to formulate and execute the government program. The vice president serves as president of the Rajya Sabha and usually succeeds the president at the end of the latter's term.

By tradition, the presidency and vice presidency trade off between northerner and southerner, although a Muslim and a Sikh—nonregional identifications—have also held these positions. In July 2002, A.P.J. Abdul Kalam was elected India's 11th president, garnering 90% of the electoral college vote. He was the

scientist responsible for carrying out India's nuclear tests in 1998, and is a Muslim. His term was to last through 2007.

Elections at the state level are no longer timed to coincide with national elections, and their schedule has become erratic, as state governments have been more or less stable.

BJP party leader A.B. Vajpayee emerged from the May 1996 election as the new prime minister. In an 11-month period, he was succeeded by Deve Gowda, of the United Front and I.K. Gujral, a coalition candidate representing Congress and the United Front. Vajpayee returned to the prime minister's position in 1999 and, despite a brief loss of power, retained the position until May 2004 when Congress regained power and chose Manmohan Singh to lead the governing coalition. The next election for prime minister was scheduled for May 2009.

### 14 POLITICAL PARTIES

India began its independent existence with the Indian National Congress supreme at the center and in all state legislatures. In its various manifestations, it controlled the government for most of the years since independence in 1947 before losing its dominant position with the rise of the Bharathiya Janata Party (BJP) in 1980. Founded in 1885, the Indian National Congress, known after 1947 as the Congress Party, was the most powerful mass movement fighting for independence in British India. It became the ruling party of a free India by reason of its national popularity and because most leaders of the independence movement were among its members, including Indian first prime minister, Jawaharlal Nehru. In its progression from independence movement to ruling party, the CP spawned many offshoots and continued to do so, as often for personal reasons as for matters of party policy. The first to do so was the socialist wing that split off shortly after independence to form a party in its own right, dividing again several times thereafter.

Other major parties at the time of independence included the Communist Party of India (CPI), with its origins in the peasants and workers parties of the past, representing, like them, the communist left. The CPI began the independence period under a cloud because of its Moscow-directed cooperation with the British during World War II. On the right were parties like the Hindu Mahasabha (HMS), doomed to ignominy when one of its kind killed Mahatma Gandhi in 1948. Within the political system, the HMS, nonetheless, reflected a vital Hindu nationalist strain that has seen several party iterations in the years since. It became a force to contend with as the BJP began to gain popularity after bringing together various strains of the Hindu nationalist movement into an “all-India” coalition party in 1980. By the early 1990s, the BJP has emerged as India's largest opposition party, and led a ruling coalition from 1998 to 2004.

Parties on the left, right, and center have continued to divide or split off over the years, and the number of single state linguistic, sectarian, and regional parties capable of governing only at the state level but available for coalition building at the center has grown significantly.

As of 2006, 19 political parties held seats in the People's Assembly. Leading parties in 2006 were Congress with 145 seats, the BJP with 138 seats, and the Communist Party of India (Marxist) with 43 seats.

## 15 LOCAL GOVERNMENT

The Republic of India is a union of states. The specific powers and spheres of influence of these states are set forth in the constitution, with all residual or nonspecified powers in the hands of the central government (the reverse of the US Constitution). The central government has the power to set state boundaries and to create and abolish states. The state governments are similar to the central government in form, with a chief minister and a cabinet responsible to the state legislature, which may be unicameral or bicameral. State governors, usually retired civil servants or politicians, are appointed by the president for a five-year term and act only on the advice of the state cabinet.

The constitution gives the president the power—on the advice of the prime minister—to dissolve a state legislature and dismiss a state government if no party commands the support of a majority or if the state's constitutional machinery is incapable of maintaining order. The Lok Sabha, which must approve each six-month extension of direct rule, acts as the state legislature during its imposition, governing through the governor. Termed as “President’s Rule” in the constitution, this power derives from a provision for “Governor’s Rule” in the Government of India Act of 1935 and survives in the Pakistan constitution of 1973 in that form. It was invoked for the first time in 1959 by Prime Minister Nehru, and on the advice of Indira Gandhi, who was then Congress Party president; in power herself, she invoked the power repeatedly, often for partisan political purposes and, especially in the early 1980s, in the wake of ethnic/communal violence in Punjab, Assam, and Jammu and Kashmir. Limitations on its partisan use were imposed in a Supreme Court decision in spring 1994.

Under the States Reorganization Act of 1956, there were 14 states and five union territories, organized, where appropriate, on linguistic grounds. Through a gradual process of reorganization and division, two former union territories have become states while new union territories have been created (there were seven as of 2006), and the number of states has grown to 28.

Administratively, the states and union territories are divided into districts, under the control of senior civil servants who are responsible for collecting revenues, maintaining law and order, and setting development priorities. Districts are further divided into subdivisions, and subdivisions into *taluks* or *tehsils*. State government and lower levels of representative councils vary in organization and function, but all are based on universal adult suffrage. Large towns are each governed by a corporation headed by a mayor; health, safety, education, and the maintenance of normal city facilities are under its jurisdiction. Smaller towns have municipal boards and committees similar to the corporations but with more limited powers. District boards in rural areas provide for road construction and maintenance, education, and public health. The constitution provides for the organization of village councils (*panchayats*), and nearly all the villages have been so organized. The panchayats are elected from among the villagers by all the adult population and have administrative functions and a judicial wing that enables them to handle minor offenses.

In the mid-1990s, there were several campaigns to form new states in India, carving new borders along factional lines in existing states. A promise by former Prime Minister Deve Gowda to create a new state in Uttar Pradesh in 1996 renewed separatist sentiments in several other states.

The Hindu nationalist party (BJP) proposed five new states in 1996, hoping to control their assemblies rather than fight political foes in larger entities. Both proposals ignore potentially chaotic consequences in favor of political gain; existing state boundaries were drawn on language differences, while there appeared to be no motive other than politics for the boundaries suggested by the new proposals. On its return to power in 1998, the BJP government succeeded in drafting bills that created three new states (Chhattisgarh, Uttaranchal, and Jharkhand), but put on hold its plans for making Delhi, presently a Union Territory, a state. Chhattisgarh, Uttaranchal, and Jharkhand became India's three newest states in November 2000, raising the total from 25 to 28.

## 16 JUDICIAL SYSTEM

The laws and judicial system of British India were continued after independence with only slight modifications. The supreme court consists of a chief justice and 25 associate judges, appointed by the president, who hold office until age 65. The court's duties include interpreting the constitution, handling all disputes between the central government and a state or between states themselves, and judging appeals from lower courts.

There are 18 high courts, subordinate to but not under the control of, the supreme court. Three have jurisdiction over more than one state. Each state's judicial system is headed by a high court whose judges are appointed by the president and over whom state legislatures have no control. High court judges can serve up to the age of 62. Each state is divided into districts; within each district, a hierarchy of civil courts is responsible to the principal civil courts, presided over by a district judge. The 1973 Code of Criminal Procedure, effective 1 April 1974, provides for the appointment of separate sets of magistrates for the performance of executive and judicial functions within the criminal court system. Executive magistrates are responsible to the state government; judicial magistrates are under the control of the high court in each state.

Different personal laws are administered through the single civil court system. Islamic law (Shariah) governs many noncriminal matters involving Muslims, including family law, inheritance, and divorce. There are strong constitutional safeguards assuring the independence of the judiciary. In 1993–94, the supreme court rendered important judgments imposing limits on the use of the constitutional device known as “President’s Rule” by the central government and reaffirming India's secular commitment.

## 17 ARMED FORCES

The Indian Armed Forces have a proud tradition, having provided one million soldiers during World War I and two million during World War II for combat in Asia, Africa, the Middle East, and Europe. The armed forces are entirely volunteer and consist of a Strategic Forces Command, the regular army, navy, and air force, a territorial (reserve) army, and 16 different full-time or reserve special purpose paramilitary units for border, transportation, and internal defense.

In 2005, active armed forces personnel totaled 1,325,000. The Army had 1,100,000 personnel, organized into 6 regional commands, a training command, and 11 corps headquarters, which included 3 armored divisions, 25 mechanized infantry battalions, 4 RAPID, 18 infantry divisions, 10 mountain divisions, 8 independent armored brigades, 8 independent infantry brigades, 2 ar-

tillery divisions, 4 air defense brigades, and 3 engineer brigades. The Army's equipment included 3,978 main battle tanks, 190 light tanks, 110 reconnaissance vehicles, over 1,700 armored infantry fighting vehicles, more than 817 armored personnel carriers, and more than 12,675 artillery pieces. The Indian Navy had 55,000 active personnel, including 7,000 personnel in its aviation arm and 1,200 Marines. Major naval units included 19 tactical submarines, 1 aircraft carrier, 8 destroyers, 17 frigates, and 28 corvettes. The naval aviation forces had 34 combat capable aircraft that included 15 fighter ground attack and 17 antisubmarine warfare aircraft. The Air Force had 170,000 personnel and 852 combat-capable aircraft, including 386 fighters and 380 fighter ground attack aircraft. The Air Force also had 60 attack helicopters. There is also a Coast Guard of over 8,000 personnel, with 41 aircraft and 50 patrol vessels.

India's Strategic Forces Command is responsible for the country's strategic missile force which consists of 24 IRBMs and 45 SRBMs. As of 2002, it was suspected that India possessed 60 nuclear weapons and had the capability for producing more.

India's paramilitary forces have 1,293,229 active personnel, which included a 208,422 person Border Security Force (BSF), a Central Industrial Security Force of 94,347, and a Central Reserve Police Force of 229,699, which were under the Ministry of Home Affairs. There was also a State Armed Police force of 450,000.

In 2005, the defense budget totaled \$22 billion. India in that same year, supplied personnel to six UN peacekeeping operations.

## 18 INTERNATIONAL COOPERATION

India became a charter member of the United Nations on 13 October 1945 and belongs to ESCAP and several nonregional specialized agencies. India is also part of the Asian Development Bank, the African Development Bank, the Colombo Plan, SAARC, G-6, G-15, G-19, G-24, and G-77. India became a founding member of the World Trade Organization (WTO) on 1 January 1995. It is a dialogue partner with the ASEAN and an observer in the OAS. India is a member of the Commonwealth of Nations.

India was a founder of the nonaligned movement and has pursued a formally neutralist foreign policy since independence. Relations with China, hostile during the early 1960s, have been normalized since 1976. India's primary ally among the superpowers had been the former USSR, with which a 20-year treaty of peace, friendship, and cooperation was signed in 1971. India also negotiated a settlement in Sri Lanka's civil unrest in July 1987, sending in troops to enforce the agreement.

Since independence, India has fought three wars with neighboring Pakistan, in 1947–48, 1965, and 1971. On 10 March 1983, India and Pakistan signed a five-year agreement for improving economic and cultural ties, which was viewed as a major step in the normalization of their relations. Tension between India and Pakistan increased again in 1986–87, when both countries conducted military exercises near their common border in the sensitive Punjab region. Indo-Pakistan relations worsened again in 1990 and in the years immediately following as a consequence of Pakistan's support of Islamic insurgents in Indian Kashmir. In 1998 both countries became nuclear powers, conducting a series of underground nuclear tests. Tensions between them worsened again after an attack on the Indian Lok Sabha in December 2001, and both countries amassed approximately one million troops

on their shared border. At the January 2004 SAARC summit in Islāmābād, India and Pakistan agreed to begin a Composite Dialogue addressing major issues, including control in Kashmir.

In environmental cooperation, India is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. The nation is also part of the South Asia Cooperative Environment Program (SACEP).

## 19 ECONOMY

As of 2006, India was the world's twelfth-largest economy, and third-largest in Asia behind Japan and China, in nominal terms. Although in current dollars, India's GDP was estimated at \$758.9 billion in 2005, in purchasing power parity (PPP) terms—a calculation which takes into account the low price levels for goods and services in India compared to the United States—India's effective GDP equaled \$3.718 trillion. Annual per capita income, of course, remained very low—estimated at \$693 in nominal terms and \$3,395 in PPP terms in 2005—but its twelfth-place rank reflects the country's remarkable record of steady growth: an annual growth average of 6.8% since 1994 with a 10% reduction in the proportion of the population living in poverty. Severe impediments and future challenges remain, however. Nearly two-thirds of the labor force is still employed or underemployed in agriculture, which constitutes 22% of the GDP. Industry contributes about 27% to GDP and employs some 17% of the labor force. Services account for about 23% of the labor force, and for 51% of GDP, up from a 12.8% share in 1980. India's population growth dropped below 2% for the first time in four decades in 2001 (it averaged 1.5% over the 2001–05 period), but the growth rate for the working-age group 15 to 60 years olds continued to accelerate, presenting government policy makers with the need to accelerate job creation. Over 58% of the population is under the age of 20.

India is rich in mineral, forest, and power resources, and its ample reserves of iron ore and coal provide a substantial base for heavy industry. Coal is the principal source for generating electric power although hydroelectric and nuclear installations supply a rising proportion of India's power needs. As well, anticipating a rapid growth in oil consumption in the near future, the government actively promotes oil exploration and development. Since 1997, under its New Exploration and Licensing Policy (NELP), foreign companies have been permitted to participate in upstream oil exploration, long restricted to Indian-owned firms.

The Indian economy is a mixture of public and private enterprises. Under a planned development regime since independence, the public sector provided the impetus for industrialization and for absorption of sophisticated technology. Nevertheless, a large proportion of the total manufacturing output continued to be contributed by small, unorganized industries. In recent years, and especially since 1991, the government has placed greater emphasis on private enterprise to stimulate growth and modernization. Reflecting this policy shift, public enterprises accounted for only about 7% of the country's GDP in 1999, down from 23% in the mid-1980s. In December 1999, the government created the Ministry of Disinvestment and announced plans to disinvest in 247

companies owned by the central government down to a 26% share in most companies, excluding only three strategic sectors altogether: railways, defense, and nuclear energy. In all, about \$530 million was received from disinvestment in 2000/01. In 2002/03 total receipts from disinvestment were only about 28% (\$717 million) of the Ministry's projected target \$2.5 billion. Sales included a strategic stake of Videsh Sanchar Nigam Ltd. (VSNL), India's premier international communications and internet service provider (ISP) company to the Tata Group, India's largest conglomerate; a strategic stake in IBP, the national petroleum marketing company, to Indian Oil; a strategic stake in Indian Petrochemical Company Ltd. (IPCL) to the Indian company, Reliance Industries; and a strategic share of Maruti Udyog Ltd. (MUL), India's top car maker, to Suzuki Maintenance Corporation (SMC) of Japan.

Following the proclamation of a state of emergency in June 1975, a 20-point economic reform program was announced. Price regulations were toughened, and a moratorium on rural debts was declared. A new campaign was mounted against tax evaders, currency speculators, smugglers, and hoarders. This program, which lapsed when Indira Gandhi was out of power (1977–80), was revised and incorporated into the sixth five-year plan (1980–85). The reforms were buttressed by a 30-month arrangement under the IMF's Extended Fund Facility (EFF), from 9 November 1981 to 10 May 1984. After the collapse of world oil prices in 1986, India's average annual growth increased to 6.2% on the latter half of the decade. This expansion was accompanied, however, by numerous persistent weaknesses: slow growth in formal sector employment, inefficiency and technological lags in the public sector, and increasing fiscal and balance of payments deficits, which by 1990 had produced double digit inflation. The oil shock accompanying the Persian Gulf War catalyzed an acute balance of payments crisis in early 1991.

Swift stabilization measures taken by the newly elected government, including two stand-by arrangements with the IMF, proved highly successful. By mid-1992, foreign exchange reserves had recovered to a comfortable margin and inflation declined from 13.1% in 1991–92 to 8.6% in 1993–94. Further reforms focused on trade liberalization, privatization, and deregulation helped push GDP growth to an average of 6.5% for the five years 1995 to 1999. Accelerating growth sparked a return of double-digit inflation, reaching 13.1% in 1998/99, but a currency devaluation of almost 12% helped bring inflation down to 3.4% in 1999. Economic growth slowed significantly in 2000/01 to around 4% reflecting both the global economic slowdown and also weak agricultural growth in India. The 2000/01 budget included a 30% increase on defense spending because of conflict with Pakistan, increasing the public debt. The central government's fiscal deficit increased steadily from 1997/98 to 2001/02, from 4.9% of GDP to 6.1% of GDP. In 2001/02, however, growth recovered to around 5.5% largely due to a recovery in agriculture. In the more export-sensitive industrial sector, the growth rate was only 2.7%. In 2002/03 industrial growth recovered to an estimated 6.17%, while services increased 7.1%.

By mid-2005, India's economy was booming. Industrial production had grown at its fastest rate in nine years, by 11.7% over the same period in 2004, including an increase in manufacturing of 12.5%. Exports were up by 19% on 2004, and imports by 30%. Economic growth was averaging 6.5% over the 2001–05 period,

with inflation at 4%. The stock market in mid-2005 had risen by more than 50% in one year, and foreign exchange reserves were building. Real GDP growth was forecast at 7.8% in fiscal year 2005/06, but was predicted to fall to 7% in 2006/07 and to 6.5% again in 2007/08. High international oil prices and strong domestic demand were predicted to lead to a significant widening of the merchandise trade deficit over the 2006–08 period, but strong surpluses on services and transfers were forecast to limit the size of the current-account deficit.

Despite its shining economy in 2006, India was suffering a stalling of economic reforms that had laid the basis for its successes. These reforms were begun in 1991 under Finance Minister Manmohan Singh, who by May 2004 had become prime minister. The government, led by the Congress Party, by 2005 had proved unable to pursue additional liberalizing economic reforms, as it relied upon support from a group of Communist parties that opposed many such reforms. In June 2005, those parties forced the government to formally abandon plans to sell stakes in 13 state-owned companies to strategic investors. However, by implementing a large public-works project, the government insisted it was implementing plans to reduce rural poverty, help fix rural infrastructure, and give power and rights to the very poor. In addition to the lost revenue from potential privatizations, with such public-works plans being envisioned, and the money it would take to fund them, the government faced budgetary concerns.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 India's gross domestic product (GDP) was estimated at \$3.7 trillion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$3,400. The annual growth rate of GDP was estimated at 7.1%. The average inflation rate in 2005 was 4.4%. It was estimated that agriculture accounted for 20.6% of GDP, industry 28.1%, and services 51.4%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$17.406 billion or about \$16 per capita and accounted for approximately 2.9% of GDP. Foreign aid receipts amounted to \$942 million or about \$1 per capita and accounted for approximately 0.2% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in India totaled \$384.29 billion or about \$363 per capita based on a GDP of \$600.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.9%. It was estimated that in 2002 about 25% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, India's active labor force totaled an estimated 496.4 million. In 1999 (the latest year for which data was available), 60%

were employed in agriculture, 17% in industry, and 23% in services. The unemployment rate in 2005 was estimated at 9%.

In 2005, there were an estimated 13 to 15 million organized industrial workers, all belonging to the formal economy, which accounted for about 30 million workers, or less than 10% of the total labor force. Most trade unions are affiliated with political parties. The right to strike is often exercised, but public sector unions are required to give 14 days notice prior to an organized strike. Employers are prohibited from discriminating against union activity, and collective bargaining is practiced.

As of 2005, working hours are limited by law to 49 per week for adults with eight-hour days. Minimum wages are set according to industry and by the various states. By law, earned income also includes a cost-of-living allowance and an annual bonus. However, these regulations were only applicable to factories and all other establishments covered by the Factories Act. Most workers covered under that law earned more than the minimum, and were subject to bonuses and other benefits. Agricultural workers were subject to separate state mandated minimum wage rates. In addition, some industries, such as apparel and footwear, had no prescribed minimum wage rate. Although factory, mine, and other hazardous industry employment of children under 14 years of age was prohibited, India had no formal overall minimum age governing child labor. Estimates place the number of child laborers as ranging from 12.7 to 55 million, as of 2005. Many of them work in the hand-knotted carpet industry. Bonded labor was abolished in 1976, but was still prevalent. Estimates of the number of bonded laborers range as high as 40 million. Health and safety standards are not regularly enforced.

## 22 AGRICULTURE

In 2003, of the total land area of 297 million hectares (734 million acres), the net sown area was 169 million hectares (420 million acres), or about 57%. The irrigated area totaled 55.8 million hectares (137.9 million acres) in 2003. At least 10 million hectares (24.7 million acres) were redistributed under land reform programs during 1951–79. Agriculture employs about 60% of India's population and contributes about 22% to GDP.

Agricultural production increased at an average annual rate of 2.9% during the 1970s, 3.1% during the 1980s, and 3.8% during 1990–98, mainly as the result of the “green revolution,” which has made India basically self-sufficient in grain output through the use of improved hybrid seeds, irrigation, and fertilizers. During 2002–04, crop production was up 0.1% from 1999–2001. Cereal production averaged over 104 million tons per year from 1979 to 1981; in 2003, production totaled 232 million tons. Rice leads all crops and, except in the northwest, is generally grown wherever the conditions are suitable. In 2004, 129 million tons of rice were produced on 42.3 million hectares (104.5 million acres). The combined acreage and production of other cereals, all to a large extent grown for human consumption, considerably exceed those of rice. These include jowar, a rich grain sorghum grown especially in the Deccan; wheat, grown in the northwest; and bajra, another grain sorghum grown in the drier areas of western India and the far south. A wheat crop of 72 million tons was harvested on 26.6 million hectares (65.8 million acres) in 2004. Vegetables, pulses, and oilseeds are the other main food crops. Oilseed production in

2004 included 5.1 million tons of cottonseed and 6.8 million tons of rapeseed.

Nonfood crops are mainly linseed, cotton, jute, and tobacco. The cotton crop in 2004/05 was 19 million bales (170 kg each) and was large enough to both supply the increasing demands of the domestic textile sector and provide export receipts. For centuries, India has been famous for its spices and today is one of the world's largest producers, consumers, and exporters of a wide range of spices. Of the 63 spices grown in the country, black pepper, cardamom, ginger, turmeric, and chilies are the most economically important. Since World War II (1939–45), India has been the world's largest producer of black pepper (51,000 tons in 2004). Pepper production is concentrated in the southern states of Kerala (65%), Karnataka (20%), and Tamil Nadu (15%).

India was the world's second-leading producer (after Brazil) of sugarcane in 2004, with an output of 244.8 million tons. Production of raw sugar amounted to 14.2 million tons in 2004/05, enough to meet over 90% of domestic consumption. Tea, coffee, and rubber plantations contribute significantly to the economy, although they occupy less than 1% of the agricultural land (in hill areas generally unsuited to Indian indigenous agriculture), and are the largest agricultural enterprises in India. Tea, the most important plantation crop, is a large foreign exchange earner, with an export value of \$377.7 million in 2004, based on exports of 174,728 tons. Production in 2004 was 850,800 tons, 26% of global production. It is grown mostly in Assam and northern Bengal, but also in southern India. Coffee (275,000 tons in 2004) is produced in southern India, and rubber (762,000 tons in 2004) in Kerala. Leaf tobacco production totaled 598,000 tons in 2004.

Because of the ever-present danger of food shortages, the government tightly controls the grain trade, fixing minimum support and procurement prices and maintaining buffer stocks. The Food Corp. of India, a government enterprise, distributes 12 million tons of food grains annually and is increasing its storage capacity.

## 23 ANIMAL HUSBANDRY

The livestock population of India is huge and animals as a whole play an important role in the agricultural economy even though they often receive inadequate nourishment. Slaughter of cattle in India is prohibited in all but a few states since Hindus believe that cows and other animals may contain reincarnated human souls. The slaughter of buffaloes is not as offensive to the religious beliefs of Hindus, and buffaloes are slaughtered for meat.

In 2005 there were an estimated 185 million head of cattle, representing about 6% of the world's total and more than in any other country. There are eight breeds of buffalo, 26 cattle breeds, and numerous crossbreeds. The bovine inventory in 2005 also included 98 million buffalo. Other livestock in 2005 included 120 million goats, 62.5 million sheep, 14.3 million hogs, 635,000 camels, 750,000 asses, 800,000 horses, and 430 million chickens. Bulls (steers) and water buffalo are important draft animals. Dairy farming has made India self-sufficient in butter and powdered milk. Dairying in India is undertaken on millions of small farms, where one to three milk animals are raised on less than a hectare (2.5 acres), and yields consist of two to three liters of milk daily. To improve milk production, a dairy development program was begun in 1978 to build up the milch herd to 150 million cross-

bred cows. Milk output in 2005 from over 35 million dairy cows was estimated at 38.5 million tons, second in the world. India also produced 38.5 million tons of buffalo milk that year. Egg production in 2005 was 2,492,000 tons. The production of cattle and buffalo hides and goat- and sheepskins is a major industry. About 51,400 tons of wool were produced in 2005. Silk production that year amounted to 17,500 tons, second highest after China. Animal dung is also used for fuel and fertilizer.

## 24 FISHING

Fishing is an important secondary source of income to some farmers and a primary occupation in small fishing villages. Almost three-fifths of the catch consists of sea fish. The bulk is marketed fresh; of the remainder, more than half is sun-dried. Fish and fish products account for about 2.5–3% of the total export value. Deep-sea fishing is not done on a large scale. Inland fishing is most developed in the deltaic channels of Bengal, an area where fish is an important ingredient of the diet. In recent years, the government has been encouraging ocean fishing through the establishment of processing plants and the introduction of deep-sea craft. Fishing harbors have been built along the coasts of the Bay of Bengal and the Arabian Sea. Under the fifth national plan (1974–79), fish farming was encouraged through the creation of Fish Farmers' Development Agencies. Fish production achieved a new high of about 3.7 million tons at the end of the seventh national plan (1986–91).

The total fish catch in 2003 was 5,904,584 tons (sixth in the world), of which capture fishing accounted for 3,658,994 tons and aquacultural sources for 2,215,590 tons. Fish exports, still only a fraction of the potential, have shown a steady gain. In 2003, exports of fish products amounted to over \$1.3 billion.

## 25 FORESTRY

The major forestlands lie in the foothills of the Himalayas, the hills of Assam state, the northern highlands of the Deccan, the Western Ghats, and the Andaman Islands. Other forestlands are generally scrub and poor secondary growth of restricted commercial potential. India's forests are mostly broad-leaved; the most important commercial species are sal (10.9% of forest trees), mixed conifers (8.1%), teak (6.8%), fir (3.2%), chir-pine (2.4%), and upland hardwood (2.4%). In 2000 there were 64,113,000 hectares (158,423,000 acres) of forestland, according to a satellite survey. About 40% of the forest area is highly degraded and devoid of wood producing trees.

India's forests have historically suffered tremendous pressure from its large human and animal populations as a source of fuel wood, fodder, and timber. According to the government's national forest policy, 33% of the land area should be covered by forest, but actual forest coverage is just 21.6%. About 138,000 hectares (341,000 acres) were planted annually during the 1980s under afforestation programs. During 1990–2000, the forested area grew by an annual average of 38,000 hectares (94,000 acres). Most forests (98%) are owned by state governments and are reserved or protected for the maintenance of permanent timber and water supplies. The government has prohibited commercial harvesting of trees on public land, except for mature, fallen, or sick trees. In order to help meet the fuel needs of much of the population, harvesting dead and fallen branches is permitted in government for-

ests, but this policy is widely violated. About 94% of the total timber cut in 2004 was burned as fuel.

The total timber cut in 2004 was 322.7 million cu m (11.4 billion cu ft). Production that year included (in million of cubic meters): sawn wood, 11.9; paper and paperboard, 4.1; wood-based panels, 2.1; and wood pulp, 1.7. Other forestry products include bamboos, canes, fibers, flosses, gums and resins, medicinal herbs, tanning barks, and lac. Imports of forest products nearly totaled \$1,075 million in 2004, and mainly consisted of newsprint, printing and writing paper, and recovered paper products.

## 26 MINING

Well endowed with industrial minerals, India's leading industries in 2003 included steel, cement, mining, and petroleum. Gems and jewelry were leading export commodities to the United States. The minerals industry of India produced more than 80 mineral commodities in the form of ores, metals, industrial minerals, and mineral fuels and is among the world's leading producers of iron ore, bituminous coal, zinc, and bauxite. The country exploited 52 minerals—11 metallic, 38 nonmetallic, and 3 mineral fuels. In 2003, India also produced lead, monazite, selenium, silver, ilmenite, rutile, corundum, garnet, jasper, asbestos, barite (from the Cuddapah District mines, Andhra Pradesh), bromine, hydraulic cement, chalk, clays (including ball clay, diaspore, fireclay, and kaolin), feldspar, fluorspar, agate, zircon, graphite, kyanite, sillimanite, lime, magnesite, nitrogen, phosphate rock, apatite, ocher, mineral and natural pigments, pyrites, salt, soda ash, calcite, dolomite, limestone, quartz, quartzite, sand (including calcareous and silica), slate, talc, pyrophyllite, steatite (soapstone), vermiculite, and wollastonite.

Output of iron ore and concentrate totaled 85 million tons in 2003, up from 80 million tons in 2002. Iron ore reserves, estimated at 11,000 million tons of hematite ore containing at least 55% iron, were among the largest in the world. Principal iron ore output came from the rich fields along the Bihar-Orissa border, close to all major existing iron and steel works. Smaller amounts were mined in the Bababudan Hills of Karnataka and elsewhere. The joint venture Río Tinto Orissa Mining Ltd. studied a new mining project, in the Gandhamardan/Malanjtoli areas of Orissa, that had ore reserves of 800 million tons and could start in 2006, produce 25 million tons per year by its fifth year, and have an eventual capacity of 50 million tons per year.

India's output of bauxite by gross weight was 10,002,000 million tons in 2003, up from 9,647,000 tons in 2002. Bauxite deposits were estimated at 2,300 million tons. The state-owned National Aluminium Co. Ltd. (Nalco), which doubled its mining capacity to 4.8 million tons per year, has been privatized by the government.

Production of zinc concentrates (zinc content) in 2003 was 162,000 metric tons, up from 234,300 metric tons in 2002.

Production of smelted gold in 2003 totaled 3,100 kg, while the output of mined and smelted silver totaled 53,600 kg in that same year. Gold and silver came largely from the Kolar fields of southeastern Karnataka, where the gold mines have reached a depth of more than 3.2 km and contained reserves of 55,000 kg of gold. The Geological Survey of India outlined three new gold resources—in the Dona block, Andhra Pradesh, 4.8 million tons averaging 1.9 grams per ton of gold; in the Banswar district, Rajasthan, 7.1 million tons averaging 2.96 grams per ton of gold; and in the Ghrhar

Pahar block, Sidhi district of Madhya Pradesh, 3.3 million tons averaging 1.04 grams per ton of gold. The import duty on gold was reduced to curtail smuggling.

In 2003 diamond production (gem and industrial) totaled 60,000 carats, down from 62,000 carats in 2002. Industrial diamond output in 2003 totaled 44,000 carats, down from 45,000 carats in 2002, while gem diamond output totaled 16,000 and 17,000 carats for 2003 and 2002, respectively.

Content of manganese in mined ore produced was 620,000 tons in 2003. Manganese deposits were estimated at 154 million tons. Manganese was mined in Andhra Pradesh, Karnataka, the Nāgpur section of Maharashtra, northward in Madhya Pradesh, along the Bihar-Orissa border adjoining the iron ore deposits, along the Maharashtra-Madhya Pradesh-Rajasthan border, and in central coastal Andhra Pradesh.

Mineral production in 2003 included: 28,400 metric tons of mined copper ore, down from 31,500 metric tons in 2002; 1.8 million tons of gross weight chromite, compared to 1.9 in 2002; 2.3 million metric tons of gypsum; and 1,600 metric tons of crude mica, up from 1,500 metric tons in 2002. The best-quality mica came from Bihar.

There were extensive workable reserves of fluorite, chromite, ilmenite (for titanium), monazite (for thorium), beach sands, magnesite, beryllium, copper, and a variety of other industrial and agricultural minerals. However, India lacked substantial reserves of some nonferrous metals and special steel ingredients.

## 27 ENERGY AND POWER

India's proven petroleum reserves and crude refining capacity were estimated at 5.4 billion barrels and at 2.1 million barrels per day, respectively, as of 1 January 2004. Oil production in 2003 was estimated at 819,000 barrels per day, of which crude oil accounted for 660,000 barrels per day. However, in that same year, demand for oil totaled an estimated 2.2 million barrels per day, requiring India to import an estimated net 1.4 million barrels per day, in 2003. While India's future oil consumption is anticipated to reach 2.8 million barrels per day by 2010, the country is looking to expand its domestic production to offset its need to rely upon imports. Oil exploration and production are undertaken in joint ventures between government and private foreign companies. As of October 2004, oil accounted for roughly 30% of India's energy consumption. India's natural gas reserves were estimated at 30.1 trillion cu ft, as of 1 January 2004. In 2002, natural gas production and consumption each totaled an estimated 883 billion cu ft.

India's recoverable coal reserves were estimated in 2001 at total 93 billion short tons. Production and consumption of coal in 2002, was estimated at 393 million short tons and 421 million short tons, respectively.

In 2002, India's electric generating capacity was placed at 122.074 million kW, which included: 91.447 million kW of conventional thermal; 26.260 million kW of hydro; 2.860 million kW of nuclear; and 1.507 million kW for geothermal/other sources. Electric power output in 2002 totaled an estimated 547 billion kWh, of which: 478.213 kWh were generated by conventional thermal sources; 26.260 kWh by hydroelectric sources; 17.760 kWh by nuclear plants; and 4.093 kWh by geothermal/other sources. In 2002, India consumed 525.427 billion kWh of electricity, of which 1.520 billion kWh were imported.

A 380 MW nuclear power station, India's first, was completed with US assistance in 1969 at Tarapur, near Mumbai (formerly Bombay). (The Tarapur plant has long been a center of controversy because of India's alleged failure to observe international safeguards to prevent the diversion of nuclear materials for military purposes.) Another nuclear station, in Rajasthan, began partial operations in the early 1970s, and two more plants were added by the end of the decade. In 1996, India had 10 operating reactors with a combined capacity of 1,695 MW, and four more under construction with a planned capacity of 808 MW. In 1999, the 740 MW initial phase of the Dabhol LNG-fired power plant began operation—LNG is liquefied natural gas.

## 28 INDUSTRY

Modern industry has advanced fairly rapidly since independence, and the industrial sector now contributes 27% of the GDP. Large modern steel mills and many fertilizer plants, heavy-machinery plants, oil refineries, locomotive and automotive works have been constructed; the metallurgical, chemical, cement, and oil-refining industries have also expanded. Moreover, India has established its role in the high value-added sectors of the "new economy" sectors of information technology (IT), computer hardware, computer software, media, and entertainment. Yet, though the total product is large, industry absorbs only about 17% of the labor force. Nine states—Maharashtra, West Bengal, Tamil Nadu, Gujarat, Uttar Pradesh, Bihar, Andhra Pradesh, Karnataka, and Madhya Pradesh—together account for most of Indian industry.

Industrial production expanded at an average annual rate of 5–6% between 1970 and 1990. Enforced austerity and demand management measures taken to stabilize rapidly worsening macroeconomic imbalances in 1991–92 slowed growth in the industry sector to 0% for that year. This was followed by a modest recovery to 1.9% growth in 1992–93, though declining to an estimated 1.6% in 1993–94, due to lingering effects of the earlier stabilization measures as well as poorer than expected demand in key export markets. In 1995–96, however, the industrial growth rate jumped 11.7%, led by a 13% increase in manufacturing output, the highest in 25 years. Growth in industrial production was 6.6% in 1997–98, but slowed to 4.1% in 1998/99 primarily due to the effects of the Asian financial crisis, but also in part to international sanctions imposed after its nuclear tests in 1998. A rebound evidenced in 6.6% growth in 1999–2000 was cut short by the global economic slowdown in 2001, and the aftermath of the 11 September 2001 terrorist attacks on the United States, including intensifying regional tensions with Pakistan. Growth in industrial production slowed, to 5.1% in 2000–01 and to 2.7% in 2001–02. As the economy improved by mid-decade, the industrial production growth rate stood at 7.4% in 2004, and had climbed to 11.7% by June 2005.

Under the planned development regime of past decades, government directives channeled much of the country's resources into public enterprises. Private investment was closely regulated for all industries, discouraging investors from formal entry into the sector. However, industrial policy has shifted towards privatization and deregulation. Since 1991 government licensing requirements have been abolished for all but a few "controlled areas": distillation and brewing of alcoholic drinks, cigars and cigarettes, defense equipment, industrial explosives, hazardous chemicals, and

drugs and pharmaceuticals. Under the government disinvestment program announced at the end of 1999, only three sectors remain completely closed to private investment: defense, atomic energy, and railway transport. The oil industry was opened to joint foreign investment in 1997 under the New Exploration and Licensing Policy (NELP). The Ministry of Disinvestment was established in December 1999 to oversee the reduction of government shares in 247 state-owned companies. The first sale, in 2000, was 51% of the Bharat Aluminum Company, Ltd. to Sterlite Ltd. of India. In 2002, managerial control of Maruti Udyog Ltd. (MUL), India's top carmaker, was transferred to Suzuki Maintenance Corporation (SMC) of Japan. Generally, the public sector units (PSUs) for which the government has found buyers in its disinvestment program have not been in the industrial or manufacturing sectors. Instead, the government has taken steps to make their operations more competitive. Credit and capital markets have also been greatly liberalized. Since 1992, all foreign companies have been on par with Indian companies in the area of foreign exchange solvency and on the stock market. With these reforms, private investment in industry is now proceeding at a steady pace, fostering increased competition in most of the mining and manufacturing sectors previously monopolized by parastatals.

Textile production dominates the industrial field, accounting for about 30% of export earnings while adding only 7–8% to imports. The textile industry employs approximately 35 million workers, making it the second-largest employer in India after agriculture. On a broad level, the textile sector can be divided between the natural fiber segment (cotton, silk, wool, jute, etc.) and the man-made fiber segment (polyester filament yarn, blended yarns, etc.). Cotton accounts for about 60% of both domestic consumption and exports. In terms of operations, since the 1980s decentralized powerlooms have produced an increasingly large share of production as centralized mills have declined. In 1986, there were about 638,000 decentralized powerlooms in operation, and by 2002 these had increased 260% to about 1,662,000. Anticipating the globalization of the textile market in 2004, India's National Textile Policy of 2000 pinpointed the weaving sector as the crucial link in the textile value chain (from fiber to fabric to garment to style) that needed to become more competitive. However, integrated mill operations, which perform spinning, weaving and processing in a central location, have stagnated and declined. Mumbai (formerly Bombay), Ahmadābad, and the provincial cities in southern India lead in cotton milling, which accounts for about 65% of the raw material consumed by the textile industry. Jute milling is localized at Calcutta, center of the jute agricultural area. India is the world's number one jute manufacturer. On average, textile production was growing at about 5% a year by 2000, although in 2001–02, with demand damped by a series of negative events—economic recession in the United States, a global economic slowdown, the 11 September 2001 terrorist attacks on the United States, the attack on India's Parliament on 13 December 2001, and sectarian violence in Gujarat—growth fell to 2.6%, while textile exports fell 9%. However, beginning at the end of 2002 and continuing into the next three years, strong growth was evidenced. Textile exports had increased to \$11.7 by 2004, an increase of some 5% over 2003. Estimates were that the textile sector would grow by 15–18% following the end of world textile quotas in 2005.

India is the world's ninth-largest steel producer. Crude steel production reached 32.6 million tons in 2004. India's steel production has more than doubled since 1990. In 2005, India's steel production increased by 16.6% over 2004; with China, India led the global increase in steel production in 2005. The industry consists of seven large integrated mills and about 180 mini steel plants. The metallurgical sector also produced 818,000 tons of aluminum products in 2002. Automobile production, fed by both the steel and aluminum industries, has grown at an annual rates of close to 20% since liberalization in 1993, propelled by low interest rates, the expansion of consumer finance, and strong export demand. About 90% of vehicles produced are economy cars, and 10% are luxury cars and SUVs.

In the field of computers and consumer electronics, production has been boosted by the liberalization of technology and component imports. In consumer durables, production in many cases grew at double-digit rates in 2001/02 (air conditioners, 25%; microwave ovens, over 20%; color TVs, over 15%; refrigerators, 12%; audio products and DVDs, 10%; washing machines, less than 5%), while computer production was up 36%. Computer software exports have grown as a compound growth rate of some 50% per year. The electronics market in India was worth \$11.5 billion in 2004, and was projected to be the fastest-growing electronics market in several succeeding years. Since 2004, the electronics industry growth rate was surging at close to 30%.

In the petrochemical sector, India has 18 refineries throughout the country with a total refinery capacity of more than two million barrels per day. Sixteen refineries are government-owned, one is jointly owned, and one, the Reliance Industries refinery at Jamnagar in Gujarat State, is privately owned. Almost half India's refinery capacity has been built since 1998, the government's goal being self-sufficiency in refined petroleum products. India's total refinery capacity should currently be enough to meet domestic demand, but because of operational problems it still has to import diesel fuel.

India's cement industry is the second-largest in the world, after China, with an installed capacity of some 135 million tons. Exports have been very limited and only to immediate neighbors. In the last decade, the government's portion of cement consumption decreased from 50% to 35% as the domestic housing market has grown. However, government financed infrastructure projects have also helped sparked a growth in construction. In 2001/02, 106.9 million tons of cement were produced, of which 5.14 million tons were exported. Cement production—at a 10% growth rate—was expected to grow to 158.5 million tons by the end of 2006/07.

Like cement, India's food processing industry is oriented mainly toward the domestic market. It is India's fifth-largest industry, with output reaching more than \$30 billion. Structurally it consists of about 9000 operational units, accounts for about 6.3% of GDP, 13% of exports, and 18% of industrial employment (about 1.6 million workers).

India's fertilizer industry is the third-largest in the world and central to its efforts to increase agricultural productivity. Potassium-based nutrients must all be imported. Since 1992 the government has been gradually decontrolling the price of fertilizers.

## 29 SCIENCE AND TECHNOLOGY

In 2000 (the latest year for which data was available), India's total expenditures on research and development (R&D) amounted to \$20,782.676 million, or 0.85% of GDP. Allocations are divided among government and industry, with government providing the major share at 74.7%, as of 2000, followed by business at 23% and higher education at 2.4%. In 2002, the value of India's high technology exports totaled \$1.788 billion, accounting for 5% of the country's manufactured exports. There has been a marked growth in the training of engineers and technicians. For the period 1990-01, India had an estimated 157 researchers and 115 technicians per million people that were actively engaged in R&D. In 1987-97, science and engineering students accounted for 25% of college and university enrollments.

Among the technological higher schools are the Indian Institute of Science at Bangalore and the Indian Institutes of Technology at Mumbai (formerly Bombay), Delhi, Kānpur, Kharagpur, and Madras. In 1947, there were 620 colleges and universities; by 1996, that number was nearly 7,700. One of the primary science and technology issues facing India is a "brain drain." Over 13,000 Indian students annually seek science and engineering degrees in the United States. Such an exodus may greatly reduce the quality of science and engineering education in India.

There are more than 2,500 national research and development institutions connected with science and technology in India. Principal government agencies engaged in scientific research and technical development are the Ministry of Science and Technology, the Council of Scientific and Industrial Research, the Ministry of Atomic Energy, and the Ministry of Electronics. The Council for Scientific and Industrial Research (founded in 1942) has 39 national laboratories under its umbrella. In March 1981, a cabinet committee, headed by the prime minister, was established to review science and technology programs and to decide future policy.

An importer of nuclear technology since the 1960s, India tested its own underground nuclear device for the first time in 1974 at Pokhran, in Rajasthan. In May 1996, India once again performed nuclear tests, dropping three bombs into 700-foot-deep shafts in the desert at Pokhran, with an impact of 80 kilotons. Pakistan responded later the same month with tests of its own. The first Indian-built nuclear power plant, with two 235-MW heavy-water reactors, began operating in July 1983, and an experimental fast-breeder reactor was under construction.

The country's largest scientific establishment is the Bhabha Atomic Research Center at Trombay, near Mumbai (formerly Bombay), which has four nuclear research reactors and trains 150 nuclear scientists each year. In the area of space technology, India's first communications satellite, *Aryabhata*, was launched into orbit by the former USSR on 19 April 1975, and two additional satellites were orbited by Soviet rockets in 1979 and 1981. The Indian Space Research Organization constructed and launched India's first satellite-launching vehicle, the SLV-3, from its Vikram Sarabhai Space Center at Sriharikota on 18 July 1980; the four-stage, solid-fuel rocket put a 35 kg (77 lb) Rohini satellite into near-earth orbit. Indian-built telecommunications satellites have been launched into orbit from Cape Canaveral, Florida, by the US National Aeronautics and Space Administration, by the European Space Agency, and from French Guiana. India has established a

satellite-tracking station at Kavalur, in Tamil Nadu. In 1984, the first Indo-Soviet manned mission was completed successfully; in 1985, two Indians were selected for an Indo-US joint shuttle flight. An important international sciences program is the United States-India Fund (USIF), through which scientists and engineers participate in Indo-US joint research projects at 15 institutions in each country. Projects include earthquake, atmospheric, marine, energy, environment, medical, and life sciences.

Major learned societies in the country are the Indian Academy of Sciences (founded in 1934 in Bangalore), the Indian National Science Academy (founded in 1935 in New Delhi), and the National Academy of Sciences (founded in 1930 in Allahābād).

## 30 DOMESTIC TRADE

Under a nationwide scheme launched in 1979 for the distribution of essential commodities, goods are procured by the central government and then supplied to citizens. Each state has its own consumer cooperative federation; all of these groups are under the aegis of the National Cooperative Consumers Federation with the Minister of Consumer Affairs and Public Distribution. By 2000, more than 26,000 cooperatives and 680 wholesale stores shared in the distribution of sugar, edible oils, and grains in rural areas.

With the government's new emphasis on growth in private enterprise since the late 1980s, the expansion of privately-owned retail outlets have competed with the cooperative sector. Most private commercial enterprises are small establishments owned and operated by a single person or a single family; retail outlets are often highly specialized in product and usually very small in quarters and total stock. Often the Indian retail shop is large enough to hold only the proprietor and a small selection of stock; shutters fronting the store are opened to allow customers to negotiate from the street or sidewalk. There are no major national chains but foreign franchises do exist. In most retail shops, fixed prices are rare and bargaining is the accepted means of purchase. Some department stores and supermarkets have begun to appear in shopping centers in major cities. These shopping centers usually offer entertainment and leisure activities as well.

India's domestic trade is widely influenced by informal and unreported commerce and income, known as "black money."

### Principal Trading Partners – India (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	63,028.9	77,201.4	-14,172.5
United States	11,374.8	4,974.9	6,399.9
United Arab Emirates	5,038.7	2,035.1	3,003.6
China, Hong Kong SAR	3,221.4	1,474.8	1,746.6
United Kingdom	2,986.8	3,195.5	-208.7
China	2,918.5	4,004.5	-1,086.0
Germany	2,513.1	2,883.5	-370.4
Singapore	2,098.5	2,060.3	38.2
Belgium	1,783.4	3,928.1	-2,144.7
Bangladesh	1,719.2	...	1,719.2
Italy-San Marino-Holy See	1,708.0	1,058.2	649.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Government and business hours are generally from 10 AM to 5 PM, Monday through Friday, with a lunch break from 1 to 2 PM. Larger shops in Delhi are open from 9:30 AM to 1:30 PM and from 3:30 to 7:30 PM. Normal banking hours are from 10 AM to 4 PM on weekdays and from 10 AM to noon on Saturdays.

### 31 FOREIGN TRADE

Initially, India's foreign trade followed a pattern common to all underdeveloped countries: exporting raw materials and food in exchange for manufactured goods. The only difference in India's case was that it also exported processed textiles, yarn, and jute goods. Until the late 1980s, the government's strongly import substitution-oriented industrial policy limited the significance of exports for the Indian economy, and while exports have become more important, they remain only about 8% of national income. With imports exceeding exports almost continuously in the 1970s and 1980s, India registers a chronic trade deficit. Stabilization and structural adjustment measures taken in 1991, including a 50% currency devaluation, have improved the country's balance of trade position by depressing imports and making exports more competitive in the world market. Given the country's relatively well-developed manufacturing base, items like textile goods, gems and jewelry, engineering goods, chemicals, and leather manufactures now comprise the country's leading exported items, replacing jute, tea, and other food products that dominated its export base in the 1960s and early 1970s. India's major imports include petroleum and petroleum products, gold and precious stones, machinery, chemicals, and fertilizers.

India's trade deficit rose to an estimated \$19.2 billion in 2004 in balance-of-payments terms, up from \$8.9 billion in 2003. Exports performed strongly, rising 31.3% to \$78 billion, but imports also soared by 42% to \$97 billion, owing largely to the higher price of oil and to the demand for industrial inputs and consumer goods. The United States remained India's largest trading partner, although China in recent years has become the second-largest market for Indian goods. In 2004, India's leading markets were: the United States (19.8% of all exports); China (8.3%); the United Arab Emirates (8%); the United Kingdom (5.1%); and Hong Kong (4.6%). Leading suppliers include: the United States (6.9% of all imports); China (6%); Belgium-Luxembourg (6%); Singapore (4.7%); and Australia (4.5%).

In percentage terms, India's primary exports in 2004/05 were: engineering goods (20.1% of all exports); gems and jewelry (17.5%); and textiles and garments (16.3%). Major imports were: petroleum and petroleum products (30.4% of all imports); capital goods (10%); and electronic goods (9.3%).

### 32 BALANCE OF PAYMENTS

India has in the past had a chronic deficit on current accounts. What has bridged the gap between payments and receipts is mainly external aid (especially nonproject assistance), tourism earnings, and remittances from Indians working abroad. Heavy imports of food grains and armament purchases caused a decline in India's foreign exchange reserves in the mid-1960s. An economic recovery from 1968–69, however, eased the problem, and by September 1970, foreign exchange reserves amounted to \$616 million, as compared with \$383 million by December 1965. Reserves declined to \$566 million by the end of 1972 but increased to \$841

#### Balance of Payments – India (2002)

(In millions of US dollars)

<b>Current Account</b>		<b>5,815.0</b>
Balance on goods	-12,041.0	
Imports	-62,742.0	
Exports	50,701.0	
Balance on services	6,790.0	
Balance on income	-3,564.0	
Current transfers	14,630.0	
<b>Capital Account</b>		<b>2,563.0</b>
<b>Financial Account</b>		<b>11,054.0</b>
Direct investment abroad	-488.0	
Direct investment in India	3,700.0	
Portfolio investment assets	-42.0	
Portfolio investment liabilities	1,064.0	
Financial derivatives	...	
Other investment assets	4,780.0	
Other investment liabilities	2,040.0	
<b>Net Errors and Omissions</b>		<b>-585.0</b>
<b>Reserves and Related Items</b>		<b>-18,848.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

million as of December 1975, despite massive deficits on current accounts, attributable to the quadrupling of oil import prices during 1973–74. Foreign exchange reserves declined from \$6,739 million at the end of 1979 to \$3,476 million as of November 1982 but subsequently rose to \$5,924 million by March 1987.

The Persian Gulf War crisis worsened the ratio of current account deficit to GDP. Foreign exchange reserves plummeted because of export losses in Kuwait, Iraq, and other nations. Remittances from Indian workers fell, and sudden price increases for oil imports caused an estimated loss to India of over \$2.8 billion in earnings. By November 1993, however, India's foreign exchange reserves had risen to \$8.1 billion, the highest level since 1951. A substantial reduction in the trade deficit, increased inflows from foreign institutional investors, a stable exchange rate, and improved remittances all contributed in the recovery of reserves. Although export growth remained strong, the current account deficit tripled from 1993–94 to 1995–96. The increase was attributed to a continuing surge in imports and higher debt service requirements. However, between 1995 and 1998 the current account deficit shrank to about 1% of GDP due to increased textile exports and a liberalizing trade regime. India's total external debt in 2001 was estimated at \$100.6 billion, and at \$117.2 billion in 2004. High international oil prices and strong domestic demand were forecast to lead to a significant widening of the merchandise trade deficit over the period 2006–08, but strong surpluses on services and transfers (remittances) were expected to counteract a deficit in the current-account. For the year ending in March 2005, India was expected to enjoy a current-account surplus of some \$5 billion, compared with \$8.7 billion in 2004. Thus, India would have had four consecutive current-account surpluses for the first time in 23 years. In the early 2000s, India's exports to East and Southeast Asia increased, including to Japan and South Korea. High growth rates were registered for textiles, chemicals and related products, engineering goods, and leather and manufactures.

### **3<sup>3</sup> BANKING AND SECURITIES**

A well-established banking system exists in India as a result of British colonialism. The Reserve Bank of India, founded in 1935 and nationalized in 1949, is the central banking and note-issuing authority. The Reserve Bank funds the Deposit Insurance and Credit Guarantee Corporation, which provides deposit insurance coverage to the banking sector. The largest public-sector bank is the State Bank of India, which, at the end of 1996, accounted for one-third of income. Banks operating in the public sector account for 75% of commercial banking, while private banks take 15% of the market and foreign banks account for the remaining 10%. In 1997, 58% of commercial banks operated regionally, extending credit to small borrowers in rural areas. Scheduled banks maintain branches, mainly in the major commercial and industrial centers of Maharashtra, West Bengal, Uttar Pradesh, and Tamil Nadu states and the Delhi territory. Over 100 branches of Indian commercial banks operate overseas as well, primarily in the United Kingdom, United States, Fiji, Mauritius, Hong Kong, and Singapore. As of July 2000, there were 45 foreign banks in India with 180 branches, as well as 26 foreign representative offices. Total deposits in commercial banks reached \$206 billion in 2000-01.

The cost of borrowing remained very high, because of bad debts and nonperforming assets. Most Indian banks lend approximately 30–40% of their capital to the government of India, and over 80% of investment is in government securities. In an attempt to regulate lending practices and interest rates, the government encouraged the formation of cooperative credit societies. Long-term credit is provided by the cooperative land development banks. Nonagricultural credit societies and employees' credit societies supply urban credit. A process of gradual liberalization is being applied to government institutions that supply most medium- and long-term credit. These term-lending institutions also control about 30% of all share capital and act as a channel for most foreign borrowing by the private sector. The main bodies are the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the Industrial Credit and Investment Corp. of India (ICIC), and the Export-Import Bank of India (Eximbank). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$81.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$283.4 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

The main stock exchanges are located in Calcutta, Mumbai (formerly Bombay), and Madras, and there are secondary exchanges in Ahmadabad, Delhi, Kānpur, Nāgpur, and other cities. The Securities and Exchange Board of India supplies regulation of the stock market. These regulations are not strict, and at times margin trading and other questionable practices have tended to produce wild speculation. Rules favor exchange members rather than public protection or benefit. Brokerage and jobbing are commonly combined. Of India's 21 stock exchanges, the Mumbai Stock Exchange (BSE) and National Stock Exchange (NSE) are the most important. There were 4,730 companies listed on the BSE as of 2004. Total market capitalization on the BSE's listed companies that year totaled was \$387.851 billion in that same year. The NSE, however, is perceived as more transparent, has faster trading cy-

cles, more timely settlements, and is in the process of setting up a share depository. Major efforts have been made to strengthen the stock market institutionally and make it less like a casino.

In 1996–97 negative market sentiment, particularly among foreign institutional investors, took the overall price earnings ratio down from 19.6 in June 1996 to 11.3 in November. In the two years ending October 1996, all but 436 of the 2,531 most-traded shares lost over half their value; more than 1,000 lost over 80% of their value. The market continued to lose ground in 1997 and 1998 due to the Asian financial crisis. In 1999–2000, though, both the BSE and the NSE gained approximately 40% in market share value due to the growth in information technology (IT) stocks. Between 1998 and 1999 alone, the local S&P CNX Index grew 97.8%, but then dropped about 23–24% in each of the next two years. The S&P IFCG and IFCI Indexes also dropped about 20–30% in 1999 and 2000. In 2004, the S&P CNX 500 rose 17.9% from the previous year to 1,804.9.

### **3<sup>4</sup> INSURANCE**

The life insurance business was formally nationalized on 1 September 1956 by the establishment of the Life Insurance Corp. of India (LIC), which absorbed the life insurance business of 245 Indian and foreign companies. LIC also transacts business in certain African and Asian countries where there are large Indian populations. The general insurance business was nationalized as of 1 January 1973 and all nationalized general insurance companies were merged into the General Insurance Corp. (GIC) of India. GIC serves as the parent company for the four operating insurers, the New India Assurance Company, the Oriental Fire and General Insurance Company, the National Insurance Company, and the United India Insurance Company.

In 1997, despite repeated promises to allow private insurers into the industry, an announcement on privatization in the financial services sector was postponed in the face of institutional resistance. The unions and left-wing parties led a struggle to stop an opening up of the insurance sector. They were alarmed by government plans to introduce legislation that would set up an independent Insurance Regulatory and Development Authority (IRA). Under the Insurance Regulatory and Development Authority Act of 1999, the IRA finally gained the power to issue licenses to private insurance companies in 2000 to Indians and foreigners. In India, third-party auto liability, public liability for hazardous material handling, workers' compensation, and third-party liability for inland water vessels are all compulsory. In 2003, the value of direct premiums written totaled \$17.302 billion, of which life premiums accounted for \$13.590 billion. India's top nonlife insurer in 2003 was New India, with gross written nonlife premiums of \$806.7 million. The nation's leading life insurer that same year was LIC, with gross written life premiums totaling \$13,939.1 million.

### **3<sup>5</sup> PUBLIC FINANCE**

The government's financial year extends from 1 April to 31 March, and the budget is presented to the parliament on the last day of February. The executive branch has considerable control over public finance. Thus, while parliament can oversee and investigate public expenditures and may reduce the budget, it cannot expand the budget, and checks exist that prevent it from delaying passage. Budgets in recent decades have reflected the needs of rapid

**Public Finance – India (2003)**

(In billions of rupees, central government figures)

<b>Revenue and Grants</b>	<b>3,222.3</b>	<b>100.0%</b>
Tax revenue	2,515.3	78.1%
Social contributions	11.7	0.4%
Grants	14.6	0.5%
Other revenue	680.7	21.1%
<b>Expenditures</b>	<b>4,560</b>	<b>100.0%</b>
General public services	2,768	60.7%
Defense	652	14.3%
Public order and safety	...	...
Economic affairs	771.6	16.9%
Environmental protection	...	...
Housing and community amenities	192.3	4.2%
Health	74.2	1.6%
Recreational, culture, and religion	...	...
Education	102	2.2%
Social protection	...	0.0%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

economic development under rising expenditures of the five-year plans. Insufficient government receipts for financing this development have led to yearly deficits and a resulting increase of new tax measures and deficit financing. The Gulf crisis, increased interest payments, subsidies, and relief in 1991 caused the central government's fiscal deficit to reach 9% of GDP. It fell to 5.7% in 1992–93 but rose to 7.3% of GDP in 1993–94. Principal sources of government revenue are customs and excise duties and individual and corporate income taxes. Major items of expenditure are defense, grants to states and territories, interest payments on the national debt, and economic, social, and community services. High interest rates, 8% inflation, slow industrial growth, and weak foreign investment prompted the government to recommend dramatic new initiatives in the 1997–98 budget, including cuts in taxes and duties. The proposed budget projected a 15% increase in expenditures to \$65 billion and a reduction in the deficit to 4.5% of GDP. While expenditures were cut, the budget deficit actually grew in 1997–98 to about 8.5% of the GDP due to currency devaluation and the Asian financial crisis. The budget for 2000 included a 30% increase on defense spending due to the Pakistani conflict. Although applauded by the business community as market-friendly, some observers were chagrined by the 2000 budget's failure to squarely tackle infrastructure reforms. India suffers from inadequate roads and ports, a substandard educational system, and unreliable power supplies.

The US Central Intelligence Agency (CIA) estimated that in 2005 India's central government took in revenues of approximately \$111.2 billion and had expenditures of \$135.8 billion. Revenues minus expenditures totaled approximately -\$24.6 billion. Public debt in 2005 amounted to 82% of GDP (federal and state debt combined). Total external debt was \$119.7 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were ₹3,222.3 billion and expenditures were ₹4,560 billion. The value of revenues was us\$69 million and expenditures

us\$98 million, based on a market exchange rate for 2003 of us\$1 = ₹46.583 as reported by the IMF. Government outlays by function were as follows: general public services, 60.7%; defense, 14.3%; economic affairs, 16.9%; housing and community amenities, 4.2%; health, 1.6%; and education, 2.2%.

**36 TAXATION**

Taxes are levied by the central government, the state governments, and the various municipal governments. The sources of central government tax revenue are union excise duties, the central value-added tax or CENVAT, corporate and personal income (nonagricultural) taxes, wealth taxes, and customs duties. The gift tax was abolished in January 1998. State government sources, in general order of importance, are land taxes, sales taxes, excise duties, and registration and stamp duties. The states also share in central government income tax revenues and union excise duties; and they receive all revenues from the wealth tax on agricultural property. Municipal governments levy land and other property taxes and license fees. Many also impose duties on goods entering the municipal limits. There is little uniformity in types or rates of state and municipal taxes.

Corporate income tax for domestic companies as of 2005 is 35% plus a 2.5% surcharge, and for foreign companies 40% plus a 2.5% surcharge.

The wealth tax is 1% of wealth exceeding ₹1,500,000 (\$31,000). Interest income is taxed at 20% to both foreign and resident companies; capital gains and rental income are taxed at 20% and winnings from lotteries and horse races at 30%. There is no tax on dividends.

The central government imposes a 12.5% value-added tax (VAT) called the CENVAT. However, lower rates of 4%, 1% and 0% are also levied on domestically manufactured goods.

For the 2003/04 Union Budget, the excise structure was rationalized into four tiers: exempt items many of which had carried 4% rates (like umbrellas, band-aids, toys, corrective glasses, CDs); 8% (like pressure cookers, buckets, dental chairs); 16% (the standard VAT rate applied to most items), and 24% reduced from 20% to 50% on polyester filament yarn, motor cars, utility vehicles, and replacement tires. Special Excise Duties of 32% are applied to aerated soft drinks and concentrates, pan masala, and chewing tobacco.

As of 1 April 2003, instead of being 100% tax free, profits and gains derived from Software Technology Parks of India (STPIs) and export oriented units (EOUs) will only be 90% tax-free.

**37 CUSTOMS AND DUTIES**

The majority of imports and some exports are subject to tariffs. There are both revenue and protective tariffs, although the former are more important and have long been a major source of central government income. The Indian government has been steadily reducing tariff rates in order to increase trade and investment. A 35% tariff ceiling was set in the 2001–02 budget. However, India's tariffs are still among the highest in the world. Additional, special duties can more than double the barriers to importing a product, including textiles and apparel. Gold is taxed at an added rate of 9% at the state level and at least an added 3% at the local level. Indians

spend more money on gold than anything but oil. India's 28 states also impose duties on products coming in from other states.

### **3<sup>8</sup> FOREIGN INVESTMENT**

Until recently, foreign investment remained closely regulated. Rules and incentives directed the flow of foreign capital mainly toward consumer industries and light engineering, with major capital-intensive projects reserved for the public sector. Under the Foreign Exchange Regulation Act of 1973, which went into effect on 1 January 1974, all branches of foreign companies in which nonresident interest exceeded 40% were required to reapply for permission to carry on business; most companies had reduced their holdings to no more than 40% by 1 January 1976. Certain key export-oriented or technology-intensive industries were permitted to maintain up to 100% nonresident ownership. Tea plantations were also exempted from the 40% requirement. Although the government officially welcomed private foreign investment, collaboration and royalty arrangements were tightly controlled. Due to the restrictiveness of these policies, foreign investment remained remarkably low during the 1980s, ranging between \$200 and \$400 million a year.

Government reform measures in mid-1991 changed this picture significantly. Under the New Industrial Policy, the amount of money invested in the country doubled annually from 1991 to 1995. In 1997 the New Exploration and Licensing Policy (NELP) was announced, permitting the participation of foreign oil companies in upstream exploration and development of oil and gas resources. Effective 1 April 2001, imports of crude oil and petroleum products were liberalized, with state-run enterprises losing their exclusive right to import certain petroleum products for domestic consumption. Also in 2001, India removed quantitative restrictions (QRs) from 715 items (147 agricultural products, 342 textile items, and 226 manufactured goods, including automobiles) in compliance with WTO standards. Under the New Industrial Policy as amended, most sectors have been opened for 100% foreign investment. Sectors such as banking, telecommunications, and print media are still restricted. In some restricted sectors, foreign investment up to 49% or 74% is allowed in the equity of an Indian joint venture company. In the early 2000s, the requirement prior approval by the Reserve Bank of India was removed from enterprises falling within categories allowing 100% foreign investment.

India has eight export processing zones (EPZs) designed to provide internationally competitive infrastructure and duty-free, low-cost facilities for exporters. Foreign investors in some industries can operate in EPZs, export oriented units (EOUs), special economic zones (SEZs) and Software Technology Parks of India (STPIs). SEZs are regarded as foreign territory for purposes of duties and taxes and sector caps that limit foreign direct investment (FDI) in different industries do not apply in the SEZs. In any case, the corporate tax rate on foreign companies has been reduced to 48% to 40%, and the peak customs rate was reduced from 35% to 30%. In November 1999 the government announced its intention to disinvest in 247 state-owned enterprise to the general level of 26% ownership, and established the Ministry of Disinvestment. Although the program has involved the transfer of significant amounts of equity and management control from the government to private sector, it has yet to generate appreciable foreign

investment. Despite the trend towards liberalization, India's foreign investment regime remains complex and relatively restricted. Although FDI has increased, average a net \$2.64 billion per year 1997/98 to 2001/02, the inflow is still small compared to China, the most relevant comparison, where FDI has run some \$30 billion to \$40 billion a year. The net flow dropped to \$1.8 billion in 2000/01, and then recovered to a net \$3.4 billion in 2001/02. FDI inflow amounted to \$3.33 billion in 2004. Investment was heaviest in the transportation sector.

Statistics on FDI for India show Mauritius as consistently one of the largest sources, averaging about \$700 million per year from 1995 to 2000, with the United States in second place, averaging about \$383 million a year. In 2004, the Netherlands was India's largest investor, at \$434 million, followed by Mauritius (\$420 million) and the United States (\$342 million). However, most of the investments credited to Mauritius are actually from American companies seeking to take advantage of its lower withholding taxes or exemptions on payments of royalties, dividends, technical service fees, interest on loans and capital gain by Indian joint venture companies under the terms of the Double Tax Agreement (DTA) between India and Mauritius. Foreign investment through the stock market is limited to 30–40%.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Under a series of five-year plans through 2000, the government became a participant in many industrial fields and increased its regulation of existing private commerce and industry. Long the owner-operator of most railway facilities, all radio broadcasting, post, and telegraph facilities, arms and ammunition factories, and river development programs, the government reserved for itself the right to nationalize any industries it deemed necessary. Yet the government's socialist approach was pragmatic, not doctrinaire; agriculture and large segments of trade, finance, and industry remained in private hands. Planning is supervised by an eight-member planning commission, established in 1950 and chaired by the prime minister.

India's first four five-year plans entailed a total public sector outlay of ₹314.1 billion. The first plan (1951–56) accorded top priority to agriculture, especially irrigation and power projects. The second plan (1956–61) was designed to implement the new industrial policy and to achieve a "socialist pattern of society." The plan stressed rapid industrialization, a 25% increase in national income (in fact, the achieved increase was only 20%), and reduction of inequalities in wealth and income. The focus of the third plan (1961–66) was industrialization, with 24.6% spent on transportation and communications and 20.1% on industry and minerals. Drought, inflation, and war with Pakistan made this plan a major disappointment; although considerable industrial diversification was achieved and national income rose, per capita income did not increase (because of population growth), and harvests were disastrously low. Because of the unsettled domestic situation, the fourth five-year plan did not take effect until 1969. The 1969–74 plan sought to control fluctuations in agricultural output and to promote equality and social justice. Agriculture and allied sectors received 16.9%, more than in any previous plan, while industry and minerals received 18.5%, transportation and communications 18.4%, and power development 17.8%, also more than in any previous plan.

The fifth plan (1974–79) aimed at the removal of poverty and the attainment of self-reliance. A total outlay of ₹393.2 billion was allocated (26% less than originally envisaged), and actual expenditures totaled ₹394.2 billion. Once again, the emphasis was on industry, with mining and manufacturing taking 22.5%, electric power 18.7%, transportation and communications 17.2%, and agriculture 12.1%. The fifth plan was cut short a year early, in 1978, and, with India enmeshed in recession and political turmoil, work began on the sixth development plan (1980–85). Its goal, like that of the fifth, was the removal of poverty, although the planners recognized that this gigantic task could not be accomplished within five years. The plan aimed to strengthen the agricultural and industrial infrastructure in order to accelerate the growth of investments and exports. Projected outlays totaled ₹975 billion, of which electric power received 27.1%, industry and mining 15.4%, transportation and communications 12.7%, and agriculture 12.2%. The main target was a GDP growth rate of 5.2% annually. The seventh development plan (1985–90) projected 5% overall GDP growth (which was largely achieved and even exceeded) based on increases of 4% and 8% in agricultural and industrial output, respectively. Outlays were to total ₹1,800 billion.

The eighth development plan (for 1992–97), drafted in response to the country's looming debt crisis in 1990–91, laid the groundwork for long-term structural adjustment. The plan's overall thrust was to stimulate industrial growth by the private sector, and thereby free government resources for greater investment in basic infrastructure and human resources development. In addition to liberalized conditions for private and foreign investment, the foreign exchange system was reformed, the currency devalued, the maximum tariff reduced from 350% to 85%, import barriers generally loosened, and those for key intermediate goods removed altogether. Reform of the tax system, reduction of subsidies, and restructuring of public enterprises were also targeted. While the eighth plan generally supported expansion of private enterprise, unlike structural adjustment programs in other developing countries, it did not stipulate a large-scale privatization of the public sector.

As the eighth plan came to an end in 1997 most analysts proclaimed it a success; economic growth averaged 6% a year, employment rose, poverty was reduced, exports increased, and inflation declined.

The ninth development plan (1997–2002) focused on the redistribution of wealth and alleviation of poverty, the further privatization of the economy and attraction of foreign investment, and the reduction of the deficit. Overall there were improvements in the reform era including an increase in the GDP growth rate from an average of about 5.7% to about 6.1% in the eighth and ninth plan periods, a reduction of the percent in poverty from a third of the population to a fourth, increased literacy from 52% in 1991 to 65% in 2001, and India's emergence as a competitor in state-of-the-art technologies of the new information age economy. However, persistent inefficiencies—unemployment and underemployment, and welfare deficiencies—remained. Moreover, after 1998 a series of domestic and international shocks brought a disturbing deceleration to India's economic growth.

In the tenth five-year plan, 2002–07, the government set the ambitious target of achieving an average 8% growth, above the level achieved during the ninth plan. Other monitorable economic tar-

gets include a reduction of the poverty rate by 5% by 2007, and by 15% by 2012; providing gainful and high-quality employment at least equal to the projected increases in the labor force; increase in forest and tree cover to 25%, in 2007 and to 33% by 2012; all villages provided with sustained access to potable water by 2007; and cleaning of all major polluted rivers by 2007. Agricultural development was viewed as the core element of the tenth plan with attention to sectors most likely to create employment opportunities. These include agriculture in its extended sense, construction, tourism, transport, small-scale industries (SSI), retailing, IT, and communications enabling services. Industrial policy includes continued emphasis on privatization and deregulation. The ambitious 8% annual growth of the tenth plan was considered achievable because of the inefficiencies that have traditionally plagued Indian agriculture and industry. Because the scope for improvement is so wide, both in the public sector and in the private sector, strong growth can be expected from efficiency enhancing policies. GDP growth was forecast to end at the more modest rate of 7.8% in 2005/06, 7% in 2006/07, and 6.5% in 2007/08, due in part to high international oil prices.

The government remained committed to stimulating the agricultural sector, but balancing this with the need to reduce the budget deficit proved difficult. As of 2006, it was politically difficult for the United Progressive Coalition (UPA) government, led by the Congress Party, to continue with the disinvestment process, although it was expected to attempt to reduce subsidies to state-owned companies. Further liberalization was expected to expand the role of domestic and foreign private-sector firms. India's population was forecast to exceed that of China's by 2035; the huge and growing population remained India's foremost economic, social, and environmental problem. In December 2004, a major tsunami took nearly 11,000 lives, left almost 6,000 missing, destroyed \$1.2 billion worth of property, and severely damaged the fishing fleet.

#### 40 SOCIAL DEVELOPMENT

An employees' provident fund was established in 1954. In 2004, a voluntary old age, disability, and survivor benefit scheme was implemented for some low income employees and self-employed persons. Contributions are income related and at a flat rate. Provident fund old age benefits are available at age 55, or at any age if the worker is leaving the country permanently. Workmen's compensation was first enacted in 1923. Currently it provides coverage to lower income employees working for establishment with more than 10 employees. State governments arrange for the provisions of medical care for workers. Labor laws require employers to provide severance pay in certain situations.

The program for old age, disability, and death benefits are covered by a provident fund with deposit linked insurance for industrial workers in 177 categories. The system is partially funded by insured persons and employers, with a small pension scheme subsidized by the government. There is a social insurance system covering sickness and maternity as well as work injury. The law requires employers to pay a severance indemnity of 15 days pay for each year of employment.

Domestic violence is commonplace; in 2004 more than half of women surveyed believed it was justifiable and a normal part of married life. Wife murder, usually referred to as "dowry deaths," are still evident. Although the law prohibits discrimination in the

workplace, women are paid less than men in both rural and urban areas. Discrimination exists in access to employment, credit, and in family and property law. Laws aimed at preventing employment discrimination, female bondage and prostitution, and the sati (widow burning), are not always enforced. India is a significant source and destination for thousands of trafficked women. Not only does the male population exceed that of females, but India is also one of the few countries where men, on the average, live longer than women. To explain this anomaly, it has been suggested that daughters are more likely to be malnourished and to be provided with fewer health care services. Female infanticide and feticide is a growing problem in a society that values sons over daughters. It is estimated there are nearly 500,000 children living and working on the streets. Child prostitution is widespread. Children are subject to beatings in school and abuse during religious ceremonies.

Human rights abuses, including incommunicado detention, are particularly acute in Kashmir, where separatist violence has flared. Although constitutional and statutory safeguards are in place, serious abuses still occur including extrajudicial killings, abuse of detainees, and poor prison conditions. Despite efforts to eliminate discrimination based on the longstanding caste system, the practice remains unchanged. Prison conditions are harsh, and the judicial system is severely overloaded.

#### 4<sup>1</sup> HEALTH

Great improvements have taken place in public health since independence, but the general health picture remained far from satisfactory. The government has paid increasing attention to integrated health, maternity, and child care in rural areas. An increasing number of community health workers and doctors are being sent to rural health centers. Primary health care is provided to the rural population through a network of over 150,000 primary health centers and sub-centers that are staffed by trained midwives and health guides.

As of 2004, there were an estimated 51 physicians and 62 nurses per 100,000 people. In the mid-1990s, there were nearly 40,000 hospitals and dispensaries. In addition, the rural population was served by more than 130,000 subcenters, over 20,350 primary health centers, and nearly 2,000 community health centers. There are also numerous herb compounders, along with thousands of registered practitioners following the Ayurvedic (ancient Hindu) and Unani systems.

India has modern medical colleges, dental colleges, colleges of nursing, and nursing schools. More than 100 colleges and schools teach the indigenous Ayurvedic and Unani systems of medicine and 74 teach homeopathy. New drugs and pharmaceutical plants, some assisted by the UN and some established by European and American firms, manufacture antibiotics, vaccines, germicides, and fungicides. However, patent medicines and other reputed curatives of dubious value are still widely marketed; medical advisors of the indigenous systems and their curatives probably are more widely followed than Western doctors, drugs, and medical practices.

Total health care expenditure was estimated at 5.4% of GDP. Average life expectancy increased from 48 years in 1971 to 64.35 years in 2005. Infant mortality declined from 135 per 1,000 live births in the mid-1970s to 56.29 in 2005. The high mortality rate among infants and children is directly linked to size of family,

which is being reduced through the small family norm (National Family Planning Program). The overall mortality rate in 2002 was an estimated 8.6 per 1,000 people.

The government of India took stringent measures to prevent plague following outbreaks during 1994. Mandatory screenings at airports and inspections of passengers were instituted. A short-term multi-drug therapy launched in India in 1995 led to a dramatic fall in the leprosy prevalence. The incidence of malaria was reduced by 98% between 1953 and 1965, but the number of reported cases increased from 14.8 million in 1966 to 64.7 million in 1976 because DDT-resistant strains of mosquitoes had developed. The incidence of malaria in 1995 was 295 cases per 100,000 people. The death toll from smallpox was reduced to zero by 1977 through a massive vaccination program and plague had not been reported since 1967. Between 1948 and 1980, 254 million people were tested for tuberculosis and 252 million received BCG, an antituberculosis vaccine. In 1999, there were 185 reported cases of tuberculosis per 100,000 people. In 1994, there was a serious outbreak of pneumonic plague in western India, which spread to others parts of the country, killing thousands. Many diseases remained, especially deficiency diseases such as goiter, kwashiorkor, rickets, and beriberi. However, India's immunization rates for children up to one year old were high. Data from 1997 shows vaccinations against tuberculosis, 96%; diphtheria, pertussis, and tetanus, 90%; polio, 91%; and measles, 81%. There is also a national system to distribute vitamin A capsules to children because a lack of this vitamin contributes to blindness and malnutrition. As of the mid-1990s, nearly 25% of the country's children had been reached. Hypertension is a major health problem in India. Between 3.5% and 6.5% of adults have high blood pressure.

India is currently the nation with the second most HIV-infected people. As of 2004, there were approximately 5,100,000 people living with HIV/AIDS in the country. The HIV/AIDS prevalence was 0.90 per 100 adults in 2003. There were an estimated 310,000 deaths from AIDS in 2003.

#### 4<sup>2</sup> HOUSING

Though progress has been made toward improving the generally primitive housing in which most Indians live, there are still some deficits in housing supply and access to basic utilities. A number of subsidized, low-cost housing schemes have been launched by the government, but the goal of providing a house for every homeless family cannot be met because of the prohibitive cost. The sixth five-year plan envisaged an expenditure of ₹94 billion for rural housing and ₹35 billion for urban housing during the period 1980–85, including ₹11.9 billion to provide shelter for homeless people. The eighth five-year plan (1990–95) called for an investment of \$40 billion in housing, with 90% of this sum earmarked for the private sector. The government's goal is to provide eight million new housing units between 1990 and 2000, two million to fill the existing backlog and six million to meet the needs that would be created by population growth.

According to the 2001 national census, there were about 187,063,733 residential dwelling units nationwide. About 50% were considered to be in "good" condition and 44% were described as "livable." Many rural dwellings are constructed of mud brick or burnt brick walls with mud floors and a thatched or tiled roof. Urban dwellings are made from concrete or burnt brick. In 2001, only about 51.6% of all residential dwellings were considered to

be permanent structures. Only about 38.9% of all households had drinking water within their premises. About 55% of dwellings had access to electricity. Only about 36% of all dwellings had bathroom facilities within the house.

### 43 EDUCATION

In 1986, the National Education Policy (NPE) was adopted in order to bring about major reforms in the system, primarily universalization of primary education. In 1988, a national literacy mission was launched, following which states, like Kerala and Pondicherry, achieved 100% literacy. In 1992, the second program of action on education was introduced to reaffirm the 1986 policy with plans to achieve total literacy and free education for all children up to grade eight.

The main goal has been primary education for children in the 6–11 age group. An emphasis on “basic education”—learning in the context of the physical and cultural environment, including domestic and commercial productive activities—has met with some success. In addition to expansion of primary education, there has been marked increase in educational facilities in secondary schools, colleges, universities, and technical institutes. An intensive development of adult education is under way in both urban and rural areas.

Free and compulsory elementary education is a directive principle of the constitution. Eight years of basic education are divided into three stages of lower primary school (five years), middle school (three years) and secondary school (two years). Following this, students may choose to attend a two-year senior secondary school or a three-year vocational school. The academic year runs from July to April.

In 2001, about 30% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 88% of age-eligible students; 90% for boys and 85% for girls. It is estimated that about 81% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 40:1 in 2000; the ratio for secondary school was about 33:1. In 2000, private schools accounted for about 16.5% of primary school enrollment and 43% of secondary enrollment.

India's system of higher education is still basically British in structure and approach. The university system is second in size only to that of the United States' with 150 universities and over 5,000 colleges and higher-level institutions. Educational standards are constantly improving and especially in the area of science and mathematics in which standards are as high as those found anywhere in the world. The older universities are in Calcutta, Mumbai (formerly Bombay), and Chennai (formerly Madras), all established in 1857; Allahābād, 1877; Banāres Hindu (in Varanasi) and Mysore (now Karnataka), both in 1916; Hyderābād (Osmania University), in 1918; and Aligarh and Lucknow, both in 1921. Most universities have attached and affiliated undergraduate colleges, some of which are in distant towns.

Christian missions in India have organized more than three dozen college-rank institutions and hundreds of primary, secondary, and vocational schools. In addition to universities there are some 3,500 arts and sciences colleges (excluding research institutes) and commercial colleges, as well as 1,500 other training schools and colleges. The autonomous University Grants Commission promotes university education and maintains standards

in teaching and research. Many college students receive scholarships and stipends. In 2003, about 12% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 61%, with 73.4% for men and 47.8% for women.

As of 2003, public expenditure on education was estimated at 4.1% of GDP, or 12.7% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The National Library in Calcutta, with over 22 million books and numerous other items, is by far the largest in the country. Some of the other leading libraries are the New Delhi Public Library (1.4 million volumes), the Central Secretariat Library in New Delhi (700,000 volumes), and the libraries of some of the larger universities. The Khuda Baksh Oriental Library in Patna, with a collection of rare manuscripts in Arabic, Urdu, and Farsi, is one of 10 libraries declared “institutions of national importance” by an act of parliament. The National Archives of India, in New Delhi, is the largest repository of documents in Asia, with 25 km (16 mi) of shelf space. There is an extensive public library system as well as cultural and religious institutions and libraries throughout the country.

Noted botanical gardens are located in Calcutta, Mumbai (formerly Bombay), Lucknow, Ootacamund, Bangalore, Chennai (formerly Madras), and Darjeeling, and well-stocked zoological gardens are found in Calcutta, Mumbai, Chennai, Trivandrum, Hyderābād, Karnataka, and Jodhpur. Most of India's hundreds of museums specialize in one or several aspects of Indian or South Asian culture; these include 25 archaeological museums at ancient sites, such as Konarak, Amravati, and Sarnath. Some of the more important museums are the Indian Museum in Calcutta, the Prince of Wales Museum of Western India in Mumbai (formerly Bombay), and the National Museum and the National Gallery of Modern Art, both in New Delhi.

There are also municipal museums throughout the country and dozens of museums and galleries devoted to prominent South Asian artists. There are science museums in Bhopāl, Calcutta, Mumbai (formerly Bombay), and New Delhi. Bhavongor houses the Gandhi Museum, one of several sites devoted to the history of the national hero. In 2001 the Broadcasting Museum was founded in Delhi. There also are thousands of architectural masterpieces of antiquity—the palaces, temples, mausoleums, fortresses, mosques, formal gardens, deserted cities, and rock-hewn monasteries—found in every section of the subcontinent.

### 45 MEDIA

All postal and telegraph and most telephone services are owned and operated by the government. International telephone services, both radio and cable, are available between India and all major countries of the world. In 2003, there were an estimated 46 main-line telephones for every 1,000 people; over one million people were on a waiting list for telephone service installation. The same year, there were approximately 25 mobile phones in use for every 1,000 people.

All-India Radio (AIR), government-owned, operates short- and medium-wave transmission through over 100 stations and broadcasts in all major languages and dialects for home consumption. AIR also operates external services in 24 foreign and 36 Indian languages. There are privately licensed radio stations, but they are

only permitted to broadcast educational or entertainment programming. News broadcasting by independent radio stations is prohibited. In 1959, India's first television station was inaugurated in Delhi, and color television broadcasting was inaugurated in 1982. The public television service, Doordarshan, operates 21 national, regional, and local services. The School Television Section broadcasts regular in-school instruction programs on selected subjects. Cable and satellite stations have fairly large audiences. As of 1999, there were, altogether, 153 AM and 92 FM radio stations and 562 television stations. In 2003, there were an estimated 120 radios and 83 television sets for every 1,000 people. About 398.9 of every 1,000 people were cable subscribers. Also in 2003, there were 7.2 personal computers for every 1,000 people and 17 of every 1,000 people had access to the Internet. There were 462 secure Internet servers in the country in 2004.

India has a thriving film industry, centered at Mumbai (formerly Bombay), Chennai (formerly Madras), Calcutta, and Bangalore. Indians are avid film-goers and users of videocassettes.

The first newspaper in India, an English-language weekly issued in Calcutta in 1780, was followed by English-language papers in other cities. The first Indian-language newspaper (in Hindi) appeared in Varanasi (Benares) in 1845. There are hundreds of newspapers in circulation throughout the country, published in some 85 languages, primarily Hindi, English, Bengali, Urdu, and Marathi. The majority of Indian newspapers are under individual ownership and have small circulations. About 30% are published in Delhi, Mumbai (formerly Bombay), Calcutta, and Madras.

The principal national English-language newspapers are the *Indian Express*, with editions published in Mumbai (formerly Bombay) and 10 other cities, and the *Times of India*, published in Ahmadabad, Mumbai, Delhi, and three other cities. The largest Hindi daily is the *Navbharat Times*, published in Mumbai with a 2002 circulation of 418,500. Other major Hindi dailies (with estimated 2002 circulation) are: *Punjab Kesari* (173,390), *Hindustan* (98,900), and *Dainik Jagran* (409,480). Leading English-language dailies (with estimated 2002 circulation) include: *Indian Express* (576,200), *Times of India* (536,166), *The Economic Times* (336,060), *The Telegraph* (234,500), and *The Hindu* (300,320). In 2002, there were two major Bengali dailies, *Jugantar* (circulation 302,000) and *Aajkaal* (157,713). The same year there were two major Marathi dailies, *Lokasatta* (258,090) and *Maharashtra Times*; two Tamil dailies, *Thanthi* (297,797) and *Dinamani* (178,230); and two major Malayalam dailies, *Mathirubhumi* (454,351) and *Malayala Manorama* (1,013,590).

In 1976, the four leading Indian news agencies—the Press Trust of India (English), United News of India (English), Hindustan Samachar (Hindi), and Samachar Bharati (Hindi)—merged to form Samachar, which means “news” in Hindi. The merger followed the cancellation by AIR of subscriptions to all four services. Samachar was dissolved in 1978, and as of 1991 there were three separate agencies: Indian News and Features Alliance, Press Trust of India, and United News of India.

Freedom of the press has been nominally ensured by liberal court interpretations of the constitution, but the government has long held the right to impose “reasonable restrictions” in the interest of “public order, state security, decency, and morality.” On a day-to-day basis, the press is essentially unfettered, and news magazines abound in addition to the newspapers.

## 46 ORGANIZATIONS

There are many political, commercial, industrial, and labor organizations, and rural cooperatives. Almost all commercial and industrial centers have chambers of commerce. The Center of Indian Trade Unions and All India Trade Union Congress are umbrella organizations representing the rights of worker's. Other labor and industry organizations include the All India Association of Industries and the All India Manufacturers Organization. There are unions for more specialized trades and fields as well, such as the Silk Association of India. There are a number of scholarly and professional societies and associations focused on education and research in various scientific and medical fields, including the national Indian Medical Association. There are also several associations dedicated to research and education for specific fields of medicine and particular diseases and conditions. The Indian Academy of Sciences was established in 1934 to promote research and education in a variety of branches of pure and applied sciences. The Indian National Science Academy similarly promotes public interest in science.

Cultural activities, especially traditional arts and crafts, are promoted throughout India by the National Academy of Fine Arts; the National Academy of Music, Dance, and Drama; the National Center for the Performing Arts; and the National Academy of Letters. Other state organizations for the furthering of cultural activities include the Ministry of Information and Broadcasting, the Indian Council for Cultural Relations, and the National Book Trust. There are a great many private cultural and institutional organizations based on religion and philosophy, language (including Sanskrit and Pali), drama, music and dancing, modern writing, the classics, and painting and sculpture.

Notable national youth organizations include the All India Students Federation, Girl Guides and Scouts of India, Indian National Youth Organization, National Council of YMCA's of India, Service Civil-Youth Volunteers of India, Student Christian Movement of India, Junior Chamber, Student Federation of India, the Bharat Scouts and Guides, Tibetan Youth Congress, United Nations Youth Organization of India, and Young Catholic Students of India. National women's organizations include All India Women's Conference, Women's Equal Rights Group, and Women's Protection League.

There are several national and local organizations and associations dedicated to providing assistance and services to the poor, disadvantaged, and marginalized, such as the Karnataka Welfare Society and Andhra Mahila Sabha. There are a wide variety of international organizations with chapters in India, including Christian Children's Fund, CARE, Caritas, Defence for Children International, Habitat for Humanity, the Red Cross, Amnesty International, Kiwanis, and Lion's Clubs. The International Health Organization has an office in New Delhi.

## 47 TOURISM, TRAVEL, AND RECREATION

The national Department of Tourism maintains tourist information offices at home and abroad. It has constructed many facilities for viewing wildlife in forest regions, by minibus, boat, or elephant; and operates tourist lodges in wildlife sanctuaries. The principal tourist attractions are India's distinctive music, dance, theater, festivals, and cuisines; the great cities of Calcutta, Mumbai (formerly Bombay), and Chennai (formerly Madras); and such monuments as the Red Fort and Jama Masjid mosque in Delhi, the Taj Mahal

at Agra, and the Amber Palace in Jaipur. Tourists and pilgrims also flock to the sacred Ganges River, the Ajanta temple caves, the temple at Bodhgaya where the Buddha is said to have achieved enlightenment, and many other ancient temples and tombs throughout the country. All visitors must have a valid passport and an entry, transit, or tourist visa. The visa must be acquired before arrival. Vaccination against typhoid is recommended.

The big-game hunting for which India was once famous is now banned, but excellent fishing is available. There are also many golf courses. Cricket, field hockey, polo, football (soccer), volleyball, and basketball are all popular, as are pony-trekking in the hill stations and skiing in northern India.

All major cities have comfortable Western-style hotels that cater to tourists. In 2003, there were 2,726,214 tourist arrivals, almost 34% of whom came from Europe. Tourist receipts totaled \$3.5 billion. The 91,720 hotel rooms with 183,440 beds had an occupancy rate of 60%.

In 2005, the US Department of State estimated the cost of staying in New Delhi at \$245 per day. Daily expenses were estimated at \$254 in Calcutta, \$266 in Mumbai (formerly Bombay), and \$353 in Bangalore.

## 48 FAMOUS INDIANS

Siddhartha Gautama was (624–544 BC according to Sinhalese tradition; 563?–483? BC according to most modern scholars) later known as the Buddha (“the enlightened one”). Born in what is now Nepal, he spent much of his life in eastern Uttar Pradesh and Bihar, propounding the philosophical doctrines that were later to become Buddhism. Contemporary with the Buddha was Vardhamana (599?–527 BC), also known as Mahavira (“great hero”), a saintly thinker of Bihar from whose teachings evolved Jainism. Some of the noteworthy religious and political leaders were Chandragupta (r.321?–297? BC), founder of the Maurya Dynasty; Asoka (r.273–232 BC), who made Buddhism the religion of his empire; Chandragupta II (r. AD 375?–413), whose era marked a high point of Hindu art and literature; Shivaji (1627?–80), a hero of much Hindu folklore; Nanak (1469–1539), whose teachings are the basis of Sikhism; and Govind Singh (1666–1708), the guru who gave Sikhism its definitive form. Akbar (1542–1605) greatly expanded the Mughal Empire, which reached its height under Shah Jahan (1592–1666), builder of the Taj Mahal, and his son, the fanatical emperor Aurangzeb (1618–1707).

Sanskrit grammarian Panini (5th?–4th? centuries BC), wrote the first book on scientific linguistics. The Bengali educator and reformer Rammohan Roy (1772–1833) has been called “the father of modern India.” Swami Vivekananda (1863–1902), founder of the nonsectarian Ramakrishna Mission and a great traveler both in India and abroad, did much to explain the Hindu philosophy to the world and to India as well. Sarvepalli Radhakrishnan (1888–1975), a leading 20th-century Hindu scholar and philosopher, also served as president of India from 1962 to 1967. Another revered religious philosopher was Meher Baba (1894–1969). The rising position of India in science and industry is well exemplified by Jamshedji Nusserwanji Tata (1822–1904), founder of the nation’s first modern iron and steel works as well as many other key industries; the physicist Jagadis Chandra Bose (1858–1937), noted for his research in plant life; Srinivasa Ramanujan (1887–1919), an amazingly original, although largely self-taught, mathematician; Chandrasekhara Venkata Raman (1888–1970), who was awarded

the 1930 Nobel Prize for research in physics; Chandrasekhara Subramanyan (1910–95), also a Nobel Prize laureate in physics, and Vikram A. Sarabhai (1919–71), the founder of the Indian space program. Mother Teresa (Agnes Gonxha Bojaxhiu, 1910–97, in what is now Serbia and Montenegro) won the Nobel Peace Prize in 1979 for her 30 years of work among Calcutta’s poor.

In modern times no Indian so completely captured the Indian masses and had such a deep spiritual effect on so many throughout the world as Mohandas Karamchand Gandhi (1869–1948). Reverently referred to by millions of Indians as the Mahatma (“the great-souled one”), Gandhi is considered the greatest Indian since the Buddha. His unifying ability and his unusual methods of non-violent resistance contributed materially to the liberation of India in 1947. A leading disciple of the Mahatma, Vinayak (“Vino-ba”) Narahari Bhawe (1895–1982), was an agrarian reformer who persuaded wealthy landowners to give about 600,000 hectares (1,500,000 acres) of tillable land to India’s poor.

Gandhi’s political heir, Jawaharlal Nehru (1889–1964), had a hold on the Indian people almost equal to that of the Mahatma. Affectionately known as Chacha (Uncle) Nehru, he steered India through its first 17 years of independence and played a key role in the independence struggle. Indira Gandhi (1917–84), the daughter of Nehru and prime minister from 1966 to 1977 and again from 1980 to 1984, continued her father’s work in modernizing India and played an important role among the leaders of non-aligned nations. Her son Rajiv (1944–91) succeeded her as prime minister and, in the 1985 election, achieved for himself and his party the largest parliamentary victory since India became independent. Subsequent prime ministers have been: P.V. Narasimha Rao (1921–2004, served 1991–96), Atal Behari Vajpayee (b.1924, served 1996 and 1998–2004), and Dr. Manmohan Singh (b.1932), who began his term in 2004.

A classical Sanskrit writer in Indian history was the poet and playwright Kalidasa (fl. 5th cent. AD), whose best-known work is *Shakuntala*. In modern times, Rabindranath Tagore (1861–1941), the great Bengali humanist, influenced Indian thought in his many songs and poems. Tagore received the Nobel Prize in literature in 1913 and through his lifetime wrote more than 50 dramas and about 150 books of verse, fiction, and philosophy. Another Bengali writer highly esteemed was the novelist Bankim Chandra Chatterjee (1838–94). Tagore and Chatterjee are the authors, respectively, of India’s national anthem and national song. The novel in English is a thriving genre; notable modern practitioners include Rasipuram Krishnaswamy Narayan (1906–2001), Bhambani Bhattacharya (1906–88), Raja Rao (b.1908) and Khushwant Singh (b.1915). Other contemporary Indian-born novelists writing in English include: Anita Desai (b.1937), Bharati Mukherjee (b.1940), Salman Rushdie (b.1947), and Arundhati Roy (b.1961); Jhumpa Lahiri (b.1967) is an American author of Indian descent. Influential poets of the last two centuries include the Bengalis Iswar Chandra Gupta (1812–59) and Sarojini Naidu (1879–1949), known as “the nightingale of India,” a close associate of Gandhi and a political leader in her own right.

Modern interpreters of the rich Indian musical tradition include the composer and performer Ravi Shankar (b.1920) and the performer and educator Ali Akbar Khan (b.1922). Zubin Mehta (b.1936) is an orchestral conductor of international renown. Uday Shankar (1900?–1977), a dancer and scholar, did much to stimulate Western interest in Indian dance. Tanjore Balasaraswati

(1919?–84) won renown as a classical dancer and teacher. Preeminent in the Indian cinema is the director Satyajit Ray (1921–92).

## 49 DEPENDENCIES

### Andaman and Nicobar Islands

The Andaman and Nicobar Islands are two groups of islands in the Indian Ocean, extending approximately 970 km (600 mi) N–S and lying about 640 km (400 mi) W of both the Tenasserim coast of Myanmar and peninsular Thailand. Their total area is 8,293 sq km (3,202 sq mi); their population was estimated to exceed 188,000 in the mid-1990s. These islands together form a union territory with its capital at Port Blair. The legal system is under the jurisdiction of the high court of Calcutta.

The Andaman Islands extend more than 354 km (220 mi) between 10° and 14°N and 92°12' and 94°17' E. Of the 204 islands in the group, the three largest are North, Middle, and South Andaman; since these are separated only by narrow inlets, they are often referred to together as Great Andaman. Little Andaman lies to the south.

The Nicobars extend south from the Andamans between 10° and 6°N and 92°43' and 93°57'E. Of the 19 islands, Car Nicobar, 121 km (75 mi) S of Little Andaman, holds more than half the total population; the largest, Great Nicobar, 146 km (91 mi) NW of Sumatra, is sparsely populated.

The Andamans were occupied by the British in 1858, the Nicobars in 1869; sporadic settlements by British, Danish, and other groups were known previously. During World War II (1939–45), the islands were occupied by Japanese forces. They became a union territory in 1956. That same year, the Andaman and Nicobar Islands (Protection of Aboriginal Tribes) Act came into force; this act, designed to protect the primitive tribes that live in the islands, prohibited outsiders from carrying on trade or industry in the islands without a special license. Six different tribes live in the Andaman and Nicobar Islands, the largest being the Nicobarese. There are lesser numbers of Andamanese, Onges, Jarawas, Sentinalese, and Shompens in the dependency. Access to tribal areas is prohibited.

Agriculture is the mainstay of the economy. The principal crops are rice and coconuts; some sugarcane, fruits, and vegetables are also grown. There is little industry other than a sawmill and plywood and match factories, but the government is making plans to promote tourism in the islands. These plans include the construction of a 1,000-bed hotel, a casino, and duty-free shopping facilities in Port Blair.

### Lakshadweep

The union territory of Lakshadweep consists of the Laccadive, Minicoy, and Amindivi Islands, a scattered group of small coral atolls and reefs in the Arabian Sea between 10° and 13°N and 71°43' and 73°43'E and about 320 km (200 mi) W of Kerala state. Their total area is about 32 sq km (12 sq mi). Minicoy, southernmost of the islands, is the largest.

In the mid-1990s, the population of Lakshadweep was estimated to exceed 40,000. The inhabitants of the Laccadives and Amindivis are Malayalam-speaking Muslims; those on Minicoy are also

Muslim, but speak a language similar to Sinhalese. The islanders are skilled fishermen and trade their marine products and island-processed coir in the Malabar ports of Kerala. The main cottage industry is coir spinning. Politically, these islands were under the control of the state of Madras until 1956. The present territorial capital is at Kavaratti. Judicial affairs are under the jurisdiction of the high court of Kerala.

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# INDONESIA

Republic of Indonesia

*Republik Indonesia*

**CAPITAL:** Jakarta

**FLAG:** The national flag, adopted in 1949, consists of a red horizontal stripe above a white stripe.

**ANTHEM:** *Indonesia Raya* (*Great Indonesia*).

**MONETARY UNIT:** The rupiah (Rp) consists of 100 sen. There are coins of 1, 2, 5, 10, 25, 50, and 100 rupiahs, and notes of 100, 500, 1,000, 5,000, and 10,000 rupiahs. Rp1 = \$0.00010 (or \$1 = Rp9,739.35) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is standard.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 17 August; Christmas, 25 December. Movable religious holidays include the Prophet's Birthday, Ascension of Muhammad, Good Friday, Ascension Day of Jesus Christ, the end of Ramadan, 'Id al-Fitr, 'Id al-'Adha, and the 1st of Muharram (Muslim New Year).

**TIME:** Western, 7 PM = noon GMT; Central, 8 PM = noon GMT; Eastern, 9 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Republic of Indonesia consists of five large islands and 13,677 smaller islands (about 6,000 of which are inhabited) forming an arc between Asia and Australia. With a total area of 1,919,440 sq km (741,100 sq mi), Indonesia is the fourth-largest Asian country, after China, India, and Saudi Arabia. Comparatively, the area occupied by Indonesia is slightly less than three times the size of the state of Texas. It extends 5,271 km (3,275 mi) E–W and 2,210 km (1,373 mi) N–S. The five principal islands are Sumatra; Java; Borneo, of which the 72% belonging to Indonesia is known as Kalimantan; Sulawesi, formerly called Celebes; and Irian Jaya (West Irian), the western portion of the island of New Guinea. Indonesia has land boundaries with Malaysia (on Borneo), Papua New Guinea (on New Guinea), and East Timor (on Timor). It is bounded on the N by the South China Sea, on the N and E by the Pacific Ocean, and on the S and W by the Indian Ocean. Indonesia's total land boundary length is 2,830 km (1,758 mi). Its coastline is 54,716 km (33,999 mi).

Indonesia's capital city, Jakarta, is located on the island of Java.

## <sup>2</sup>TOPOGRAPHY

The Indonesian archipelago consists of three main regions. One of the regions consists of Sumatra, Java, Kalimantan, and the islands that lie between them, which stand on the Sunda shelf, where the ocean depths are never more than 210 m (700 ft). Another region consists of Irian Jaya and the Aru Isles, which stand on the Sahul shelf, projecting northward from the north coast of Australia at similar depths. Between these two shelves are the Lesser Sunda Islands, the Maluku Islands (Moluccas), and Sulawesi, which are surrounded by seas with depths that reach 4,570 m (15,000 ft). The large islands have central mountain ranges rising from more or less extensive lowlands and coastal plains. Many inactive and scores of active volcanoes dot the islands, accounting for the predominantly rich volcanic soil that is carried down by the rivers to the plains and lowlands; there are over 100 volcanoes. Peaks rise

to 3,650 m (12,000 ft) in Java and Sumatra. Java, Bali, and Lombok have extensive lowland plains and gently sloping cultivable mountainsides. Extensive swamp forests and not very fertile hill country are found in Kalimantan. Sumatra's eastern coastline is bordered by morasses, floodplains, and alluvial terraces suitable for cultivation farther inland. Mountainous areas predominate in Sulawesi.

Earthquakes and tsunamis often devastate Indonesia. In 1992, an earthquake off the island of Flores caused more than 2,500 deaths. More than 200 people died in 1994 from an earthquake and tsunami in eastern Java. An earthquake in Sumatra with a magnitude of 7.9 on the Richter Scale killed more than 100 people in 2000.

A disastrous tsunami struck Indonesia and its neighboring Asian countries on 26 December 2004. Stemming from an underwater earthquake about 324 km (180 mi) south off the coast of Sumatra, the city of Banda Aceh witnessed a 10-minute earthquake, the longest ever recorded as of 2005. The tsunami rolled waves onto the mainland at an estimated 800 km/h (500 mi/h), leaving about 131,000 dead and another 38,000 missing. The devastation of the disaster crushed entire villages and most of the country's coastal region.

On 19 February 2005, an earthquake measuring a 6.5 magnitude on the Richter Scale occurred at Sulawesi. Simeulue experienced a 6.8 magnitude tremor on 26 February 2005. On 28 March 2005, an earthquake measuring 8.7 struck both of the small islands of Nias and Simeulue. One of the most powerful in a century, the disaster caused hundreds of deaths and severe damage to many homes. Nias felt additional quakes on 14 May (at 6.8 magnitude) and 5 July (6.7 magnitude). Simeulue felt another quake of 6.7 magnitude on 19 May.

## <sup>3</sup>CLIMATE

Straddling the equator, Indonesia has a tropical climate characterized by heavy rainfall, high humidity, high temperature, and low winds. The wet season is from November to March, the dry season from April to October. Rainfall in lowland areas averages 180–320

cm (70–125 in) annually, increasing with elevation to an average of 610 cm (240 in) in some mountain areas. In the lowlands of Sumatra and Kalimantan, the rainfall range is 305–370 cm (120–145 in); the amount diminishes southward, closer to the northwest Australian desert. Average humidity is 82%.

Altitude rather than season affects the temperature in Indonesia. At sea level, the mean annual temperature is about 25–27° C (77–81°F). There is slight daily variation in temperature, with the greatest variation at inland points and at higher levels. The mean annual temperature at Jakarta is 26°C (79°F); average annual rainfall is about 200 cm (79 in).

#### **4 FLORA AND FAUNA**

The plant life of the archipelago reflects a mingling of Asiatic and Australian forms with endemic ones. Vegetation ranges from that of the tropical rain forest of the northern lowlands and the seasonal forests of the southern lowlands, through vegetation of the less luxuriant hill forests and mountain forests, to subalpine shrub vegetation.

The bridge between Asia and Australia formed by the archipelago is reflected in the varieties of animal life. The fauna of Sumatra, Kalimantan, and Java is similar to that of peninsular Malaysia, but each island has its peculiar types. The orangutan is found in Sumatra and Kalimantan but not in Java, the siamang only in Sumatra, the proboscis monkey only in Kalimantan, the elephant and tapir only in Sumatra, and the wild ox in Java and Kalimantan but not in Sumatra. In Sulawesi, the Maluku Islands, and Timor, Australian types begin to occur—the bandicoot, a marsupial, is found in Timor. All the islands, especially the Malukus, abound in great varieties of bird life, reptiles, and amphibians. The abundant marine life of Indonesia's extensive territorial waters includes a rich variety of corals.

As of 2002, there were at least 515 species of mammals, 929 species of birds, and over 29,300 species of plants throughout the country.

#### **5 ENVIRONMENT**

An extensive "regreening" and reforestation of barren land, initiated under the 1975–79 national economic development plan, was greatly expanded and integrated with flood control and irrigation programs under the national plans for 1979–84 and 1984–89. From the mid-1980s to the mid-1990s, Indonesia's forests and woodland areas increased by 1.4%. However, in 1990–2000, the deforestation rate was about 1.2% per year. Indonesia also has the world's most extensive mangrove area, which covered over 4 million hectares (9.9 million acres) in 1994. In 2000, about 58% of the total land area was forested.

Flood-control programs involve river dredging, dike strengthening, construction of new dams, and sandbagging of river banks at critical points. The burning of oil and coal along with the abuse of fertilizers and pesticides results in significant damage to the environment. The nation used 3.1 million tons of fertilizer per year at last estimate. Indonesia has 2,838 cu km of renewable water resources with 93% used in farming activity and 1% used for industrial purposes. About 89% of all city dwellers and 69% of rural dwellers have access to pure drinking water. Legislation introduced in 1982 endorsed the establishment of penalties for environmental pollution.

Protection of indigenous wildlife is entrusted to the Directorate of Nature Conservation and Wildlife Management. In 1984/85, the government set up three new national parks (of nineteen included in the 1984–89 plan) and four new natural reserves. By 2001 the government's goal to allocate 10% of the nation's land area to reserves had been met—protected lands totaled 10.1% of Indonesia's total land area. In 2003, about 20.6% of the total land area was protected, including five natural UNESCO World Heritage Sites and two Ramsar wetland sites.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 146 types of mammals, 121 species of birds, 28 types of reptiles, 33 species of amphibians, 91 species of fish, 3 types of mollusks, 28 species of other invertebrates, and 383 species of plants. Endangered species in Indonesia include the pig-tailed langur, Javan gibbon, orangutan, tiger, Asian elephant, Malayan tapir, Javan rhinoceros, Sumatran rhinoceros, Sumatran serow, Rothschild's starling, lowland anoa, mountain anoa, Siamese crocodile, false gavia, river terrapin, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback). The Kalimantan mango, Buhler's rat, and the Javanese lapwing have become extinct.

#### **6 POPULATION**

The population of Indonesia in 2005 was estimated by the United Nations (UN) at 221,932,000, which placed it at number 4 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as too high. The government was continuing efforts to curb population growth by reducing the fertility rate, which stood at 2.7 births per woman in 2005, half of what it was in the 1970s. The government's goal was to reach a fertility rate of 2.2 births per woman by 2010. The projected population for the year 2025 was 275,406,000. The population density was 117 per sq km (302 per sq mi); population distribution is uneven, with 60% of the population living in just 7% of the nation's land. Some urban areas have density equivalent to 44,030 per sq km (17,000 per sq mi).

The UN estimated that 42% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.22%. The capital city, Jakarta, had a population of 12,296,000 in that year. Other large cities and their estimated populations include Bandung, 4,020,000; Surabaya, 2,735,000; Medan, 2,109,000; Palembang, 1,675,000; Ujungpandang, 1,205,000; and Semarang, 816,000.

#### **7 MIGRATION**

Historically, there has been considerable migration from and to China. Following a decree banning foreigners from participating in retail trade in rural Indonesia, some 120,000 Chinese left Indonesia in 1960–61. After the attempted coup of 1965 and the resultant deterioration in relations with China, many more Chinese left Indonesia. Migration between the Netherlands and Indonesia has been greatly reduced since independence; at the time of indepen-

dence, 250,000 Netherlands nationals—nearly all of whom have since returned home—lived in Indonesia.

Resettlement of people from crowded areas to the less populous outer islands is official government policy. The 1979–84 National Economic Plan had as a target the “transmigration” of 500,000 families from Java, Bali, and Madura to Sumatra, Kalimantan, Sulawesi, Maluku Province, and Irian Jaya. Participation was voluntary, and the actual number of families that resettled was about 366,000, containing about 1.5 million people. Since the annual population increase of Java is more than two million, the costly transmigration scheme did little to relieve that island’s human congestion, but it had a considerable impact in developing sparsely settled areas. Each family was entitled to two ha (five acres) and was provided with housing, food, seedlings, fertilizers, pesticides, and other supplies that it could use to become productive. Under the 1987–91 plan, 338,433 families were resettled.

First asylum was granted to over 145,000 Indochinese refugees between 1975 and 1993. Of these refugees, 121,708 were from Vietnam. Of the Vietnam asylum seekers, 112,000 had left for resettlement in the West by 1996, with the remaining group of Vietnamese expected to return home eventually. In 2004 there were 535,000 internally displaced persons in Indonesia.

In 2004 Indonesia had 169 refugees and 59 asylum seekers, with 16,390 persons of concern to the United Nations High Commissioner for Refugees (UNHCR). Populations of concern to UNHCR in 2004 were some 16,000 from East Timor and Afghanistan. In that same year over 7,000 Indonesians applied for asylum in Malaysia, the United States, and Australia. Another 15,181 were refugees in Malaysia, and 7,626 in Papua New Guinea.

In 2005 the net migration rate for Indonesia was zero.

## **8 ETHNIC GROUPS**

The indigenous peoples, ethnologically referred to as Malays or Indonesians, also are found on the neighboring islands of the Philippines, in peninsular Malaysia, and even as far away as Taiwan and Madagascar. Indonesians are characterized by smallness of stature, light to dark-brown pigmentation, thick, sleek black hair, broad formation of the head, a wide nose, and thick lips. The inhabitants of eastern Indonesia have Negroid features, the result of intermarriage with the Papuans of New Guinea.

The population is officially classified into four main ethnic groups: Melanesians, who constitute the majority; Proto-Australonesians, including the Wajaks and the Irianese on Irian Jaya; Polynesians, including the Ambonese on the Maluku Islands; and Micronesians, found on the tiny islets of Indonesia’s eastern borders. The Melanesians are subdivided into the Acehnese of north Sumatra; the Batak of northeastern Sumatra; the Minangkabau of west Sumatra; the Sundanese of west Java; the Javanese in central and east Java; the Madurese on the island of Madura; the Balinese on Bali; the Sasaks on the island of Lombok; the Timorese on Timor; the Dayaks in Kalimantan; and the Minahasa, Torajas, Makassar, and Buginese on Sulawesi. About 45% of the population is Javanese, 14% Sundanese, 7.5% Madurese, 7.5% coastal Malays, and 26% other.

Ethnic Chinese, the principal minority, were the target of riots in 1974, 1980, and 1998. Active mainly in business in the major cities, they are relatively prosperous and widely resented by ethnic Indonesians.

## **9 LANGUAGES**

Bahasa Indonesia, a product of the nationalist movement, is the official language, serving as a common vehicle of communication for the various language groups. Based primarily on Malay and similar to the official language of Malaysia, it also contains many words from other Indonesian languages and dialects, as well as from Dutch, English, Arabic, Sanskrit, and other languages. In 1973, Indonesia and Malaysia adopted similar systems of spelling. Outside of Jakarta, only 10–15% of the population speaks the language in the home, but more than half the population uses it as a secondary language. Use of some 669 local languages persists, including Sundanese, Malay, and the most widely used, Javanese. English and Dutch are widely used in industry and commerce.

## **10 RELIGIONS**

According to a 2000 census, about 88.22% of the inhabitants were adherents of Islam, 5.87% were Protestant, 3.05% were Roman Catholic, 1.81% were Hindu, 0.84% were Buddhist, and 0.2% followed tribal and other religions.

Most Muslims are Sunni, but the Shia, Amadhiyah, and Sufi branches are also represented. There are also small groups of messianic Islam groups including Darul Argam, Jamaah Salamulla, and Negara Islam Indonesia. The mainstream Muslim community is divided into modernists (who embrace modern learning but adhere to scriptural orthodox theology) and traditionalists (who are generally followers of charismatic religious scholars). Many modernists belong to a social organization known as Muhammadiyah; traditionalists belong to Nahdlatul. The Muslim majorities are found in Java, Sumatra, Kalimantan, West Nusa Tenggara, Sulawesi, and North Maluku.

Hinduism was the religion of Java for several centuries, but when Islam swept over Indonesia in the 15th century, Hinduism retreated somewhat to Bali. Hindu authorities estimate that there are about 18 million Hindus in the country; government estimates, however, indicate that there are only about 3.6 million. The Naurus on Seram Island practice a combination of Hindu and animist beliefs. Of the Buddhists, about 60% ascribe to the Mahayana school and 30% adhere to the Theravada school. Tantrayana, Tridharma, Kasogatan, Nichiren, and Maitreya schools are all represented as well. The religious faith of the Chinese in Indonesia may be characterized as Christian, Buddhist-Confucians, or even a combination of the two. The chief Christian communities are found in the eastern part of the country. In central Kalimantan and Irian Jaya, as well as a few other areas, substantial numbers of Indonesians follow animist tribal religions.

The constitution provides for freedom of worship but there have been some restrictions on religious practice. Only five religions are officially recognized by the Ministry of Religious Affairs: Islam, Catholicism, Protestantism, Buddhism, and Hinduism. Other religious groups may register as social organizations, but this status comes with certain restrictions. Proselytizing is prohibited. The government actively supports Islamic religious schools and pays for a number of annual pilgrimages to Mecca. Certain Hindu, Muslim, Christian, and Buddhist holidays are observed as national holidays.

## 1<sup>1</sup>TRANSPORTATION

Indonesia is politically and economically dependent upon good communications and transportation among the islands. Transportation facilities suffered greatly from destruction and neglect during World War II and immediately thereafter. The revitalized and partially modernized system suffered an additional setback during 1957–58 as a result of the withdrawal of Dutch equipment and personnel.

Of the 368,360 km (229,119 mi) of roadways in 2002, a total of 213,648 km (132,889 mi) were paved. Indonesia had 3,556,000 passenger cars and 2,720,000 commercial vehicles as of 2003. Railways connect the main cities in Java and parts of Sumatra. As of 2004, the state owned all of the 6,458 km (4,013 mi) of railroad track in service, all of which was narrow gauge. Of that total, 125 km (78 mi) have been electrified. Air-conditioned cars and express service have been introduced in parts of Java, but no new lines have been built in recent years.

As of 2004, about 21,579 km (13,409 mi) of inland waterways form the most important means of transportation in Kalimantan and in parts of Sumatra. The principal ports of international trade are Tanjungpriok (for Jakarta) and Tanjungperak (for Surabaya) in Java, and Belawan (near Medan) and Padang in Sumatra. Ports with less traffic but capable of handling sizable ships are Cirebon and Semarang in Java; Palembang in Sumatra; Banjarmasin, Balikpapan, and Pontianak in Kalimantan; Tanjungpinang in Bintan; and Ujung Padang in Sulawesi. In 2005, Indonesia's merchant fleet included 728 vessels of 1,000 GRT or more, totaling 3,192,847 GRT. Regulations were imposed in 1982 requiring that all government imports and exports be shipped in Indonesian vessels, and port charges were substantially altered to benefit Indonesia's national carriers. In 1984, a policy of scrapping old vessels was implemented.

Indonesia had an estimated 667 airports in 2004. As of 2005, a total of 161 had paved runways, and there were also 23 heliports. The center of international air traffic is Jakarta's Sukarno-Hatta International Airport. Other principal airports include Halim Perdanak at Jakarta and Polonia at Medan. In 2003, about 12.221 million passengers were carried on scheduled domestic and international flights.

## 1<sup>2</sup>HISTORY

Evidence for the ancient habitation of Indonesia was discovered by the Dutch paleontologist Eugène Dubois in 1891; these fossil remains of so-called Java man (*Pithecanthropus erectus*) date from the Pleistocene period, when Indonesia was linked with the Asian mainland. Indonesia's characteristic racial mixture resulted from at least two waves of invasions from South China by way of the Malay Peninsula and from intermarriage of these Indonesians with later immigrants, especially from India. The important population groups of today trace their descent from the immigrants of the second wave, which occurred around the 2nd or 3rd century BC. They subjugated and absorbed most of the other inhabitants. Indian influences permeated Java and Sumatra from the 1st to the 7th century AD. During this period and extending into the 15th century, local Buddhist and Hindu rulers established a number of powerful kingdoms. Among the most powerful of these was the Buddhist kingdom of Srivijaya, established on Sumatra in the

7th century; it prospered by gaining control of trade through the Strait of Malacca. To the east, in central Java, the Sailendra dynasty established its Buddhist kingdom in the 8th century. Relics of Sailendra rule include the great temple of Borobudur, Asia's largest Buddhist monument, with hundreds of bas-reliefs depicting the life of Buddha. Succeeding the Sailendra dynasty in 856 were followers of the Hindu god Shiva; these Shivaites built the great temple at Prambanan, east of Yogyakarta. Other Hindu kingdoms subsequently extended Indian influence eastward into east Java and Bali. The last of these was the Hindu kingdom of Majapahit, which was at the height of its power during the 13th century, when Marco Polo visited Java and northern Sumatra. When Majapahit collapsed around 1520, many of its leaders, according to tradition, fled to Bali, the only island in Indonesia that retains Hinduism as the chief religion. Even before Majapahit disintegrated, Muslim missionaries, probably Persian merchants, had begun to win much of the archipelago for Islam. About this time, also, the first Europeans arrived, and the first Chinese settlements were made. The Portuguese captured Malacca (Melaka), on the west coast of the Malay Peninsula, in 1511 and established control over the archipelago.

Dutch ships visited Java in 1596. The Dutch came in increasing numbers and soon drove the Portuguese out of the archipelago (except for the eastern half of the island of Timor), beginning nearly 350 years of colonial rule. The States-General of the Dutch Republic in 1602 incorporated the East Indian spice traders as the United East India Company and granted it a monopoly on shipping and trade and the power to make alliances and contracts with the rulers of the East. By force and diplomacy, the company thus became the supreme ruler of what became known as the Dutch East Indies. However, maladministration and corruption weakened the company after its early years of prosperity, and the Dutch government nullified its charter in 1799 and took over its affairs in 1800. The British East India Company ruled the Indies during the Napoleonic wars, from 1811 to 1816. During this period, Sir Thomas Stamford Raffles became governor of Java. When Dutch rule was restored, the Netherlands government instituted the "culture system" on Java, under which the Javanese, instead of paying a certain proportion of their crops as tax, were required to put at the disposal of the government a share of their land and labor and to grow crops for export under government direction. From a fiscal point of view the system was very successful, yielding millions of guilders for the Netherlands treasury, but this "net profit" or "favorable balance" policy fell under increasing moral attack in the Netherlands and was brought to an end about 1877.

Thereafter, private Dutch capital moved into the Indies, but the augmentation of Dutch prosperity at the expense of Indonesian living standards was increasingly resented. With the adoption of what colonial administrators called the "ethical policy" at the beginning of the 20th century, the first steps were taken to give Indonesians participation in government. A central representative body, the Volksraad, was instituted in 1918. At first it had only advisory powers, but in 1927 it was given co-legislative powers. An Indonesian nationalist movement began to develop during those years and steadily gained strength. Although retarded in the 1930s by the world economic depression, which was strongly felt in Indonesia, the movement revived during the Japanese occupation (1942–45) in World War II. A nationalist group under the leader-



LOCATION: 95°1' to 141°2' E; 6°5' N to 11° S. BOUNDARY LENGTHS: Malaysia, 1,782 kilometers (1,110 miles); Papua New Guinea, 820 kilometers (510 miles); total coastline, 54,716 kilometers (33,996 miles). TERRITORIAL SEA LIMIT: 12 miles.

ship of Sukarno and Mohammad Hatta proclaimed an independent republic on 17 August 1945, adopted a provisional constitution providing for a strong presidential form of government, formed a revolutionary government, and resisted Dutch reoccupation. After four years of intermittent negotiations, frequent hostilities, and intervention by the United Nations (UN), the Netherlands agreed to Indonesian demands.

On 27 December 1949, the Dutch recognized the independence of all the former Dutch East Indies except West New Guinea (Irian Jaya) as the Republic of the United States of Indonesia. A few months later, on 17 August 1950, the federal system was rejected and a unitary state, the Republic of Indonesia, was established under a new constitution. West New Guinea remained under Dutch control until October 1962, when the Netherlands transferred the territory to the UN Temporary Executive Administration (UNTEA). On 1 May 1963, Indonesia took complete possession of the disputed territory as the province of Irian Barat (West Irian); the province was renamed Irian Jaya in 1973. Indonesia, which aimed to acquire Sarawak and Sabah (which are on the island of Borneo with Kalimantan), opposed the formation of the Federation

of Malaysia in September 1963 and announced a "crush Malaysia" policy. This policy was implemented by guerrilla raids into Malaysian territory that continued until August 1966, when a formal treaty was concluded between the two countries.

Sukarno became the first president of the new nation in 1949, and Hatta the vice president. Internal difficulties, fostered by a multiplicity of political parties inherited from Dutch colonial days, soon developed, and regional rivalries also threatened the unity of the new nation. Then as now, Java had some two-thirds of the country's population, but the great sources of wealth were found on the other, much less densely settled islands. Those living in the so-called Outer Islands believed too much governmental revenue was being spent in Java and too little elsewhere. After Vice President Hatta, a Sumatran, resigned in December 1956, many in the Outer Islands felt they had lost their chief and most effective spokesman in Jakarta. Territorial army commanders in Sumatra staged coups and defied the central government; other rebel movements developed in Sulawesi. The government took measures providing for greater fiscal and administrative decentralization, but discontent remained, and the rebellions were put down

by force. Thereafter, Sukarno bypassed parliamentary procedures and pursued an increasingly authoritarian, anti-Western policy of "guided democracy." In 1959, he decreed a return to the 1945 constitution, providing for a centralized form of government, and consolidated his control.

Communist agitation within the country and secessionist uprisings in central and eastern Java came to a head in the 30th of September Movement under the direction of Lt. Col. Untung. Sukarno, whose foreign policy had turned increasingly toward the Communist Chinese, may have had advance knowledge of the Communist-led coup attempt on 30 September 1965, which was directed against Indonesia's top military men; the coup was crushed immediately by the army, however, and in the ensuing anti-Communist purges more than 100,000 persons (mostly Indonesian Chinese) lost their lives and another 700,000 were arrested. By mid-October, the army, under the command of Gen. Suharto, was in virtual control of the country. On 12 March 1966, following nearly three weeks of student riots, President Sukarno transferred to Suharto the authority to take, in the president's name, "all measures required for the safekeeping and stability of the government administration." In March 1967, the People's Consultative Assembly (Majelis Permusyawaratan Rakyat—MPR) voted unanimously to withdraw all Sukarno's governmental power and appointed Gen. Suharto acting president. One year later, it conferred full presidential powers on Suharto, and he was sworn in as president for a five-year term. The congress also agreed to postpone the general elections due in 1968 until 1971. Sukarno died in June 1970. On 3 July 1971, national and regional elections were held for the majority of seats in all legislative bodies. The Joint Secretariat of Functional Groups (Sekber Golongan Karya—Golkar), a mass political front backed by Suharto, gained 60% of the popular vote and emerged in control of both the House of Representatives (DPR) and the MPR.

### Suharto Gains Control

In March 1973, the MPR elected Suharto to a second five-year term. Thus Suharto, with key backing from the military, began a long period of dominance over Indonesian politics. Under Suharto's "New Order," Indonesia turned to the West and began following a conservative economic course stressing capital development and foreign investment. In foreign affairs, Suharto's government achieved vastly improved ties with the United States, Japan, and Western Europe while maintaining links with the USSR.

On 7 December 1975, following Portugal's withdrawal from East Timor, a power struggle developed among various political groups, including the Revolutionary Front for an Independent East Timor (Frente Revolucionário de Este Timor Independente—Fretilin). The left-wing independence movement achieved military dominance forcing the Indonesian government to send troops into the former Portuguese colony and assume full control of the territory. On 17 July 1976, the Suharto government incorporated the territory as an Indonesian province. This action was neither recognized by the UN, which called on Indonesia to withdraw and allow the Timorese the right to self-determination, nor accepted by Fretilin. Discontent with the Suharto regime mounted after the elections of 1977, in which Suharto's Golkar Party gained an overwhelming majority. The government acknowledged holding 31,000 political prisoners; according to Amnesty International,

the total was closer to 100,000. Student riots and criticism of government repression resulted in further government measures: political activity was suspended, and leading newspapers were temporarily closed. Suharto was elected by the MPR to a third five-year term in 1978; during late 1977 and 1978, some 16,000 political prisoners were released, and the remainder of those detained in 1965 were released by the end of 1979. Golkar made further gains in the 1982 elections, and Suharto was elected for a fourth five-year term in March 1983.

To strengthen the government in the face of rising Muslim militancy, Suharto began to reestablish Sukarno as a national hero eight years after his death. Suharto called for greater loyalty by all political groups to the Pancasila ("five principles") framed by Sukarno in 1945. The credo encompassed belief in the one supreme being, humanitarianism, national unity, consensus democracy, and social justice. Muslim groups strongly objected to the new government program and organized demonstrations that took place in 1984 and 1985. The war against Fretilin continued into the 1980s, with reports of massacres by government troops and severe economic hardship among the Timorese. Negotiations with Portugal, still considered responsible for decolonization by the UN, began in July 1983. In Irian Jaya, the Organization for a Free Papua (Organisasi Papua Merdeka—OPM), which desires unification with Papua New Guinea and has been active since the early 1960s, increased its militant activities in 1986. The Indonesian Army (ABRI) continued to play a dual military and socioeconomic function, and this role was supported by legislation in 1988. Golkar made further gains in the 1987 elections, and Suharto was again reelected for a fifth five-year term in March 1988. During disagreements over nomination procedures for the vice presidency, ABRI's influence was eroded.

Golkar sought to create national unity through its resettlement policies. From 1969–92, the Transmigration Program, a policy aimed at redistributing population in Indonesia for political purposes and demographic reasons, resulted in almost 1,488,000 families moving from the Inner Islands to the Outer Islands. The Transmigration Program suffered from land disputes with local residents and environmental concerns over deforestation. The program alienated local populations and fueled ethnic conflict throughout the country. In Irian Jaya, OPM attempted to sabotage the government's program, which was turning the indigenous Melanesian majority into a minority. Indonesian troops attempting to capture Melanesian separatists would cross the border into Papua New Guinea. Indonesia and Papua New Guinea agreed to provide greater cooperation on security and trade issues and the leader of OPM, Melkianus Salossa, was eventually arrested in Papua New Guinea and deported to Indonesia and sentenced to life in prison in 1991. In 1989, tension from land disputes in Java and the Outer Islands produced social unrest that resulted in clashes between villagers and the armed forces. In 1990 an armed rebellion in northern Sumatra at Aceh arose over hostility toward government exploitation of mineral resources and its transmigration program. The government squashed the rebellion with a massive display of force.

Political openness was increasingly espoused during 1990–91 by political and labor organizations. In 1990 a group of prominent Indonesians publicly demanded that Suharto retire from the presidency at the end of his current term; in 1991 labor unrest

increased with a rash of strikes, which the army was called in to quell. Government efforts to raise funds through a state lottery were opposed and finally forbidden on religious grounds when the country's highest Islamic authority declared the lottery *haram* (forbidden).

On 12 November 1991, during a funeral for a young Timorese killed in demonstrations against Indonesia's rule of East Timor, soldiers opened fire on the defenseless mourners, provoking worldwide condemnation. Although the government took unprecedented steps to punish those involved, Western governments threatened to suspend aid, and demands were made linking aid to human rights issues. The Netherlands' demand linking its aid to improvements in human rights was rejected when Suharto refused Dutch economic aid on 25 March 1992. In the aftermath of these events, Suharto spoke at the Nonaligned Movement summit in Jakarta and to the UN General Assembly, suggesting that developing nations needed to take a more prominent role in opposing North-South economic inequality. Suharto's challenge received a cool reception from Western nations, but it clearly signaled a reassessment of Indonesia's future international presence. In early December 1992 government forces captured Jose Alexandre (Xanana) Gusmao, leader of the Fretilin, who was hiding in Dili, East Timor. On 21 May 1993 he was sentenced to life imprisonment. In late 1992, tensions between Muslims and Christians increased to the point of violence and vandalism of churches and mosques. Suharto requested that religious tolerance be practiced. By 1993 US policy toward Indonesia shifted, toward criticism of Indonesia's rule in East Timor and a threat to revoke trade privileges pursuant to Indonesia's treatment of the largest independent trade union, the Indonesian Prosperous Labor Union (SBSI). Adding further scrutiny to Indonesia's tarnished international image was a UN resolution on Indonesia's human rights violations placing the country on a rights "watch" list in 1993.

Although its total share of votes declined, Golkar won the 1992 elections, securing 282 of the 400 elective seats. In March 1993, Suharto was elected to a sixth term as president. Try Sutrisno, the commander in chief of ABRI, was chosen as vice president. Despite Golkar's victory, the country continued to experience economic and political difficulties. A major scandal occurred in March 1993 with the sale of \$5 million in fake shares on the Jakarta Stock Exchange (JSE). In January 1994 President Suharto inaugurated 12 electric power plants with combined installed capacity of more than 2,000 MW. Violent labor unrest broke out in Medan in April 1994 with the mysterious death of a union activist. Ethnic Chinese, who are only about 3% of the population of Indonesia, were the target of demonstrators; one Chinese factory manager was killed. The success of the Chinese is widely envied and they are accused of exploiting the workers. On 21 June 1994 the government closed *Tempo* and two other publications by revoking publishing licenses. *Tempo* was accused of violating the journalistic code of ethics and pitting one person against another to the point where it affected national security based on its coverage of a controversial purchase of 39 warships from the former East German navy. Other publications were accused of more technical infractions, including the failure to comply with registration procedures and publishing political and general news in spite of license restrictions limiting a popular tabloid's coverage to detective stories and crime stories.

Violent outbreaks, clashes, and riots increased in Indonesia from 1995–97. Riots between Catholics and Muslims broke out in East Timor in September 1995, leaving Dili's central marketplace in ashes. This was before Timor's Roman Catholic bishop, Carlos Filipe Ximenes Belo, and pro-independence advocate José Ramos-Horta, shared the Nobel Peace Prize in 1996. Many incidents of rural unrest, including land disputes and ethnic strife, continued in 1995–96. The campaign for the 29 May 1997 elections was an unusually violent one, dubbed the "festival of democracy," as voters and demonstrators brought rocks, bricks, knives, machetes, and even snakes to the campaign. There was a ban on parades of trucks, cars, and motorcycles. This followed the uproar resulting from the ouster of Megawati Sukarnoputri as the Indonesian Democratic Party (PDI) chairperson in June 1996. Her political involvement was seen as a rallying point for democratic change. Golkar took 74% of the vote in elections that were seen to be marked by fraud; over 200 people were killed during the campaign. The Muslim-oriented United Development Party (PPP) obtained 22% and the PDI, 3%.

In other violence, hundreds of lives were lost in a full-scale ethnic war in Kalimantan, as clashes between the Dayaks, the indigenous people of the area, and Muslim settlers from the island of Madura, broke out in December 1996. The fighting led to Malaysia closing part of its border with Indonesia in February 1997. In 1997, the country experienced the dual effect of increased ethnic conflict and economic decline. These twin forces were the harbinger for the decline of Golkar and the departure of Suharto from Indonesian politics. In the May 1997 legislative elections, Golkar allegedly secured 74.3% of the popular vote, amid massive violence that killed over 100 political activists. Violence continued after the elections and was worsened by the Asian economic crisis. After severe devaluation of the rupiah in August and October of 1997, Suharto accepted an International Monetary Fund (IMF) loan package but failed to carry out IMF-imposed conditions for economic reform. By December, news of Suharto's declining health furthered doubt on his ability to see Indonesia through a worsening economic and political situation.

After Suharto won an unopposed presidential election in March 1998, student protests swept Jakarta and ethnic tensions also swelled as Chinese merchants were attacked. In East Timor, José Ramos-Horta urged the government to agree to a cease-fire and cooperation with the UN to determine the ultimate governance structure for the country. On 21 May 1998, Suharto resigned as president, after hundreds of people were killed, looting swept through the capital, and thousands of foreigners living or working in Indonesia were evacuated in months of unrest. B. J. Habibie, the former vice president, was sworn in as president. Upon assuming the presidency, he adopted a conciliatory posture toward defusing the East Timor crisis by stating that East Timor may be given "special status" with increased autonomy within Indonesia. In August 1998, Portugal and Indonesia met to discuss the future of the province. After significant pressure from the United Nations, Australia, and Portugal, Habibie agreed on 27 January 1999 to hold a referendum for the province. Despite widespread violence instigated by the pro-Indonesia armed militia, 98% of voters cast their ballots on 30 August, with 78.5% in favor of independence. This was followed by a rampage by pro-Indonesia forces who looted and burned the entire province creating a major humanitarian sit-

uation and refugee crisis. With the aid of Australian troops, the UN intervened with approximately 8,000 troops to restore order and establish humanitarian programs. Meanwhile, in Irian Jaya and Aceh, the military forces and the national police continued to commit extra-judicial killings in 2000.

B. J. Habibie's political fortunes waned in the aftermath of the UN-sponsored referendum in East Timor. His state of the nation address to the People's Consultative Assembly in October 1999 did not allay the perception that he had not exercised the appropriate leadership in handling domestic and international matters. Pressure on Habibie mounted and he subsequently resigned as a result of a no-confidence vote. In 20 October elections in the People's Consultative Assembly, the first free elections in 44 years, Abdurrahman Wahid, the leader of the National Awakening Party and a near-blind Muslim cleric, was pitted against Megawati Sukarnoputri, Sukarno's daughter. Megawati's party won the most votes, but rather than negotiate with other politicians to form a coalition, Megawati allowed the more experienced Wahid to become president. Despite protest from her supporters, Megawati asked backers to refrain from violent protest. She became vice president. Wahid worked to curb the influence of the military and promised major reforms in the government.

In July 2001, after months of opposition from legislators over the competence of his administration, Wahid declared a state of emergency and ordered parliament dissolved. On 23 July 2001, legislators in the People's Consultative Assembly voted 591–0 to remove Wahid from the presidency. He had been charged with corruption and incompetence, being accused of embezzling US\$4.1 million in state funds and illegally accepting US\$2 million from the Sultan of Brunei. He was cleared of all charges that May, but the parliament continued to insist upon impeachment proceedings based on dissatisfaction with his administration. Megawati was sworn in as president immediately after Wahid's removal.

Megawati, a Muslim who was identified with nationalist-secular policies, faced demonstrations upon assuming office from strict Islamic fundamentalists calling for the establishment of Shariah law. She also had to face the Aceh independence movement, as more than 1,000 people were killed in the province in 2001, adding to the thousands more that had been killed in the past decade. Megawati expressed support for the US-led war on terrorism following the 11 September 2001 terrorist attacks, and she visited the United States the following week.

Following the fall of Suharto, Indonesia experienced a resurgence of Islamic activity. The main extremist Islamist organizations in Indonesia are Darul Islam, the Islamic Defender's Front, and Laskar Jihad. Laskar Jihad is the most prominent and organized of Indonesia's radical Islamist organizations, and between 300–400 new members joined within the first month following the 11 September attacks. On 12 October 2002, Indonesia experienced its own major terrorist attack. Two nightclubs in the resort town of Kuta on the island of Bali were bombed, killing 202 people, the majority being young Western tourists, many from Australia. On 18 October, President Megawati issued an emergency decree to give the government expanded powers to fight terrorism. This act came after international criticism directed at her government for not taking the necessary steps to address the problem of terrorism. Megawati permitted the arrest of Abubakar Bashir, a Muslim cleric who is the spiritual leader of Jemaah Islamiyah. Je-

maah Islamiyah, accused of staging the Bali bombings, has links to the al-Qaeda organization. Bashir in 2003 was cleared of treason charges but jailed for subversion and immigration offenses. The subversion charge was later overturned, but in 2005 he was found guilty of conspiracy over the 2002 Bali bombings, and sentenced to 2½ years in prison. Later bombing attacks took place in August 2003 outside the Marriott Hotel in Jakarta, killing 14 people; in September 2004 outside the Australian embassy in Jakarta, which killed 9 and injured more than 180 people; and in October 2005 on the island of Bali, when 3 suicide bombings killed 22 people, including the bombers.

Following its independence referendum held in August 1999, East Timor was governed by UNTAET (the United Nations Transitional Administration in East Timor) and a National Consultative Council. A constituent assembly was elected in September 2001 with the task of writing a constitution for the country. In April 2002 José Alexandre "Xanana" Gusmão was elected president, and on 20 May 2002 East Timor became an independent nation.

In June 2000, 2,500 activists representing 250 tribal groups in Irian Jaya declared the region—which they call West Papua—a sovereign state. The region was granted limited autonomy by parliament in October 2001, but many inhabitants, including independence rebels, rejected the measure and called for full independence. On 9 December 2002, the government and the separatist Free Aceh Movement (GAM) signed a peace deal aimed at ending over three decades of violence. The accord provided for autonomy and free elections in Aceh; in return the GAM was to disarm. In May 2003, peace talks between the government and GAM broke down; the government mounted a military offensive against GAM separatists in Aceh and imposed martial law. In August 2005, the government and GAM separatists once again signed a peace agreement providing for the disarmament of rebels and the withdrawal of government soldiers from Aceh. In September, rebels began handing in their weapons.

Demonstrators protested price increases on basic necessities such as fuel and electricity commodities that have been rooted in corruption, in January 2003. Megawati, originally seen as a friend of the poor, was urged to resign by some for failing to eliminate corruption. In April 2004, parliamentary and local elections were held: the Golkar party of former President Suharto took the greatest share of the vote, with Megawati's PDI-P (Indonesia Democracy Party–Struggle) party coming in second. In July 2004, the country's first direct presidential election was held. In the run-off held on 20 September 2004, Megawati was defeated by Susilo Bambang Yudhoyono, who received 60.6% of the vote. The election was hailed as the first peaceful transition of power in Indonesian history.

On 26 December 2004, a powerful undersea earthquake off the coast of Sumatra generated massive tidal waves. The tsunami devastated Indian Ocean communities as far away as Thailand, India, Sri Lanka, and Somalia. More than 160,000 people were dead or missing in Indonesia alone. In March 2005, another earthquake off the coast of Sumatra killed at least 1,000 people, most of them on the island of Nias.

### 13 GOVERNMENT

The provisional constitution of 17 August 1950 provided for a unitary republic. The president and vice president, “elected in accordance with rules to be laid down by law,” were to be inviolable, but cabinet ministers were jointly and individually responsible. The House of Representatives was to be a unicameral parliament. Its members were elected by a system of proportional representation for a four-year term, but it might be dissolved earlier by presidential decree. Sukarno and Hatta, the first president and vice president, were elected by parliament; no term of office was stipulated by the constitution. In practice, the government was not truly parliamentary, since President Sukarno played a role far greater than is usual for the head of state in a parliamentary system. He was the great national revolutionary hero, and his popularity with the masses enabled him to exert great influence on government policy. Parliament was not strong enough to hold the president to the role prescribed by the constitution. In 1957, Sukarno adopted a more authoritarian policy of “guided democracy.” He further strengthened his powers in 1959 by decreeing a return to the provisional 1945 constitution, which called for a strong president and stressed the philosophy of Pancasila as a national ideology. On 5 March 1960, Sukarno suspended parliament and began to rule by decree. In June, he appointed a new 283-member parliament drawn from 9 political parties and 14 “functional groups.” In mid-August, Sukarno named another 326 legislators who, with the 283 members of parliament, were to constitute the Provisional People’s Congress. This congress was to meet at least once every five years and to be responsible for drawing up the outlines of national policy and electing the president and vice president. In 1963, the congress elected Sukarno president for life. Following the political upheavals of 1965–66, the army, led by Gen. Suharto, moved to establish a “New Order.” In 1967, Sukarno formally relinquished power to Suharto, who had become Indonesia’s effective ruler in March 1966. Suharto reorganized the cabinet, making all of its 12 ministers responsible to him. In February 1968, he dismissed 123 members of the People’s Consultative Assembly (Majelis Permusyawaratan Rakyat or MPR), an outgrowth of the Provisional People’s Congress, and replaced them with his own nominees. In June of that year, following his appointment to a five-year term as president, Suharto formed a new cabinet, with himself as prime minister and defense minister.

On 3 July 1971, general elections—the first since 1955—were held for portions of two reconstituted national bodies, a 460-seat House of Representatives (Dewan Perwakilan Rakyat or DPR) and a 920-seat People’s Consultative Assembly or MPR. In 1987, the memberships were increased to 500 and 1,000, respectively. The number of seats in the MPR was later reduced to 700. The People’s Consultative Assembly included the DPR plus 200 indirectly selected members; it met every five years to elect the president and vice president and to approve broad outlines of national policy and also had yearly meetings to consider constitutional and legislative changes. Legislative responsibility was vested in the DPR, which consisted of 462 elected members and 38 members appointed by the president from the military (Armed Forces of People’s Republic of Indonesia, Angkatan Bersenjata Republik Indonesia or ABRI). Under the Suharto government, the MPR acted as a consultative body, setting guidelines for national policy; its principal legislative task was to approve the broad outlines of state

policy. In March 1973, the MPR elected President Suharto to a second five-year term; he was reelected to a third term in 1978, a fourth in 1983, a fifth in 1988, a sixth in 1993, and a seventh in 1998. However, Suharto was forced to step down in May 1998 in favor of his vice president, B. J. Habibie. Habibie sought to decrease the role of the military in Indonesian politics and promised major political and economic reforms. He too was forced to resign after the People’s Consultative Assembly questioned his leadership. In a surprise move, the body chose Abdurrahman Wahid as president in October 1999. Wahid, a well respected Muslim cleric, promised democratization and an end to corruption. Ironically, Wahid was eventually removed from office in July 2001, for corruption and political incompetence. Megawati Sukarnoputri, the daughter of Sukarno, became president. She also took on the perennial problem of corruption, but had to face the issue of international terrorism as well.

In August 2002, the People’s Consultative Assembly (MPR) approved constitutional amendments to take effect in time for the presidential elections held in 2004. Seats in the 550-member DPR were no longer reserved for the armed forces; in return, members of the military were allowed to vote. Members of the DPR are elected for five-year terms. The MPR rejected the imposition of Shariah for Muslims. A second standing body, the Regional Representative Council (Dewan Perwakilan Daerah–DPD), now functions as a senate in Indonesia. Parliament no longer elects the president; instead, he or she is now directly elected.

In 2004, Megawati was defeated in the second round of the first direct presidential elections held in Indonesia. Susilo Bambang Yudhoyono became president with 60.6% of the votes.

### 14 POLITICAL PARTIES

Until the autumn of 1955, when the first national elections were held, members of the House of Representatives were appointed by the president in consultation with party leaders. Of the 37,785,299 votes cast in the 1955 general election, six parties received more than one million votes each: the Indonesian Nationalist Party (Partai Nasional Indonesia—PNI), 22.3% of the total; the Council of Muslim Organizations (Masjumi), 20.9%; the Orthodox Muslim Scholars (Nahdlatul Ulama—NU), 18.4%; the Indonesian Communist Party (Partai Komunis Indonesia—PKI), 16.4%; the United Muslim Party, 2.9%; and the Christian Party, 2.6%. In all, 28 parties won representation in the 273-member parliament. Almost all the political parties had socialist aims or tendencies. The PNI, many of whose prominent members were leaders in the pre-war nationalist movement, represented a combination of nationalism and socialism. Government officials and employees had originally constituted its backbone, but subsequently it grew powerful among labor and farmer groups as well. The Masjumi was more evenly distributed throughout Indonesia than any other party. Although it contained a large percentage of the small middle class, its principles were markedly socialist, owing to the influence in the party of a religious socialist group. The NU, which broke away from the Masjumi largely because of differences in religious outlook, represented the orthodox but not strictly conservative views of the rural people and religious teachers. The Christian Party was founded by Protestants; a smaller Roman Catholic Party was also formed. On 17 August 1960, Sukarno ordered the dissolution of the Masjumi and socialist parties on the grounds of disloyalty. A

month later, on 13 September, political action by all parties was barred.

Early in 1961, notice was given that all political parties were required to apply for permission to function. On 15 April, parties certified to continue in existence included the PKI, PNI, NU, Catholic, Islamic Association, Indonesian Protestant Christian, Indonesian Islam Sarekat, and the League for Upholding Indonesian Independence. The PKI, which at the height of its power in 1965 had an estimated three million members and was especially strong on Java, was banned by Gen. Suharto in March 1966, by which time more than 100,000 PKI members were estimated to have been killed in riots, assassinations, and purges; many more PKI members were arrested. Since then, the party has operated underground. The Masjumi dissolved in 1960. Under the Suharto government, political opposition in Indonesia had become increasingly quiescent. Prior to the 1971 elections, the government formed a mass organization, known as Golkar (Golongan Karya), as the political vanguard for its "New Order" program. Golkar drew upon elements outside traditional party ranks—the civil service, labor, youth, cooperatives, and other groups—and succeeded in effectively circumventing the parties' ability to play a national role. Prior to the 1971 voting, a government-appointed election committee screened all prospective candidates, eliminating 735 from the initial list of 3,840; only 11 of those eliminated were from Golkar. Candidates were forbidden to criticize the government or to discuss religious issues. In the elections, held on 3 July 1971, Golkar candidates received 63% of the vote, while winning 227 of the 351 contested seats in the House of Representatives. Besides Golkar—which is not formally considered a political party—9 parties took part in the elections, as compared with 28 in 1955. The Orthodox Muslim NU placed second in the balloting, with 58 seats; the moderate Indonesian Muslim Party (Parmusi), an offshoot of the banned Masjumi Party, won 24 seats; and the PNI, Sukarno's former base, won only 20 seats. Four smaller groups—the Muslim Political Federation, the Protestant Christian Party, the Catholic Party, and the Islamic Party—divided the remaining 22 seats. The government subsequently announced that 57 million persons, or over 95% of the electorate, had taken part in the voting. An act of 1975 provided for the fusion of the major political organizations into two parties—the United Development Party (Partai Persatuan Pembangunan—PPP) and the Indonesian Democratic Party (Partai Demokrasi Indonesia—PDI)—and Golkar. The PPP, then Golkar's chief opposition, is a fusion of the NU, Parmusi and other Muslim groups, while the PDI represents the merger of the PNI, the Christian Party, the Roman Catholic Party, and smaller groups. In the third general election, held on 2 May 1977, Golkar won 232 seats in the House of Representatives, against 99 seats for the PPP and 29 seats for the PDI. Golkar made further gains in the elections of 4 May 1982, winning 246 of the 364 contested seats, against 94 for the PPP and 24 for the PDI. Both opposition parties charged that the government had falsified the vote totals. Rioting marred the campaign period, and 35,000 army troops were stationed in Jakarta on election day. In the election of 23 April 1987, Golkar won 292 of the 400 elected seats (73.2%), against 64 for the PPP (16%) and 44 for the PDI (10.8%).

For the 1992 election the campaign rules banned automobile rallies and picture posters of political leaders; large outdoor rallies were discouraged, radio and televised appeals had to be approved

in advance by the elections commission, and no campaigning took place in the five days before the elections. In 1992 there were 17 million first-time voters in a population of 108 million registered voters. More than 97 million Indonesians voted, 90% of the registered voters. Golkar won 68% of the popular vote, down by 5% from 1987. The PPP took 17% of the vote. The PDI took 15% of the vote compared to 10.9% in 1987. These results in terms of DPR seats were: Golkar, 281 (down 18 seats from 1987); PPP, 63 (down 2 seats from 1987); and PDI, 56 seats (an increase of 16 seats).

The most violent election campaign in recent years was in 1997 as the ruling Golkar party took 74% of the vote. The 29 May 1997 elections were marked by fraud. More than 200 people were killed in the campaign, which banned motorcades. The PPP took 22% of the vote and the PDI, 3%. The 7 June 1999 elections resulted in a victory for Megawati Sukarnoputri's PDI-P (Indonesia Democracy Party—Struggle); however, she relinquished the presidency in favor of Abdurrahman Wahid. The PDI-P took 37.4% of the vote, Golkar took 20.9% of the vote, Wahid's National Awakening Party (PKB) took 17.4% of the vote, and the PPP took 10.7%. Megawati became president on the removal of Wahid in July 2001.

The next parliamentary elections were held in April 2004. Golkar took 21.6% of the vote (128 seats), followed by the PDI-P, with 18.5% (109 seats). The PPP won 8.2% of the vote (58 seats). The National Awakening Party (PKB) won 10.6% of the vote (52 seats); the Democratic Party won 7.5% of the vote (55 seats); the National Mandate Party (PAN), 6.4% (53 seats); the Prosperous Justice Party (PKS), 7.3% (45 seats). Other parties won a collective 19.9% of the vote and held 50 seats. Due to election rules, the number of seats won does not always follow the number of votes received by the parties.

## <sup>15</sup>LOCAL GOVERNMENT

The structure and organization of local governments follow the pattern of national government. Indonesia is divided into 30 provinces. There are three special territories, namely the capital city of Jakarta, the special territory of Yogyakarta, and the special territory of Aceh. Each province is administered by a governor chosen by the central government from candidates proposed by the provincial assembly. Governors must be approved by the president. Provinces are divided into districts (*kabupatens*), administered by bupati appointed in the same manner as governors. Both provincial and district governments are granted autonomy. There are also municipalities (*kotamadyas*) headed by a mayor (*walikota*), subdistricts (*kecamatan*) headed by a *camat*, and villages. *Desa* are rural villages and *kelurahans* are urban villages. The head of a *desa* is elected by the village community. The head of a *kelurahan*, a *lurah*, is a civil servant appointed by a *camat* on behalf of the governor. A unique feature of village life is the village council of elders, composed of 9 to 15 prominent village leaders. With the implementation of decentralization on 1 January 2001, the 357 districts became the key administrative units responsible for providing most government services.

## <sup>16</sup>JUDICIAL SYSTEM

Since 1951, the administration of justice has been unified. Government courts, each with a single judge, have jurisdiction in the first instance in civil and criminal cases. In December 1989, the Islamic Judicature Law gave wider powers to Shariah courts. The new

law gave Muslim courts jurisdiction over civil matters, including marriage. Muslims and non-Muslims can decide to appear before secular courts. The Supreme Court has as its primary function the review of decisions by lower courts. The high court hears appeals in civil cases and reviews criminal cases. Judges are appointed by the president from a list of candidates chosen by the legislature. On 16 August 2003, a separate Constitutional Court was invested by the president. In March 2004, the Supreme Court assumed administrative and financial responsibility for the lower court system from the Ministry of Justice and Human Rights. In the villages, customary law (*adat*) procedures continue unchanged.

Islamic law (Shariah) governs many noncriminal matters involving Muslims, including family law, inheritance and divorce; however, the People's Consultative Assembly (MPR) rejected the imposition of Shariah for Muslims in 2002. A civil code based on Roman law is applied to Europeans; a combination of codes is applied to other groups such as ethnic Chinese and Indians. Military and administrative courts also exist below the Supreme Court level.

## 17 ARMED FORCES

The Indonesian armed forces in 2005 consisted of 302,000 active personnel and 400,000 reserves. The Army, estimated at 233,000, included provincial and special forces. The Army's weapons included 350 light tanks, 142 reconnaissance vehicles, 11 armored infantry fighting vehicles, 356 armored personnel carriers, and 1,060 artillery pieces. The Army's aviation arm had 2 attack and 37 utility helicopters. The Air Force had 24,000 personnel, with 94 combat capable aircraft, including 26 fighters and 18 fighter ground attack aircraft. The Navy had an estimated 29,000 personnel (including an estimated 1,000 naval aviation personnel and 15,000 Marines). The Navy's major units consisted of 2 tactical submarines, 13 frigates, 16 corvettes, and 23 patrol/coastal craft. Paramilitary forces consisted of a 280,000-member police force and 3 other armed security forces. Indonesia's defense budget for 2005 totaled \$2.53 billion. Indonesia provided support to UN peacekeeping missions in five countries.

## 18 INTERNATIONAL COOPERATION

Indonesia was admitted to the United Nations on 28 September 1950 and is a member of ESCAP and several nonregional specialized agencies. Following the seating of Malaysia in the Security Council, Indonesia withdrew from the United Nations on 7 January 1965; it resumed its seat on 28 September 1966. Indonesia is also a member of the WTO, the Asian Development Bank, Colombo Plan, G-15, G-77, APEC, the WTO, the Organization of the Islamic Conference (OIC), APEC, and OPEC. Indonesia became one of the founding members of ASEAN in 1967. Indonesia was a founding member of the Nonaligned Movement.

In March 1970, a treaty of friendship was signed between Indonesia and Malaysia; the treaty also established the boundary between the two countries in the Strait of Malacca. Relations between Indonesia and much of the international community were strained following the 1999 East Timorese referendum through which that nation voted for its independence from Indonesia. Indonesian military forces supported violent upheavals in East Timor immediately following the referendum, but these were

calmed by the arrival of the Australian-led peacekeeping mission of the International Force for East Timor (INTERFET).

In environmental cooperation, Indonesia is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 19 ECONOMY

In colonial times Indonesia depended upon the export of a relatively small range of primary commodities. In the 17th and 18th centuries, the basis of the export-oriented economy was spices. In the 19th century, it shifted to sugar and coffee; in the 20th century, production of oil, tin, timber, and rubber became fundamental. Despite export gains, however, subsistence agriculture, with rice as the chief crop, remains the principal occupation of a large proportion of Indonesians, and standards of living are low. In 1991, the share of manufacturing in GDP exceeded that of the agricultural sector for the first time. In the early 2000s, the services sector expanded with a determined effort to promote tourism, and in 2005 it accounted for 40.4% of GDP and employed more than one-third of the workforce. Indonesia's record of economic growth and diversification was among the most successful in the developing world; but the onset of the Asian financial crisis in 1997 with Indonesia at the epicenter, followed by the 1998 political unrest and drought, contributed to a recession that hit the country hard, severely depressing the economy and halting economic growth. The economy slowly recovered in the beginning of the 21st century, however, with a 5.1% GDP growth rate in 2004, the fastest rate since the Asian financial crisis. The 26 December 2004 Indian Ocean tsunami resulted in the deaths of an estimated 131,000 Indonesians and left another 38,000 missing, with 570,000 displaced persons and \$4.5 billion in damages and losses. Nevertheless, the overall impact of the tsunami on the economy was small: the large amount of donor aid and assistance and the beginning of reconstruction was projected to contribute to a further increase in GDP growth. A recovery in investment demand was projected to enable GDP growth to average 5.2% a year in 2006–07.

Indonesia is exceptionally rich in coal, oil, and other industrial raw materials, but industrial development has lagged in relation to the size of the population and the national income. In part, this was a consequence of expropriation policies carried out by Sukarno and of chronic inefficiency and corruption among government officials. After the 1964–66 political crisis, the government of President Suharto took steps to stabilize the economy. Exporters were allowed to keep a larger proportion of their foreign exchange earnings. The government also imposed strict controls on imports, encouraged foreign investment, returned many nationalized assets, ended nonproductive projects, and reduced government control of the economy. The inflation rate, which had been 635% in 1966 and 120% in 1967, fell to 85% in 1968 and further declined to 10% in 1971. National economic planning was used to guide economic growth. Under the 1969–74 plan, the government successfully introduced fiscal and credit restraints, rescheduled internal debts, returned expropriated properties, liberalized foreign investment laws, and actively sought assistance from overseas. Economic growth was set back by the near-collapse in

1975 of Pertamina, the giant government-backed oil conglomerate; growth was restored as rising oil prices increased revenues in the late 1970s. The economy was again severely strained in the early 1980s as falling oil prices forced the government to cut back on spending plans. Legislation requiring majority participation of ethnic Indonesians (*pribumi*) in all enterprises formed since 1974 also slowed foreign investment. Indonesia's obligation to reduce production of oil, then its chief export, in line with OPEC agreements, together with the decline in non-oil export earnings, severely strained the government's resources. In an effort to meet the nation's developmental needs, Suharto was forced to end subsidies on food and to reduce subsidies on kerosene and other fuels. He also announced new trade policies to spur exports in an effort to reverse the nation's worsening economic condition.

Restrictive monetary policy and a conservative fiscal stance held inflation to below 10%. Real growth climbed to 7.3% and 7.5% in 1994 and 1995, respectively, before peaking in 1996 at 7.8%. Inflation was held to single digits. The official unemployment rate was 3%, although underemployment was estimated at 4%. Economic catastrophe struck in mid-1997, when the collapse of currencies began in Thailand and spread swiftly to Indonesia. Within a year, 75–80% of all businesses in Indonesia were technically bankrupt as the rupiah went from about 2,600 to one US dollar in June 1997 to a low of 17,000 to one US dollar in June 1998. GDP growth, which had been 8% in the first quarter of 1997, and 7% in the second quarter, fell to 3% in the third quarter and 2% in the fourth. In November 1997 an international bail-out package was arranged that included a stand-by agreement with the IMF with a \$11.5 billion line of credit, an \$8 billion loan from the World Bank and the Asian Development Bank (ADB), \$5 billion loan from its own reserves, and \$3 billion in US loan guarantees. The extended impact of the crisis can be seen in the figures for 1998, when real GDP fell by over 13%, industrial production was down by 18.24%, and the net outflow of invested capital reached of about \$13.8 billion.

Economic distress erupted in bloody pogroms against resident Chinese in which over 1,000 people were killed, dozens of women raped, over 2,500 shops were looted or destroyed, and the streets were left strewn with more than 1,000 vandalized vehicles. On 19 May, students took over the parliament building, and two days later President Suharto resigned, ending 32 years of autocratic rule. His designated successor was B. J. Habibie, the architect of Indonesia's ambitious shipping and aircraft manufacturing industry. Habibie promised elections, which were held in 1999.

The government's official debt situation was being radically altered. Before the crisis of 1997, the government had incurred virtually no domestic debt, borrowing all capital primarily from the World Bank and the Asian Development Bank (ADB). External debt was 25–27% of GDP. In 1998, total debt rose to 78% of GDP, but with no domestic borrowing. In 1999, however, domestic borrowing went from \$0 to \$68.7 million, and combined with a record \$75.8 million in foreign loans, government debt reached a peak of 102% of GDP. In 1999 real growth returned, but only at an anemic 0.2% level, as there was a net outflow of investment funds of almost \$10 billion—a net loss of \$2.7 billion in FDI and a net loss of \$7.2 billion in portfolio investment. The outflow continued, as did rising violence throughout the country around the parliamentary election, and, of particular international concern, before and after the referendum on the independence of East Timor. Eco-

nomic frustrations doubtless aggravated the conflicts. In February 1999 the government estimated that 27% of the population was living in poverty, with inflation at 20%.

In 2000, however, the economy showed signs of recovery with a real GDP growth rate of 4.8%, a budget deficit of 3.2% of GDP, and an inflation rate of 3.75%. In February 2000, the government entered into an extended agreement with the IMF that included a \$5 billion line of credit. In April 2000, a second agreement was reached with the Paris Club members for the rescheduling another \$5.8 billion of principal owed on official debt.

Unfortunately, both internal and external factors soon contrived to slow the momentum of the recovery. In December 2000, Indonesia's agreement with the IMF was suspended, and President Wahid, through a combination of neglect and defiance, was failing to implement the requirements of the IMF programs. Tensions were increased as thousands of Wahid's Islamic followers vowed to fight to the death his removal from office. It was not until August 2001, after Wahid's removal in July and the installation of Vice President Megawati Sukarnoputri as president, that discussions with the IMF could be reopened. Megawati's economic team promised a favorable response in the international economy, but this was cut short, first by the global economic slowdown of 2001, and then the aftershocks of the 11 September 2001 terrorist attacks on the United States. GDP growth averaged 3.3% for the year. Inflation returned to double digits, at 11.5%, and the government reported that poverty had increased, to 14.5% of the population. The net outflow of capital continued, reaching \$9 billion for 2001.

In 2002, the economy began to look up. The total debt-to-GDP ratio for the government fell from 90% for 2001 to 70% in 2002, and the annual budget deficit was estimated to have fallen to below 2% of GDP. Hopes that Indonesia might be safely on its way out of its postcrisis stagflation were shattered by the terrorist bombs in Bali on 12 October 2002. Beyond the death toll of nearly 200 was the message that Indonesia was no longer safe for foreign visitors and foreign investors. After the Bali bombings, the rupiah depreciated to more than 9,000 to one US dollar and the Jakarta Stock Exchange Index fell back below 400. (By 2003 both indicators of investor confidence had returned to near their pre-bombing levels.)

Real GDP growth climbed to 4.1% in 2003, and to 5.1% in 2004, its fastest rate since the 1997 crisis. The budget deficit registered 1.3% of GDP in 2004, and was projected to be lower in 2005, when GDP growth was projected to be 5.3%. President Yudhoyono, elected in 2004, claimed he wanted the economy to grow by 7% or more, in part to generate enough jobs for Indonesia's large unemployed population. Yudhoyono, in March 2005, reduced subsidies on various fuels, raising gas prices by some 30%. The government had been spending more on fuel subsidies than it was on health and education combined. Economists welcomed the move for Southeast Asia's largest economy, although the reduction in subsidies resulted in a decline in popularity for Yudhoyono. In August 2005, a run on the currency took place, and prompted the government to enact an average 126% fuel price increase in October. The resulting inflation and interest-rate hikes were projected to temper growth prospects in 2006, although the government planned to spend more money on promoting infrastructure development. Nevertheless, a recovery in investment demand was forecast to lead to annual GDP growth rates of 5.2% in 2006–07. Average an-

nual inflation was projected to rise in 2006, owing to the increase in fuel prices, but inflation was projected to fall significantly in 2007 as global oil prices eased. Indonesia became a net oil importer in 2004, due to declining production and a lack of new exploration investment.

## 20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Indonesia's gross domestic product (GDP) was estimated at \$899.0 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$3,700. The annual growth rate of GDP was estimated at 5.3%. The average inflation rate in 2005 was 9.3%. It was estimated that agriculture accounted for 15.1% of GDP, industry 44.5%, and services 40.4%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.489 billion or about \$7 per capita and accounted for approximately 0.6% of GDP. Foreign aid receipts amounted to \$1,743 million or about \$8 per capita and accounted for approximately 0.9% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Indonesia totaled \$136.60 billion or about \$635 per capita based on a GDP of \$238.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.4%. In 2001 it was estimated that approximately 47% of household consumption was spent on food, 6% on fuel, 5% on health care, and 14% on education. It was estimated that in 2004 about 15.2% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, Indonesia's labor force numbered an estimated 110.4 million people. In 2002, agriculture accounted for 44.3% of the workforce, with 18.8% in industry, and 36.9% in services. Unemployment figures for 2005 were estimated at 10%.

The law protects the right to form and join unions to all workers regardless of political affiliation. Ten or more workers can unionize, and thousands of unions have been registered. However, a union can be banned by the government if its foundation goes against the constitution. Sometimes there are clashes between different unions within one workplace. With the exception of civil servants, workers have the right to strike after mandatory mediation. Collective bargaining is utilized, but most contracts do not provide workers with more than the government minimum standards. The reported size of Indonesia's unionized labor force varies, depending upon how it is measured. According to a survey of union membership conducted in 2005 by the Ministry of Manpower, when compared to the total workforce, unionized workers accounted for under 4%. However, when compared to the number of employees in the nation's formal workplace, the unionized workforce totaled 14%.

Although children under age 18 were prohibited from working as of 2005, the nation's laws recognized that some children must

work to supplement family income. As a result, there is an exception for 13–15 year olds, who can work but are limited to working no more than three hours per day. In addition, they must have parental consent, cannot work during school hours, and must be paid legal wages. The law however was silent on exceptions for 16–17 year olds. In addition, children are not legally permitted to work in hazardous occupations, but child labor laws are not enforced.

There is no national minimum wage. Wages are set by area wage councils who estimate the amount a worker needs to earn to provide for his or her basic needs. In 2005, the minimum wage in Jakarta was \$71 per month. However, many employers do not pay this minimum wage. The 40-hour workweek and a 7- to 8-hour day are established by law throughout Indonesia, although these standards are not regularly enforced.

## 22 AGRICULTURE

About 48% of Indonesian workers are engaged in agriculture, which accounted for 17% of GDP in 2003. Some 34.4 million hectares (78.5 million acres) were under cultivation, with 35–40% of the cultivated land devoted to the production of export crops. Some 60% of the country's cultivated land is in Java.

There are three main types of farming: smallholder farming (mostly rice), smallholder cash cropping, and about 1,800 large foreign-owned or privately owned estates, the latter two producing export crops. Small-scale farming is usually carried out on modest plots—those in Java average about 0.8–1 hectares (2–2.5 acres)—often without benefit of modern tools and methods, good seed, or fertilizer. Although rice, vegetables, and fruit constitute the bulk of the small farmer's crops, about 20% of output is in cash crops for export, the chief of which is rubber. Of the estate-grown crops, rubber, tobacco, sugar, palm oil, hard fiber, coffee, tea, cocoa, and cinchona are the most important. Dutch, United Kingdom, United States, French, and Belgian capital financed estate agriculture in colonial times, with the Dutch share being the largest. Management of Dutch interests was taken over by the Indonesian government in December 1957; in 1964, the 104 UK-operated plantations were confiscated without any compensation, and Indonesian managers were appointed. The following year, the US-operated plantations were expropriated, and all foreign plantations were placed under the control and supervision of the Indonesian government. In 1967, some of the estates seized in 1965, including the US-leased rubber plantations, were returned, but the majority were retained by the government.

Because the population is rapidly increasing, the government seeks to achieve food self-sufficiency through expansion of arable acreage, improved farm techniques (especially the use of fertilizers and improved seeds), extension of irrigation facilities, and expanded training for farmers. Production of rice, the staple food, has been gradually increasing, and production comes close to meeting domestic requirements. This increase has resulted less from extension of cultivated area through the government's resettlement policy than from expanded use of irrigation, fertilizers, and pesticides and cultivation of high-yielding hybrid rice, especially insect-resistant hybrids. It also reflects the success of the government's "mass guidance" program, which provides technical assistance, easy credit terms, and marketing support through a system of village cooperatives. Additional support was provided

by the National Logistics Board, which is responsible for price regulation and the national rice-rationing programs.

Rice is the primary staple crop; production in 2004 totaled 54,000,000 tons. Other staple crops in 2004 included cassava (19,264,000 tons), corn (11,355,000 tons), and sweet potato (1,876,000 tons). Vegetable and melon production in 2004 totaled 6,729,410 tons. Sugar is the largest commercial crop, with production reaching 24,600,000 tons in 2004. About 2,767,000 tons of rubber were produced in 2004, as compared with about 648,400 in 1964. Faced with the prospect of declining yields, the government began an extensive replanting and rehabilitation program in 1981. In 2004, Indonesia was the world's third-largest producer of coffee (after Brazil and Vietnam); some 702,000 tons of coffee were grown that year, as compared with 188,900 tons in 1972 and an annual average of 120,400 tons during 1960–65. Indonesia is the world's second-largest producer of palm oil (after Malaysia); 15.2 million tons were produced in 2004/05. Palm kernels (3.63 million tons in 2004/05) and copra (1.4 million tons in 2004/05) are also important export crops.

## 23 ANIMAL HUSBANDRY

In 2005, the livestock population was 11,500,000 head of cattle, 13,182,000 goats, 8,306,000 sheep, 6,267,000 hogs, and 405,000 horses. There are also about 2,248,000 buffalo in the country. The production of meat (about 2,477,000 tons in 2005) and cows' milk (341,990 tons) is secondary to the raising of draft animals for agricultural purposes and transportation. The government has established cattle-breeding stations and artificial-insemination centers to improve the stock and has been carrying on research to improve pastures. Technical and other assistance is also offered to chicken and duck farmers in an effort to increase protein supplies. There were an estimated 1.25 billion chickens and 34.3 million ducks in 2005, when some 1.1 million tons of eggs were produced. Local demand for animal products is constrained by low purchasing power, but increases in consumer income will raise demand for animal protein. Dairy and egg exports exceeded \$69 million in 2005.

## 24 FISHING

As Indonesia is the world's largest archipelago (13,667 islands), fish is a readily-available source of animal protein for domestic consumption. In 2003, the total catch was 5,960,930 tons (81% from marine fishing), ranking Indonesia sixth in aquaculture and fourth in capture fishing in the world. Fishing is more important than statistics indicate, because the catch of many part-time fishermen never enters trade channels. Commercial fishing is confined to a narrow band of inshore waters, especially off northern Java, but other fishing also takes place along the coast and in the rivers, lakes, coastal swamps, artificial ponds, and flooded rice fields. The government has stocked the inland waters, encouraged cooperatives to provide credit facilities, introduced improved fishing methods, provided for the use of motorized fishing boats and improved tackle, and built or rehabilitated piers. Fish and fish

product exports had a value of \$1.55 billion in 2003, 12th-highest in the world.

## 25 FORESTRY

Forests represent a potentially vast source of wealth in Indonesia. Of the 146.3 million hectares (361.5 million acres) of forests, nearly three-fourths are in Kalimantan and eastern Indonesia, and 68% are commercial forests. The more accessible forest areas of Sumatra and Kalimantan furnish the commercially cut timber for domestic consumption and export. Indonesia has over 4,000 species of trees, including 120 types of hardwood suitable for commercial use. Timber estates produce fast growth species such as pine, eucalyptus, albizia, and acacia for the pulp and paper industry. Practically all forestlands belong to the state. In Java, excessive cutting has caused soil erosion, aggravated floods, created water shortages, and damaged some irrigation facilities. Replanting and rehabilitation of the Javanese forests and reforestation in the Outer Islands are promoted as part of the nation's "regreening program." Meranti, kruing, kapur, and bakau are the leading types of logs produced. Teak and other tropical hardwoods are the most valuable species, but there is hope of obtaining wood pulp from pine and bamboo and commercial timber from new plantings of fir and pine.

Indonesia is the largest producer of tropical hardwood plywood in the world. Export sales of processed wood in 2004 amounted to \$4.57 billion, representing 6.4% of all Indonesian exports. Production of sawn wood in 2004 totaled 6.25 million cu m (220 million cu ft); plywood, 6.4 million cu m (226 million cu ft); and particleboard, 427,000 cu m (15.1 million cu ft). About two-thirds of the timber output is exported. French, Japanese, US, and Philippine interests have large investments in the timber industry. Indonesia is the world's second-largest producer of tropical hardwood logs and lumber, after Malaysia. Due to a hardwood log export ban enacted in 1985 to protect rapidly diminishing forests, Indonesia has exported no logs since then. Prohibitive export taxes imposed in 1990 have all but eliminated tropical hardwood exports, in order to conserve declining forest resources for production and export of higher value items such as plywood. The annual allowable cut of logs is set at 5.74 million cu m. However, up to 68 million cu m of logs are cut illegally, with some 10 million cu m of logs illegally shipped out of the country. With plummeting annual allowable cuts of logs, industries are using conversion forests, community forests, and timber estates.

## 26 MINING

Indonesia's principal mineral resources (excluding oil, natural gas, and coal) are copper, gold, nickel, and tin. Indonesia was also a major world supplier of tin, nickel, copper and gold, with large reserves of each. In addition, Indonesia was a leading regional producer of cement, bauxite, and nitrogen fertilizer. Indonesia also produced hydraulic cement, dolomite, feldspar, granite, gypsum, marble, nitrogen, salt, quartz sand, silica stone, sulfur, and zeolite.

Mined copper output (content in ore) in 2003 was 1,005,837 metric tons, down from 1,171,726 metric tons in 2002. Bauxite production in 2003 (wet basis, gross weight) was 1.263 million tons, and 1.283 million tons in 2002. Indonesia possessed large deposits of high-grade bauxite, from mines in Kijang (Bintan Island) and Su-

matra. Most of the output was exported to Japan, the remainder to the United States.

Tin mine output in 2003 was 71,694 metric tons. The chief deposits of tin were in Bangka, Belitung, and Singkep, islands off the east coast of Sumatra. Indonesia is the world's second-largest producer of tin (after China). The industry in Indonesia is dominated by PT Koba Tin and PT Tambang Timah. However, the industry has, for several years, faced depleting resources, community conflicts in several mining sites, and illegal mining and smuggling, the latter resulting in increased compensation to company contractors and high tin output from offshore mining.

Gold mine output in 2003 was 141,010 kg, down from 142,238 kg in 2002. Illegal mining activity and associated mercury contamination was an ongoing problem for the Indonesian government and legal gold mining operators.

Nickel mine output in 2003 totaled 143,000 metric tons, up from 123,000 metric tons in 2002. Nickel was produced in Soroko (North Sulawesi), Pomalaa (South Sulawesi), and the Maluku and Gebe islands, with some of the largest reserves in the world.

Iron ore was found in sizable quantities, but was commercially exploited only in central Java. There were fair-to-good reserves of gold, silver, iodine, diamond (industrial and gem quality), and phosphate rock, and considerable supplies of limestone, asphalt, bentonite, fireclay, and kaolin powder. Herald Resources Ltd. of Australia announced the discovery of significant lead and zinc resources in the Dairi area, Bukit Barisan Highland; the exploration concentrated in the Anjing Hitam area; it was estimated that the deposit contained an indicated resource of 7.5 million tons of lead and zinc at 10.3% lead, 16.7% zinc, and 14 grams per ton of silver and an inferred resource of 2.5 million tons at 6.8% lead and 11.3% zinc.

Indonesia's constitution places all natural resources in the soil and waters under the jurisdiction of the state. In 1999, the government increased taxes and royalties that created a less competitive investment environment. Restructuring and privatization of state-owned industries has been very slow, and new investment was still low. As the world's fourth-most-populous country, Indonesia could become one of the largest steel-consuming countries. However, its volatile political situation and uncertain economic climate hampered development. The state-owned general mining company, PT Aneka Tambang, was privatized, with its stock trading on the Jakarta Stock Exchange.

## 27 ENERGY AND POWER

Indonesia ranks among the world's leading petroleum-producing countries. Proven reserves in 2004 were estimated at 4.9 billion barrels. However, resources may be much larger. Sumatra, the richest oil area, produces about 70% of Indonesian oil. Kalimantan is the second-leading producer; Java and Madura have a scattering of smaller producing wells. Lesser amounts are also produced in Irian Jaya. Indonesia's production and consumption of oil in 2003 was estimated at 971,000 barrels per day, and at 1.183 million barrels per day respectively. Exports in 2003 averaged 518,100 barrels per day, with oil imports placed at 370,500 barrels per day for that year.

Indonesia also has significant reserves of natural gas. Proven reserves of natural gas in 2004 were put at 2.549 trillion cu m. For 2003, it was estimated that natural gas exports were placed at 39.7

billion cu m; consumption at 55.3 billion cu m; and production at 77.6 billion cu m, respectively. Indonesia is the world's largest exporter of LNG; its major customers are Japan, South Korea, and Taiwan.

Power facilities are overtaxed, despite heavy government investment in electrical installations. Total electric power generating capacity in 2002 was placed at 24.706 million kW, as compared with 10,830,000 kW in 1988. Production in 2003 totaled 110.2 billion kWh, up from 102.273 billion kWh in 2002. In 2002, about 85% was generated by fossil fuels, 9.6% from hydropower, and the remainder from other sources. Electricity consumption in 2003 was 92.35 billion kWh. The nation's first geothermal electric power station was inaugurated in 1974 in West Java, and a 750 MW hydroelectric plant was completed there in 1985. In 1995, P.T. Perusahaan Listrik Negara (PLN), the state-owned electric company, projected that electricity demand would rise 14% annually, with a generating capacity at 25,000–30,000 million kW needed by 2010.

## 28 INDUSTRY

The leading industries by value are petroleum and natural gas; textiles, apparel and footwear; mining; cement; chemical fertilizers; plywood; rubber; food; and tourism.

Industrial expansion is given a high priority in development plans. Labor-intensive industries are stressed, together with industries producing consumer items for domestic consumption and export and products accelerating agricultural development. The government encourages industrial investors, particularly those who plan to export, to locate in one of its eight bonded zones (BZs), the Batam Industrial Park or free trade zone (FTZ) or in an export-processing zone (EPZ). The Batam Industrial Park, located on Batam Island in the Malacca Strait 20 km (12.5 mi) south of Jakarta, was designed to attract investment away from crowded Singapore.

Industries that process Indonesia's abundance of natural resources include those based on petroleum, wood, sugar, rubber, tea, coconuts, palm kernels, sisal, kapok, rice, and cassava. Manufactured products include consumer goods such as tires and tubes, rubber shoes, radios, batteries, soap, margarine, cigarettes, light bulbs, textiles, glass, paper, tractors, and trucks. Other industries include the Krakatau Steel Industrial Estate at Cilegon (in northwest Java), plywood factories, cement works, spinning mills, knitting plants, iron works, copper and other foundries, a ceramics plant, a leather-goods plant, and a glass factory. Petrochemicals and urea fertilizers are manufactured, and there are facilities for automobile assembly, shipbuilding, and aircraft manufacture.

From World War II until the 1990s, overall industrial growth was small, with agriculture the dominant sector of the Indonesian economy. However, in the 1990s, industry and services took over as the dominant sectors, respectively contributing about 41% and 42% of the GDP, with agriculture falling to 17%. Although the government has put an emphasis on developing labor-intensive industries, industry accounts for only for 16% of employment, compared to a 45% share for agriculture and 39% for services. In 1991, textiles were the key industrial export, accounting for 47% of the total. In 2001 textiles and garments were technically still the leading industrial export, but only accounted for 13.6% of total export earnings. The textile sector remains characterized by small

producers, with more than 1,200 registered textile companies in Indonesia, employing more than a million workers. In January 2005, the WTO abolished world textile quotas, and Chinese exports to the United States and European Union (EU) soared. Both the United States and EU responded during the course of 2005, reimposing certain quotas to protect their textile industries, thus putting a slight curb on the flow of Chinese goods. This policy bode well for Indonesia and other Southeast Asian textile exporters, as competition with China was eased. Indonesia and other developing countries in the long term, however, must pursue strategies to save their clothing industries from being obliterated in a quota-free world.

The petroleum refining industry has declined over the last decade. In 2004, Indonesia had seven refineries, all operated by Pertamina, the state oil company. (Pertamina was slated to be fully privatized in 2006.) The combined capacity of Indonesia's seven refineries was nearly 993,000 barrels per day in 2004. Statistics on refined petroleum products consumption are questionable because of considerable smuggling out of Indonesia to escape its price controls. In 2004, Indonesia became a net importer of petroleum, due to declining production and a lack of new exploration investment. Natural gas production has steadily increased; Indonesia in 2005 was the world's leading exporter of liquid natural gas (LNG). Coal production reached 70 million metric tons per year by 1999, and in 2003 production was 114 million metric tons, up 11% from 2002. The regulation and licensing of the coal industry in Indonesia was decentralized in legislation that went into effect in 2001.

The steel industry in Indonesia basically consists of one large integrated mill—the PT Krakatau Steel complex—plus numerous mini mills that use scrap steel as their raw material input. In 1992 steel billet production was 560,000 tons. In 2000, total steel billet capacity was 2.34 million tons across 11 companies, but the plants were only running at 60% capacity. In the Asian financial crisis, Indonesia's total steel production dropped from 7.3 million tons in 1997 to 2.7 million tons in 1998 as domestic demand collapsed. The industry was able to survive through exports. What recovery had been achieved in 2000, however, was cut off abruptly in 2001 when the United States, its biggest customer, placed dumping duties on Indonesian steel. These were lifted in 2003. In 2004, Indonesia produced a total of 2.8 million metric tons of crude steel and was ranked 37th in the world in terms of crude steel production.

Indonesia produces nitrogen, phosphate, and potash fertilizers, but the strongest prospects are for the urea industry because of Indonesia's natural gas deposits. Prospects are good for an export market in urea, but most fertilizer output in the early 2000s was for domestic consumption and fertilizer formed less than 1% of exports.

Wood and wood products have traditionally been Indonesia's second-largest industrial export group, accounting for 11% or 12% of total export value, though electronics sometimes claims a larger share. The robust growth in the output of wood and wood products, from 4 million cu m in 1967 to an estimated 60 to 70 million cu m in the early 2000s, is the cause of international controversy because of the rapid deforestation involved. Global Forest Watch estimates that forest cover declined from 162 million hectares to 98 million hectares (39.5%) from 1995 to 2000. Laws are in place to curb the rate of exploitation, but it is estimated that

over half of the logging done is illegal. Wood products, pulp, paper, and paper products, are Indonesia's second-largest sector of industrial exports.

The chemical industry experienced an annual growth rate of 13% prior to 1993; after 1997, the depreciation of the currency encouraged chemical production for the export market. In the consumer goods manufacturing sector, activities are run primarily by private enterprise. All oil and natural gas processing have historically been controlled by government enterprises, as have been other major heavy industries, such as basic metals, cement, paper products, fertilizer, and transport equipment. After the recession in 1998, the government proposed liberalizing heavy industry. Of the 168 parastatals, 140 were scheduled for privatization. As of 2004, however, the government controlled 158 state-owned enterprises.

In July 1992 nontariff barriers were reduced and key industries were deregulated to allow free importation of essential manufacturing inputs. There is a shortage of skilled technical personnel to support high-tech industries; most technology has been imported through joint ventures. The agency for strategic industries, a state-owned holding company including aircraft, telecommunications, and high-technology industries, formed a joint venture with a major foreign multinational technology corporation to promote technology transfer to Indonesia. Most industrial enterprises were negatively affected by the 1998 recession, with an overall decline of at least 15%. The Indonesian Bank Restructuring Agency (IBRA) took over the majority of Indonesia's nonperforming industrial assets in 2000 with plans to sell, including: cement factories, mining facilities, manufacturing plants, food processing firms, plywood production plants, vehicle assembly lines, chemical plants, property, and agribusinesses.

## 29 SCIENCE AND TECHNOLOGY

Like many developing nations, Indonesia has a shortage of scientific personnel and engineers. The Indonesian Institute of Sciences, a government agency established in 1967, has centers for research and development in biology, oceanology, geotechnology, applied physics and applied chemistry, metallurgy, limnology, biotechnology, electricity and electrical engineering, information and computer sciences, telecommunications, strategic electronics, component and material sciences, and calibration, instrumentation, and metrology. The country has 45 other research institutes concerned with agriculture and veterinary science, medicine, the natural sciences, and technology. Courses in basic and applied sciences are offered at 53 state and private universities. At a more basic level, Agricultural Training Center programs provide workshops throughout Indonesia to acquaint rural workers with the use of plumbing and automotive equipment, small engines, electric tools, and chain saws, and to familiarize farmers with the use of modern hybrid seeds, pesticides, and fertilizers.

In 1987–97, total expenditures for research and development amounted to 0.07% of GDP. There were also 182 scientists and engineers per million population actively engaged in research and development. During the same period, science and engineering students accounted for 39% of all college and university students. In 2002, high-tech exports were valued at \$5.070 billion and accounted for 16% of manufactured exports.

### 30 DOMESTIC TRADE

Jakarta, the capital and chief commercial city, is Indonesia's main distribution center. The principal business houses, shipping and transportation firms, and service agencies have their main offices there and branches in other cities. After the end of World War II, the government sought to channel trade and business activities into Indonesian hands by a policy of granting special privileges to Indonesian firms—including export license monopolies, sole agency rights, and exclusive licenses to import and sell specific goods—and of making government purchases through Indonesians. In 1998, however, most of these restrictions of foreign retail investment were removed. Foreign investment is also allowed in wholesale and distribution activities; however, in many cases, the company must be represented locally by an Indonesian firm or national. Most trade is conducted through small and medium-sized importers who specialize in specific product lines. Direct marketing has become popular for a variety of goods and services.

Commercial business hours vary, but are usually 8 AM to 5 PM, Monday through Friday, and from 8 AM to 1 PM on Saturday, although some Indonesians take Saturday off. Many shops are open from 9 AM to 10 PM, Monday through Saturday. Muslims are released for prayers every Friday from 12 to 1 PM. Local banks transact business from 9 AM to 3 PM, Monday through Friday. Newspapers, magazines, television, radio, posters, and billboards are the most popular advertising media. English is widely used in business and government.

### 31 FOREIGN TRADE

Trade balances since World War II have invariably been favorable. Trade liberalization began in 1982 as an effort to increase non-oil exports. By 1987, non-oil exports matched revenue from oil and gas exports for the first time. Imports, which are closely regulated in government efforts to restrain growth of merchandise imports, consist mainly of machinery and raw materials, indicating a reliance on imports to support industry. The late 1990s revealed shrinking exports of plywood, and slow growth in exports of garments and textiles. Emerging exports such as footwear and consumer electronics also showed weak growth. However, rising world prices for oil, rubber, and other commodities kept these ex-

ports high. Economic, political, and social crisis was accompanied by a small leap in exports due to currency depreciation, but earnings in the non-oil sector remained low nonetheless.

In the 1970s, Japan became Indonesia's dominant trade partner, taking over 41% of Indonesia's exports (mainly petroleum) and supplying over 25% of its imports. Although Japan remains the dominant trade partner, other trade partners—including the United States, Singapore, South Korea, and China—have become important to the economy. Trade with the Netherlands, which was of primary importance in colonial times when Indonesia was known as the Dutch East Indies, has decreased since 1957. With the creation in 1992 of the ASEAN Free Trade Area (AFTA), trade within the region increased.

Indonesia puts out a large amount of gas and crude petroleum into its commodities export market. Other major exports include apparel, textiles, paper products, plywood, footwear, and copper ore. In percentage terms, the major exports in 2004 were crude petroleum and petroleum products (11.5% of total exports); textiles and apparel (11.4%); liquefied natural gas (10.4%); and wood and wood products (5.2%). The major imports in 2004 were machinery and transportation equipment (26.3% of all imports); flues and lubricants (23.5%); chemicals (16.3%); and manufactures (12.8%).

Indonesia's leading markets in 2004 were Japan (24.3% of all exports), the United States (15.2%), Singapore (10.2%), and South Korea (8.8%). Leading suppliers included Japan (21.6% of all imports), Singapore (12.6%), China (11.7%), and South Korea (7.6%).

### 32 BALANCE OF PAYMENTS

Indonesia had persistent balance-of-payments difficulties from the time of its independence. Indonesia's payments position brightened considerably in the late 1970s as a result of a rapid increase in oil prices mandated by OPEC. However, expansion of the non-oil export industries failed to keep pace with burgeoning import re-

#### Principal Trading Partners – Indonesia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	61,058.2	32,550.7	28,507.5
Japan	13,603.5	4,228.3	9,375.2
United States	7,386.4	2,702.4	4,684.0
Singapore	5,399.7	4,155.1	1,244.6
Korea, Republic of	4,323.8	1,527.9	2,795.9
China	3,802.5	2,957.5	845.0
Malaysia	2,363.9	1,138.2	1,225.7
Other Asia nes	2,233.2	877.1	1,356.1
Australia	1,791.6	1,648.4	143.2
India	1,742.5	665.6	1,076.9
Germany	1,416.8	1,181.2	235.6

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Indonesia (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>7,534.0</b>
Balance on goods		23,990.0
Imports	-39,262.0	
Exports	63,252.0	
Balance on services		-12,107.0
Balance on income		-6,218.0
Current transfers		1,869.0
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-949.0</b>
Direct investment abroad		...
Direct investment in Indonesia		-597.0
Portfolio investment assets		...
Portfolio investment liabilities		2,251.0
Financial derivatives		...
Other investment assets		-5.0
Other investment liabilities		-2,599.0
<b>Net Errors and Omissions</b>		<b>-2,937.0</b>
<b>Reserves and Related Items</b>		<b>-3,647.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

quirements for some consumer goods and machinery, equipment, and spare parts for development programs. The current account deficit averaged -2% of GDP between 1992 and 1997, but accrued a surplus of over 4% of GDP in 1998 due to currency devaluation and a one-third cut in imports.

In 2004, merchandise exports rose by 12.6% to \$72.4 billion, and imports rose by 21.9% to \$50.6 billion, resulting in a trade surplus of \$21.8 billion. At the same time, the deficit rose slightly to \$18.5 billion, up from \$12.1 billion in 2003, leaving a current-account surplus of \$3.3 billion. The current account balance averaged 3.9% of GDP over the 2001–05 period.

### **3<sup>3</sup> BANKING AND SECURITIES**

The government's Bank Negara Indonesia (BNI) was established in 1953 as the successor to the Java Bank. In 1965, all state banks with the exception of State Trading Bank were incorporated into the BNI as separate units. In 1969, this policy was reversed, and the state banks were again reorganized as individual banks. In 1967, as part of the new regime's policy of encouraging foreign investment, foreign banks were permitted to operate in Indonesia, on condition that they invested at least \$1 million, of which at least \$500,000 had to be brought into the country. The law also provided that foreign banks were to appoint Indonesian banks as their correspondents for any dealings outside Jakarta. The Indonesian banking system transformed after 1980, through a process of gradual but steady reform that culminated in the 1992 banking law. Joint ventures were allowed with Indonesian partners. The partial liberalization of the banking industry had a dramatic impact. A precipitous growth in bank credits threatened to undermine economic stability by stimulating a sharp increase in import demand and inflationary pressures. Responding to this threat, the government initiated an abrupt tightening of monetary policy during the 1990s. From 1992 until 1997, the rupiah was managed in relation to the dollar, but in 1997, the currency was allowed to float because of Asian currency depreciation. Political and social unrest resulted in a highly volatile currency. The 1998 economic failure brought about a major restructuring of the banking system, which was literally bankrupted. State-owned banks held \$80 billion in corporate debt and more than two-thirds of their loans were nonperforming in 1999. Bank Indonesia alone faced a deficit of over \$4.1 billion in 2000.

Bank Indonesia, as the central bank, is responsible for the administration and regulation of the four state banks and other banking operations. Among the state banks, Bank Rakjat Indonesia specializes in credits to agricultural cooperative societies but also provides fishing and rural credit in general. Bank Tabungan Negara promotes savings among the general public. Bank Negara Indonesia (BNI) provides funding for industry. After the financial crash in 1999, four of the state banks were merged into the new Bank Mandiri; including the Bank Bumi Daya, Bank Dagang Negara, Bank Ekspor Impor, and BAPINDO. Bank Bumi Daya provided credits to estates and forestry operations; Bank Dagang Negara provided credits to the mining sector; and Bank Ekspor Impor Indonesia specialized in credits for the production, processing, and marketing of export products; and the Development Bank of Indonesia (Bank Pembangunan Indonesia-or BAPINDO) provided financial assistance to government enterprises and approved new industries. There were 128 private domestic commercial banks in

1998; 38 of them were liquidated in 1999, 8 were taken over by the government, 8 were able to function with government aid, and 71 private banks were able to continue without assistance. Foreign investment in the banking system is now allowed up to 99%.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$16.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$81.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 15.03%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 17.62%.

Indonesia's first stock exchange was established in December 1912 in Jakarta, although both this and two subsequent exchanges established in Surabaya and Semarang in 1925 were shut down during the Japanese occupation. An attempt to revive the capital markets in the early 1950s proved futile. It was not until August 1977 that the Jakarta Stock Exchange (JSE) was successfully relaunched amid a comprehensive set of institutional reforms that resulted in the establishment of the Capital Market Executive Agency (Badan Pelaksana Pasar Modal-BAPEPAM) to manage the market, as well as a state-owned securities firm, Danareksa, to facilitate the flotation of shares. After sinking to 276 in the fall of 1998, the JSI rose to just below 500 in early 1999 to above 700 in mid-1999. It was back down to 508 in mid-2000 and below 400 by 2001. As of 2004, a total of 331 companies were listed on the JSE, which had a market capitalization of \$73.251 billion that year. In 2004, the JSE Composite Index rose 44.6% from the previous year to 1,000.2.

### **3<sup>4</sup> INSURANCE**

The insurance and reinsurance industry is governed by an insurance law issued in February 1992 that allows foreign ownership of insurance companies. The industry is regulated by the Ministry of Finance as well as the Insurance Council of Indonesia. The growth of the industry over the past decade is reflected in an impressive increase in many of the industry's financial variables, including assets, gross premiums, and investments. Third-party motor liability insurance, workers' compensation, and passenger accident insurance are compulsory. Workers' compensation must be insured with the government company, ASTEK, and employees have no right to sue. A 1998 Financial Services Agreement with the WTO equalized capital requirements for both domestic and foreign insurance firms. In 2003, the value of direct premiums written totaled \$3.107 billion, with nonlife premiums accounting for the largest portion at \$1.733 billion. Tugu Pratama was Indonesia's largest nonlife insurer in 2003, with gross written nonlife premiums totaling \$175.5 million. Bumiputera was the largest life insurer that same year, with gross written life premiums of \$294.2 million.

### **3<sup>5</sup> PUBLIC FINANCE**

Government expenditures (including capital expenditures) have outrun public income by a considerable margin each year since 1952, and this cash deficit has been met by foreign aid receipts. Since 1985, however, Indonesia has discouraged public sector and monetary growth. The East Asian financial crisis of 1998 hit In-

**Public Finance – Indonesia (2001)**

(In billions of rupiah, central government figures)

<b>Revenue and Grants</b>	<b>307,892</b>	<b>100.0%</b>
Tax revenue	190,614	61.9%
Social contributions	6,106	2.0%
Grants	52	0.0%
Other revenue	111,121	36.1%
<b>Expenditures</b>	<b>359,038</b>	<b>100.0%</b>
General public services	272,493	75.9%
Defense	10,673	3.0%
Public order and safety	7,400	2.1%
Economic affairs	12,747	3.6%
Environmental protection	...	...
Housing and community amenities	4,726	1.3%
Health	4,542	1.3%
Recreational, culture, and religion	2,257	0.6%
Education	13,433	3.7%
Social protection	30,766	8.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Indonesia hard. In 1998, the government deficit reached over 3% of GDP, partially because of subsidized rice imports and investment in the failing banking sector. As of 2002, the economy was just beginning to recover to pre-1997 levels, and the growth rate was not considered high enough to achieve full employment anytime soon. At the end of 2001, Indonesia's external debt was the equivalent of 20% of total GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Indonesia's central government took in revenues of approximately \$56.1 billion and had expenditures of \$58.7 billion. Revenues minus expenditures totaled approximately -\$2.5 billion. Public debt in 2005 amounted to 52.6% of GDP. Total external debt was \$140.6 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, central government revenues were Rp307,892 billion and expenditures were Rp359,038 billion. The value of revenues in millions of US dollars was us\$30 million and expenditures us\$36 million, based on a market exchange rate for 2001 of us\$1 = Rp10,260.9 as reported by the IMF. Government outlays by function were as follows: general public services, 75.9%; defense, 3.0%; public order and safety, 2.1%; economic affairs, 3.6%; housing and community amenities, 1.3%; health, 1.3%; recreation, culture, and religion, 0.6%; education, 3.7%; and social protection, 8.6%.

**36 TAXATION**

Taxes on oil companies are the largest single source of central government income. Indonesia's corporate tax is progressive, with a top rate of 30% on income exceeding Rp100 million. A 30% withholding tax is payable on branch profits after corporate tax. However, concessional rates are available for tax treaty countries. Special corporation taxes, with generous depreciation and other deductions from taxable income, cover petroleum, mining, shipping, airline, and insurance companies. Individual incomes are taxed at the same rate as those of corporations. An eight-year car-

ried-forward loss for investment in eastern Indonesia is allowed. Indirect taxes include a 10% value-added tax (VAT) that applies to most transactions. However, the building services are subject to a 4% VAT, while services provided by travel agents and couriers are taxed at 1%. Indonesia also imposes a 10% luxury tax on luxury homes, soft drinks, radios, and cosmetics. Higher rates are applied to certain vehicles, carpets and television sets. Dividend, interest and royalty payments to nonresidents are subject to a 20% withholding rate.

Indonesia has a progressive individual income tax that has a top rate of 35% on incomes over Rp200 million.

**37 CUSTOMS AND DUTIES**

Indonesia has attempted to liberalize its foreign trade, but unanticipated problems have prevented substantial progress. Most tariffs are designed to stimulate exports and to protect infant domestic industries. However, the tariff system is burdensome and time consuming and evasion is widespread. Exempt from import duties are raw materials and manufactured items imported for use in government-backed or approved labor-intensive enterprises. Duties on imports from ASEAN member countries were lowered to 20% in 1978. Two years later, duties on 384 products—including cement, sarongs, engine pistons, cameras, and telecommunications equipment—were reduced or abandoned, regardless of origin. Many items may only be imported by government-approved importers and there are quotas for certain nondurable goods. A three-tiered tariff structure, with rates of 0%, 5%, of 10 % applied to various commodities, has been implemented to satisfy Indonesia's IMF commitments. An import sales tax is imposed on imports at point of entry (except for those goods considered essential by the government) at rates of 5–30%. Distilled spirits have a duty rate of 170% and vehicle taxes range from 5% for trucks up to 75% for some sedans. Indonesia has also committed to the ASEAN Free Trade Agreement and its Common Effective Preferential Tariff (CEPT), and is further liberalizing its trade in order to meet the provisions of that compact. There is a free trade zone on Batam Island that is exempt from all import and export taxes; a free trade facility near Tanjung Priok, the country's main port; a bonded warehouse in Cakung, near Jakarta; and a number of other export processing zones.

**38 FOREIGN INVESTMENT**

Foreign investments have played a key role in the Indonesian economy since the turn of the 20th century. The Dutch were for decades the principal foreign investors in Indonesia, involving themselves heavily in the production of sugar, cinchona, coffee, tobacco, rubber, and oil. UK investments were in oil, rubber, and manufacturing. Rubber estates, particularly those in northern Sumatra, were operated by Belgian, UK, Danish, French, Norwegian, Swiss, and US individuals and companies. In the dispute with the Netherlands over Irian Jaya, the Indonesian government took over Dutch enterprises in the country and seized Dutch assets. Although Indonesians recognized that foreign capital was needed to develop their economy, government policies were ambiguous and hesitant throughout the 1950s and early 1960s. The foreign investment law of 1958 attempted to provide certain guarantees to foreign investors and to establish safeguards for Indonesian interests. At the same time, the government guaranteed some foreign-

owned industrial enterprises that they would not be expropriated by the state or nationalized for a maximum period of 20 or, in the case of large agricultural enterprises, 30 years. In November 1964, the government began to reverse this policy by nationalizing all British-owned commercial enterprises and placing them under direct Indonesian management and control. A decree of 25 February 1965 nationalized all US-owned rubber plantations in northern Sumatra, and another decree of 19 March placed three oil companies—two of them US companies—under the supervision and control of the government. Finally, on 24 April 1965, President Sukarno ordered the seizure of all remaining foreign property in Indonesia. This policy was again reversed after the ouster of Sukarno.

During 1967–70, the confiscated estates were gradually returned to their former owners (except in cases where the owner opted to accept compensation). The Foreign Capital Investment Law of 1967 governed foreign direct investment. The overall flow of private investments from overseas sources increased during the early 1970s, in response both to liberal terms offered under the Suharto government and to favorable world markets for Indonesian oil and other primary products. The annual flow of foreign investment funds approved by the government increased from \$333 million in 1972 to \$1,050 million in 1974. Some 65 US firms invested more than \$1 billion in petroleum enterprises during 1967–74, accounting for about 90% of the country's total production; in 1975 alone, an additional \$1.2 billion was spent in the oil sector by US interests.

During 1967–85, Japanese investments led all others in non-oil sectors, totaling \$3.9 billion; US investors were second, supplying \$1.4 billion. In all, between 1967 and 1980, a total of \$8 billion was invested by foreign companies, of which \$6.6 billion was in the petroleum sector. Between 1982 and 1985, foreign direct investment averaged \$242.3 million annually. Since 1973, all foreign investment has been channeled through the Investment Coordinating Board (BKPM), and Indonesian partners were mandated for all foreign concerns established after 1974. Among the incentives for investment approved in 1986 were regulations allowing foreign investment in more industries (arms production is still prohibited) and granting foreign partners in joint ventures the right to distribute the products themselves. The Negative Investment List of 1989 (amended in 2000) specifies the business areas that are closed to, or impose limitations on, foreign investors.

Between 1967 and 1992, more than 1,590 manufacturing projects involving \$59 billion in foreign investment were approved by the BKPM. Japan was a major investor accounting for 21% of the total, along with Hong Kong (9%) and Taiwan (7%). In 1993 the 1967 Foreign Capital Investment Law was amended to set new regulations for share ownership, to streamline the investment approval process, and to reduce import tariffs on various goods. A new deregulation package approved in 1994 further increased incentives for foreign investment by allowing 5–51% foreign ownership in infrastructure (harbors, electricity, telecommunications, shipping airlines, railways, and water supply). New foreign investment approvals for 1992–98 were estimated at a total of \$160 billion. From 1967 to 1998, Japan received approval for investments in Indonesia totaling approximately \$35 billion; the United Kingdom, \$24 billion; Singapore, \$18 billion; and Hong Kong, \$14 billion.

In 1998 and 1999, new regulations paved the way for increased foreign investment; including concessions to foreign interests in distribution and the financial sector, tax concessions, and simplification of the licensing process. Sectors that remain closed to foreign investment include freshwater fishing, forestry, public transport, broadcasting and film, and medical clinics. More than one-third of the investment since 1967 has been in the chemicals industry, followed by mining and natural gas.

By 2004, improved political and economic stability had encouraged investor confidence and improved growth in the economy. Despite economic success, however, overall investment remained about 20% of GDP, below the pre-1997 Asian financial crisis levels of 30%. Indonesia remains relatively open to foreign investment, although such challenges as corruption, security, judicial reform, taxation, and labor issues face investors. Indonesia tracks only investment approvals, which, if they occur at all, may take years to realize. In the first five months of 2004, the overall value of investment approvals fell 41%, to \$2.5 billion from \$4.2 billion over the same period in 2003. Declining sales of state-owned assets and extremely low levels of new investment in 2004 were responsible for the decline in investment approvals.

### 3<sup>9</sup> ECONOMIC DEVELOPMENT

From the late 1960s through the mid-1980s, the Suharto government focused its efforts on financial stabilization, relying heavily on advice and assistance from multilateral aid donors. The results were mixed. The fiscal crisis threatened by the accumulated debts of the Sukarno years was averted through debt rescheduling and improved economic management; nevertheless, the depth of Indonesia's continuing reliance on foreign aid remained apparent through the mid-1980s. Public expenditures on the first five-year plan (1956–60) included 25% for mining and manufacturing, 25% for transport and communications, 15% for power projects, and 35% for all other categories. A subsequent plan (1969–74) placed emphasis on the development of agriculture. The 1975–79 plan placed considerable focus on the rural economy, stressing labor-intensive industries along with improved provision of housing and education. Labor unions were encouraged to help improve the lot of plantation and industrial workers.

Efforts to restructure the economy in the 1980s resulted in an expansion of real GDP 6% annually on average. The 1979–84 development plan, called Repelita III, emphasized the “development trilogy” of economic growth, equity, and national stability. Top priorities were tourism and communication (15%), agriculture and irrigation (14%), mining and energy (13%), education (10%), and regional and local development (10%). The 1984–89 five-year plan, called Repelita IV, emphasized industry (9.5% growth rate), agriculture (3%), petroleum and mining (2.5%), transportation and communications (5.2%), and construction (5%). However, low oil prices caused the government to reduce its goals and to promote private and foreign investment. Repelita V, 1989–94 emphasized industry (8.5% growth rate), agriculture (3.6%), petroleum and mining (4.2%), trade (6%), transportation and communications (6.4%), and construction (6%). The development of mining and energy were prioritized, as well as certain areas of manufacturing, forestry, agriculture, transportation, communications, and tourism. The sixth five-year development plan (1994–99), Repelita VI, forecast an annual average GDP growth rate of

6.2% and focused on the privatization of industry and the gradual opening up of foreign investment. These goals were met by 1997, but the 1998 breakdown of the economy prompted international aid agencies to step in.

The 1988 Guidelines of State Policy introduced transmigration development, a policy aimed at overcoming uneven population distribution in Indonesia. The policy had multiple objectives: to ease the burden of densely populated regions, to upgrade regional development, to expand job opportunities, to support national unity, and to strengthen national defense. Transmigration in densely populated areas such as Java, Bali and West Tenggara aimed to increase population productivity and decrease environmental hazards. Transmigration in sparsely populated regions such as Sumatra, Kalimantan, Sulawesi, Maluku, Irian Jaya, and East Timor, aimed to increase productivity of natural resources, as well as increase employment and job opportunities. Agriculture was an important sector for development in the transmigration policy. Some 64,211 families (91.7%) were resettled, consisting of 25,720 families of public transmigration and 38,491 families of self-initiated transmigration.

Bilateral and multinational assistance has played a major role in Indonesia's development. Before 1965, Indonesia received substantial aid from the USSR and other communist states. After 1966, the foreign-aid pattern turned dramatically toward the West. A group of nations (including the United States, Netherlands, Japan, Belgium, France, Germany, Italy, United Kingdom, Switzerland, Canada, and New Zealand) and organizations (including the IBRD and Asian Development Bank) joined to form the Inter-Governmental Group on Indonesia (IGGI) as a major funnel for aid.

In November 1991—in reaction to the Indonesian army's shootings of demonstrators in Dili, East Timor—the Netherlands, Denmark, and Canada suspended aid to Indonesia. In a blanket refusal to link foreign assistance to human rights issues, the government announced it would decline all future aid from the Netherlands. The government also requested that the IGGI be disbanded and replaced by the Consultative Group of Indonesia (CGI) formed by the World Bank and comprised of 18 donor countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, New Zealand, Norway, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States) and 12 multilateral agencies.

When President Susilo Bambang Yudhoyono took office in October 2004, the government launched an aggressive program of economic reforms aimed at improving the business and investment climate. The government began a "100 Day" program of legal reform and energy initiatives. In January 2005, transportation, water and sanitation, power, and other projects were announced. The government launched a vigorous anticorruption campaign, and Yudhoyono stressed the need for economic transparency and efficiency. Revisions of the tax, investment, and labor laws were in the works in 2005. Yudhoyono's initiatives were also geared toward helping poor Indonesians, first by directing government spending toward targeted development programs, especially in rural areas; and second by creating jobs, which would be accomplished through the reduction in corruption and increase in investment. The earthquake and tsunami disasters that struck Sumatra on 26 December 2004 resulted in the deaths of an estimated 131,000 In-

donesians (exact figures by 2006 had not been calculated), with 37,000 missing and another 570,000 displaced. An estimated \$4.5 billion in damages and losses was calculated. Nevertheless, the impact on the Indonesian economy by 2006 was decidedly less dire than expected: aid and assistance from international donors and the need for infrastructure rebuilding contributed to GDP growth rates of more than 5%.

## 40 SOCIAL DEVELOPMENT

The constitution enjoins the government to protect the family and to provide for the needs of the "poor and the waifs," but implementation of these principles has proceeded slowly because of the cost and the lack of professional personnel to put into effect a broad welfare program. Some social security provisions exist. Firms with 10 or more employees or a payroll of Rp1 million or more a month paid 3.7% of their payroll (and employees paid 2% of earnings) for retirement, disability, and survivor benefits, and coverage is gradually being extended to smaller companies and casual workers. Employers pay 6% of payroll for married employees (3% for single employees) to provide sickness and maternity benefits, and both employers and employees fund a workers' compensation program. In addition, many orphanages, homes for the aged, youth activities, and private volunteer organizations meet special needs, in some cases receiving government subsidies.

Women enjoy a more favorable position in Indonesia than is customary in Muslim societies. This situation is largely the result of the work of Princess Raden Ajeng Kartini at the turn of the century in promoting the development of Javanese women. The movement for the emancipation of women preceded the nationalist movement by at least 10 years. Improvement of the status of women was specifically included in the guidelines for the 1979–84 national economic plan. A Ministry of Women's Affairs was created to promote the economic and social welfare of women.

A Domestic Violence Act was passed in 2004 that criminalizes domestic violence. Nationwide figures on sexual assault are not available, but local papers reported an increase in violence against women. In spite of women's official equality, in practice they often find it hard to exercise their legal rights. Although they constitute roughly one-quarter of the civil service, they occupy very few of its top posts. Marriage laws define the husband as the head of the family, and divorce procedures are much more difficult for a woman. Citizenship for a child is derived solely from the father. Female workers generally receive lower pay than that for men. Although maternity leave is mandated by law, many women lose their jobs as a result of pregnancy. Trafficking in women and children remain a problem.

Gross violations of human rights occurred in East Timor before the province became an independent state in 2002, especially following the referendum on autonomy held in 1999. With the liberalization of Indonesia's government, human rights abuses decreased overall, although serious problems remained as of 2006.

## 41 HEALTH

The Ministry of Health places emphasis on preventive medicine. Only 1% of the GDP goes to public health expenditures. National health programs, of which family planning is an important part, stress the building of small and healthy families. Eradication of contagious diseases focuses on malaria, rabies, elephantiasis, tu-

berculosis, cholera, and leprosy. Filariasis, a tropical disease that is endemic in remote rural areas, was still widespread as of 2006. The World Health Organization reported cholera active in Indonesia. Malaria is also endemic to the country. The incidence of the disease was more than 700 per 100,000 population in 2000. In that year there were an estimated 282 cases of tuberculosis per 100,000 people. Overcrowded cities, poor sanitation, impure water supplies, substandard urban housing, and dietary deficiencies are contributing factors to health problems. Approximately 76% of the population had access to safe drinking water and 56% had adequate sanitation.

Average life expectancy in 2005 was 69.57 years. The 2005 infant mortality rate was 35.6 per 1,000 live births. The overall death rate was estimated at 6.3 per 1,000 in 2002. The maternal mortality rate was 450 deaths per 100,000 live births in 1998. Malnutrition was present in 42% of all children under five years of age as of 2000. As of September 1995, the World Health Organization (WHO) reported 130,988 deaths of children under five from diarrheal diseases. The estimated goiter rate was 27.7 per 100 school-age children in 1996.

Indonesia has received much help from the UN, particularly through WHO and UNICEF, in solving health problems. The Ministry of Health is seeking to build up a health service, starting at the village level with a hygiene officer, who is an official of the village, and working up through groups of villages, with more facilities and better trained personnel, to the regional doctor, who directs the curative and preventive work.

In 2004, there were an estimated 16 physicians, 44 nurses, and 5 midwives per 100,000 people. More than one-third of the country's doctors practice in Jakarta and other big cities. Approximately 80% of the population had access to health care services. Total health care expenditure was estimated at 1.6% of GDP.

Tobacco consumption increased from 1.4 kg (3.1 lbs) in 1984–86 to 1.6 kg (3.5 lbs) a year per adult in 1995. A survey in 2004 indicated that 22.8% of school-age students used tobacco products regularly, with the rate significantly higher for boys (40.5%) than girls (8.1%).

Indonesia's birth rate was an estimated 21.9 per 1,000 people as of 2002. About 57% of married women (ages 15 to 49) were using contraception. A total of 40% of all Indonesian children under five were underweight. Immunization rates for children up to one year of age were as follows: tuberculosis, 100%; diphtheria, pertussis, and tetanus, 91%; polio, 90%; and measles, 92%. In 1995 the government paid 100% of the entire vaccine bill.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 110,000 people living with HIV/AIDS in the country. There were an estimated 2,400 deaths from AIDS in 2003.

## 42 HOUSING

Housing is an acute problem in both urban and rural areas. In the rural areas, housing generally falls below even the most modest standards. National statistics from 1998 indicate that only about 20% of all residences had access to piped water. In 2000, only about 66% of the population had access to improved sanitation systems. The total number of dwellings stood at 44,855,000 in the mid-1990s. It has been estimated that there are 735,000 new households per year in need of housing. Housing construction

has not been able to keep pace with this number, so that a substantial backlog has accumulated, translating into overcrowding and substandard living conditions for many. Floods, earthquakes, drought, forest fires, and local communal conflicts continue to result in shelter problems for over one million displaced and homeless residents.

Since 1974, the government has sponsored a series of four major programs to build new housing and provide repair and maintenance for the large number of low-income housing units and slum areas. From 1974–93, the government adopted the Kampung Improvement Program, which was designed to upgrade slum settlements and thus provide more adequate housing for more than 36 million people. As of 2006, the program was part of the Urban Environment Upgrading Program, which relied on community initiatives rather than government intervention. In 1990, an estimated 210,000 new housing units were completed. In 2003, the government announced the One Million Houses Development Program (Satu Juta Rumah) as a plan to inspire local governments, private businesses, and community initiatives to finance and build new housing. The government has also made up several plans to improve substandard housing and slum areas. For the period of 2005–09, the government planned to build 1.367 million subsidized housing units.

## 43 EDUCATION

Vigorous efforts have been made to advance education and reduce illiteracy. In 1971, overall literacy was estimated to be about 58%, ranging from 77% in the cities to only 52% in rural areas. The adult literacy rate for 2004 was estimated at about 87.9%, with 92.5% for men and 83.4% for women.

Under the constitution, education must be nondiscriminatory, and nine years of basic education are free and compulsory (ages 7–15). In practice, however, the supply of schools and teachers is inadequate to meet the needs of the fast-growing under-15 age group. Primary school covers six years of study, followed by three years of junior secondary school. Students may then choose to continue in three years of secondary studies in general studies (natural sciences, social sciences, and languages), Islamic studies, or vocational studies. Schools are coeducational, except for certain vocational and religious schools. Private (mostly Islamic religious) schools receive government subsidies if they maintain government standards. Bahasa Indonesia is the language of instruction, but local dialects may be used until the third level.

In 2001, about 20% of children between the ages of five and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 92% of age-eligible students. The same year, secondary school enrollment was about 54% of age-eligible students. It is estimated that about 94% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 20:1 in 2003; the ratio for secondary school was about 14:1. In 2003, private schools accounted for about 16% of primary school enrollment and 42.9% of secondary enrollment.

There are 51 universities, the largest of which are the University of Indonesia (in Jakarta) and the University of Gajah Mada (in Yogyakarta). Most of the universities are new, having been established since the mid-1950s. There are also several polytechnical and vocational schools offering diploma or certificate programs.

In 2003, about 16% of the tertiary age population were enrolled in some type of higher education program.

As of 2003, public expenditure on education was estimated at 1.2% of GDP, or 9% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

Indonesia's largest library, Perbustakaan National Library of Indonesia, was created in 1980 with the merger of four libraries. Located in Jakarta, it has a collection of over 1.15 million volumes. This library includes the large National Museum collection, which was established in 1778. Another well-established library is the Bibliotheca Bogoriensis, also called the Central Library for Biological Sciences and Agriculture; founded in 1814 as a library associated with the botanical gardens in Bogor, on Java, it holds more than 400,000 volumes. Another national library is the National Scientific and Technical Documentation Center, founded in 1965 in Jakarta, with a collection of more than 150,000 volumes. The Library of the Indonesian Parliament, also in Jakarta, has 150,000 volumes. There is little coordination of public libraries, but there are state libraries and local reading rooms in almost every province. University libraries tend to be autonomous faculty or departmental libraries lacking central coordination. The University of Indonesia in Jakarta has just over 200,000 volumes.

Two outstanding museums in Indonesia are the National Museum in Jakarta, which is a general museum of Indonesian history and culture, and the Zoological Museum in Bogor, on Java. There is also a Bali Museum at Denpasar, and there are several regional historical museums throughout the provinces. Jakarta also houses a museum of crime, a large military museum, a museum chronicling the country's fight for independence, and several decorative arts museums. The Agung Rai Museum of Art in Bali holds a notable private collection of works by Balinese, Javanese, and foreign artists.

#### 45 MEDIA

The government owns and operates postal services and telecommunications facilities through Perumtel, a state enterprise. The Indonesian-owned telecommunications satellite Palapa B was launched in 1983. In 2003, there were an estimated 39 mainline telephones for every 1,000 people. The same year, there were approximately 87 mobile phones in use for every 1,000 people.

As of 1998, there were 678 AM and 43 FM radio stations and 41 television stations (18 government-owned and 23 commercial). Programs originating in Jakarta are in Bahasa Indonesia; programs from regional stations are usually in local languages or dialects. The overseas service (Voice of Indonesia) broadcasts 11 hours daily in Arabic, Chinese, English, French, German, Japanese, Malay, and Thai. Television service was inaugurated in 1962. Televisi Republik Indonesia (TVRI) is the public television network. There are an additional 10 commercial TV networks. In 2003, there were an estimated 159 radios and 153 television sets for every 1,000 people. The same year, there were 11.9 personal computers for every 1,000 people and 38 of every 1,000 people had access to the Internet. There were 85 secure Internet servers in the country in 2004.

Most newspapers are published in Bahasa Indonesia, with a small number appearing in local dialects, English, and Chinese. The leading dailies published in Bahasa Indonesia (with their es-

timated 2002 circulations) include: *Kompas* (523,450), *Pos Kota* (500,000), *Suara Pembaruan* (250,000), *Berita Buana* (150,000), *Merdeka* (130,000), *Pikiran Rakyat* (in Bandung 150,000), *Suara Merdeka* (in Semarang, 200,000), *Jawa Pos* (in Surabaya, 120,000), *Surabaya Post* (in Surabaya, 115,000), *Harian Pagi Memorandum* (in Surabaya, 190,000), and *Analisa* (in Medan, 75,000). The *Jakarta Post* is a leading English-language daily that had a circulation of 50,000 in 2002.

The constitution declares that everyone has the "right to freedom of opinion and expression." Journalistic activities of foreigners, however, are limited in accordance with the policy that "freedom of expression" does not permit interference in domestic affairs or dissemination of "foreign ideologies" detrimental to the Indonesian system of government. The government has also arrested individuals for insulting the president or the government. The government censors foreign films and publications, and Indonesian newspapers have been temporarily closed down for violating news guidelines.

#### 46 ORGANIZATIONS

Village unit cooperatives were established to meet the small farmer's need for credit and aid in marketing cash crops. The cooperatives have also been instrumental in distributing improved rice, fertilizers, pesticides, and superior cattle breeds, and also in instructing farmers in their handling. Village unit cooperatives also exist for such cottage industries as batik (a method of hand-painting textiles), textiles, and garment production, which are important forms of employment in rural areas.

Many trade and business promotional organizations are concerned with individual sectors of the business world—exporters' organizations, sugar traders' associations, and so on. An Indonesian chamber of commerce and industries has connections with leading business organizations in the country. United Kingdom, Chinese, Indian, and Pakistani business people have national associations. The Indonesian Consumers Association is active. ASEAN Council on Petroleum, ASEAN Occupational Safety and Health Network, and ASEAN Regional Forum all have offices in Jakarta. The International Labour Organization also has an office in Jakarta.

Among social welfare and women's organizations are the Indonesian Women's Congress, a federation founded in 1928; the National Council on Social Welfare; the Indonesian Planned Parenthood Association; the Council of Muslim Women's Organizations; GOPTKI, a federation of organizations that run kindergartens; Association of Women of the Republic of Indonesia; and the Indonesian National Commission on the Status of Women. International organizations with chapters in Indonesia include Habitat for Humanity, the Red Cross, Caritas, and the Kiwanis and Lion's clubs.

National youth organizations include the Indonesian Hindu Youth Association, Indonesian Muslim Youth, Islamic Association of University Students, National Board of IMKA/YMCA Indonesia, Students Solidarity for Democracy in India, Junior Chamber, and Young Generation of Islam of Indonesia. There is also a national association for Boy Scouts and Girl Scouts (Indonesia Gerakan Pramuka). There are many sports associations promoting both youth and adult participation in amateur competitions.

There are a number of organizations promoting education and research into various arts and sciences, including the Indonesian Institute of Sciences and the Indonesian Medical Association.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among the most popular tourist destinations are Bali, the restored Borobudur Buddhist temple in Java, and historic Yogyakarta. Cultural attractions include traditional Balinese dancing, the percussive sounds of the Indonesian orchestra (*gamelan*), the shadow puppet (*wayang kulit*) theater, and the famous Indonesian rijst-tafel, a banquet of rice and savories. Tourism, as a means of affording wider employment, is strongly promoted by the government, which has supported the development of resorts in Sumatra, Kalimantan, Nusa Tenggara, Maluku Province, and Irian Jaya, as well as surfing, skindiving, and other marine sports in the reefs and tropical seas of the archipelago. Gambling has been prohibited since 1981. Popular sports are badminton, football (soccer), and Sepak Takraw, a game where players volley a woven ball over a net using any part of their body except their hands or arms. A devastating tsunami, triggered by an underwater earthquake, struck tourism facilities in the northwest Aceh province in December 2004. Terrorist bombings of nightclubs frequented by tourists on Bali in 2002 and 2005 also had a negative impact on tourism.

A passport, valid for at least six months from the date of arrival, and an entry visa are required of most foreigners entering Indonesia, along with an onward/return ticket. Precautions against malaria, hepatitis, typhoid, and rabies are recommended.

Approximately 4,467,021 tourists visited Indonesia in 2003, almost 78% of whom came from East Asia. There were 263,014 hotel rooms with 428,813 beds and an occupancy rate of 45%. Tourism expenditures totaled \$4.4 billion.

The cost of traveling in Indonesia varies from city to city. According to 2004 US Department of State estimates, the cost of staying in Jakarta was approximately \$216 per day. Daily expenses were an estimated \$140 for Surabaya and \$234 for Bali. Elsewhere the estimated daily cost was \$113.

#### 48 FAMOUS INDONESIANS

Gajah Mada, prime minister under King Hayam Wuruk (r.1350–89), brought many of the islands under one rule, the Majapahit Empire. Princess Raden Ajeng Kartini (1879–1904), founder of a school for girls, led the movement for the emancipation of women. Her posthumously published letters, *Door duisternis tot licht*, occasioned considerable interest in the Western world. Many creative and performing artists have attained local prominence, but Indonesia's only internationally known artist is the painter Affandi (1910–90). Contemporary novelists of considerable local importance include Mochtar Lubis (b.1922). H. B. Jassin (1917–2000) was an influential literary critic and translator known locally as

“the Pope of Indonesian literature.” Sukarno (1901–70), a founder and leader of the nationalist movement, is the best-known figure of modern Indonesia; Mohammad Hatta (1902–80), one of the architects of Indonesian independence, served as Sukarno's vice president and concurrently as prime minister. President Suharto (b.1921), leader of Indonesia after Sukarno's overthrow, dominated Indonesia's political and economic life for three decades (1968–98). Adam Malik (1917–84) established an international reputation as a negotiator in restoring and improving relations with Malaysia, the Philippines, the United States, the United Kingdom, and the UN; formerly a foreign minister (1966–77), he became vice president (1978–83). Umar Wirahadikusumah (1924–2003), a retired army general, became vice president in 1983. He was succeeded by Sudharmono (1927–2006) and Try Sutrisno (b.1935). B. J. Habibie (b.1936) became president in 1998, followed by Abdurrahman Wahid (b.1940), Megawati Sukarnoputri (b.1947, the country's first female president), and Susilo Bambang Yudhoyono (b.1949), who began his term in 2004.

#### 49 DEPENDENCIES

Indonesia has no territories or colonies.

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# IRAN

Islamic Republic of Iran  
*Jomhuri-ye Eslami-ye Iran*

**CAPITAL:** Tehrān

**FLAG:** The national flag is a tricolor of green, white, and red horizontal stripes, the top and bottom stripes having the Arabic inscription *Allah Akbar* ("God Is Great") written along the edge nearest the white stripe. In the center, in red, is the coat of arms, consisting of a stylized representation of the word *Allah*.

**ANTHEM:** n/a

**MONETARY UNIT:** The rial (R) is a paper currency of 100 dinars. There are coins of 1, 5, 10, 20, and 50 ri-als, and notes of 100, 200, 500, 1,000, 2,000, 5,000, and 10,000 rials. R1 = \$0.00011 (or \$1 = R9,040.26) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but local units are widely used.

**HOLIDAYS:** National Day, 11 February; Oil Nationalization Day, 20 March; No Ruz (New Year), 21–24 March; Islamic Republic Day, 1 April; 13th Day of No Ruz (Revolution Day), 2 April. Religious holidays (ac-  
cording to the lunar calendar) include Birthday of Imam Husayn; Birthday of the Twelfth Imam; Martyrdom of Imam 'Ali; Death of Imam Ja'afar Sadiq; 'Id al-Fitr; Birthday of Imam Reza; 'Id-i-Qurban; 'Id-i-Qadir; Shab-i-Miraj; Martyrdom of Imam Husayn; 40th Day after the Death of Imam Husayn; Birthday of the Prophet; Birthday of Imam 'Ali.

**TIME:** 3:30 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southwestern Asia, Iran covers an area of 1,648,000 sq km (636,296 sq mi) and extends about 2,250 km (1,398 mi) SE–NW and 1,400 km (870 mi) NE–SW. Comparatively, the area occupied by Iran is slightly larger than the state of Alaska. Iran is bounded on the N by Armenia, Azerbaijan, Turkmenistan, and the Caspian Sea, on the E by Afghanistan and Pakistan, on the S by the Gulf of Oman and the Persian Gulf, on the W by Iraq, and on the NW by Turkey, with a total land boundary length of 5,440 km (3,380 mi). The coastline is 2,440 km (1,516 mi). The shoreline on the Caspian Sea is 740 km (460 mi). Iran's territory includes several islands in the Persian Gulf.

Iran's capital city, Tehrān, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

Most of the land area consists of a plateau some 1,200 m (4,000 ft) above sea level and strewn with mountains. The Zagros and Elburz ranges stamp a "V" upon the plateau; the apex is in the northwest, and within the lower area between the arms are to be found salt flats and barren deserts. Most of the drainage is from these two great ranges into the interior deserts, with limited drainage into the Caspian Sea and the Persian Gulf. The ranges run in parallel files, enclosing long valleys that provide most of the agricultural land. Qolleh-ye Damāvand (Mt. Damavand), northeast of Tehrān, rises to 5,671 m (18,605 ft), while the Caspian littoral is below sea level and has a semitropical climate. Only the Kārūn River, emptying into the Persian Gulf, is navigable for any distance, but the riv-

ers that rush down from high altitudes offer fine sources of power. Harbors of limited depth are found along the Persian Gulf, and the Caspian Sea has similar facilities for coastal fishing and trade.

Iran is geologically unstable with some of the most severe and deadliest earthquakes on record. On 20 June 1990, a 7.4 magnitude quake caused the death of about 50,000 people, many of whom were caught in resulting landslides. On 10 May 1997, a 7.3 magnitude quake occurred in northern Iran causing the deaths of at least 1,567 people; another 2,300 were injured and 50,000 were left homeless. A 6.6 magnitude quake on 26 December 2003 left about 31,000 people dead. On 22 February 2005, a 6.4 magnitude quake in Kerman province in central Iran left at least 602 people dead and 991 injured.

## <sup>3</sup>CLIMATE

Iran has a continental type of climate, with cold winters and hot summers prevalent across the plateau. The annual rainfall does not exceed 30 cm (12 in), with the deserts and the Persian Gulf littoral receiving less than 13 cm (5 in). Snow falls heavily on the mountain peaks and is the principal source of water for irrigation in spring and early summer. The Caspian littoral is warm and humid throughout the year, and the annual rainfall is about 100–150 cm (40–60 in). Clear days are the rule, for the skies are cloudless more than half the days of each year. The seasons change abruptly. By the Persian New Year (the first day of spring), orchards are in bloom and wild flowers abound. In January, the Tehrān temperature ranges from an average low of -3°C (27°F), to an average

high of 7°C (45°F); and in July, from an average minimum of 22°C (72°F) to an average maximum of 37°C (99°F).

#### **4 FLORA AND FAUNA**

More than one-tenth of the country is forested. The most extensive growth is found on the mountain slopes rising from the Caspian Sea, with stands of oak, ash, elm, cypress, and other valuable trees. On the plateau proper, areas of scrub oak appear on the best-watered mountain slopes, and villagers cultivate orchards and grow the plane tree, poplar, willow, walnut, beech, maple, and mulberry. Wild plants and shrubs spring from the barren land in the spring and afford pasturage, but the summer sun burns them away. Bears, wild sheep and goats, gazelles, wild asses, wild pigs, panthers, and foxes abound. Domestic animals include sheep, goats, cattle, horses, water buffalo, donkeys, and camels. The pheasant, partridge, stork, and falcon are native to Iran.

As of 2002, there were at least 140 species of mammals, 293 species of birds, and over 8,000 species of plants throughout the country.

#### **5 ENVIRONMENT**

Iran's high grasslands have been eroded for centuries by the encroachment of nomads who overgrazed their livestock. Desertification resulting from erosion and deforestation of the high plateau pose additional dangers to Iran's environment. United Nations (UN) sources have estimated that 1–1.5 million hectares (2.5–3.7 million acres) per year become desert land. The basic law controlling the use of forests dates from 1943. In 1962, the forests and pastures in Iran were nationalized in an effort to stop trespassing deforestation.

In early 1983, blown-out oil wells in the Persian Gulf war zone between Iran and Iraq caused a huge oil slick that threatened ocean and shore life along the southwestern Iranian coast. Air and water pollution continued to be significant problems in Iran in the aftermath of the 1991 Persian Gulf War. The water in the Persian Gulf is polluted with oil and black rain, and the burning of Kuwaiti oil wells caused significant air pollution as well. Iran also has the 19th-highest level of industrial carbon emissions in the world. Iran has 129 cu km of renewable water resources with 92% used for farming activity and 2% used for industrial purposes. The country has a large network of underground water canals called qanats. This network, once used as an irrigation source, covers an estimated 400,000 km (248,548 mi). Some analysts are encouraging a return to this source of irrigation waters as an answer to regional water shortages. Only 83% of the rural people have pure drinking water.

Iran's Department of Environment was established under the Environment Protection and Enhancement Act of 1974; no information is available on how well the legislation has been implemented. In 2003, about 4.8% of the total land area was protected.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 21 types of mammals, 18 species of birds, 8 types of reptiles, 4 species of amphibians, 14 species of fish, 3 species of invertebrates, and 1 species of plant. Endangered species in Iran include the Baluchistan bear, Asiatic cheetah, Persian fallow deer, Siberian white crane, hawksbill turtle, green turtle, Oxus co-

bra, Latifi's viper, dugong, and dolphins. The Syrian wild ass has been listed as extinct.

#### **6 POPULATION**

The population of Iran in 2005 was estimated by the United Nations (UN) at 69,515,000, which placed it at number 18 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 30% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.2%, a rate the government viewed as too high. Since 1990, the government has had some success in reducing fertility rates; in 1990, there were 5 births per woman and by 2003, the number had declined to 3.5 births per woman. The projected population for the year 2025 was 89,042,000. The population density was 42 per sq km (110 per sq mi).

The UN estimated that 67% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.23%. The capital city, Tehrān, had a population of 7,190,000 in that year. The populations of other major metropolitan areas were Mashhad, 2,147,000; Esfahān, 1,547,000; Tabriz, 1,396,000; Shirāz, 1,230,000; Ahvāz, 967,000; and Kermānshāh, 949,000.

#### **7 MIGRATION**

Until the late 20th century, there was little immigration to Iran, with the exception of Shia Muslims coming from Iraq. There has been some emigration to Europe and the United States, particularly by Iranians who were studying overseas at the time of the revolution of 1979. About 100,000 Kurds were repatriated from Iran to Iraq during the mid-1970s after the suppression of a Kurdish rebellion in the latter country. Between 1980 and 1990, however, an increased number of Shia Muslims fled Iraq because of the Iran-Iraq and Gulf wars; at the end of 1992, some 1.2 million were refugees in Iran. Perhaps 2.8 million Afghan refugees moved to Iran after the Soviet invasion of Afghanistan in December 1979. About 200,000 returned in 1992, and about 2.1 million remained in mid-1993. At least 50,000 refugees from Azerbaijan had fled to Iran by late 1993 to escape Armenian occupation. In the fall of 1996, some 65,000 Iraqi Kurds entered Iran due to ethnic fighting.

According to 1999 statistics, Iran had the largest refugee population in the world, hosting some two million refugees, mainly Afghans and Iraqis. An increase in unemployment and faltering economic conditions resulted in increased pressure for refugees to return to their homelands. However, due to conditions in Iraq and Afghanistan, chances for significant repatriation remained poor. The Iranian government felt a heavy economic and social burden and sought help from the international community. The total number of migrants in the country was 2,321,000 in 2000, down from 3,809,000 ten years earlier. In 2003 Iran had a million refugees. The number increased to 1,045,976 in 2004, with 698 returned refugees. Afghanistan and Iraq were the source of refugees—952,802 and 93,103, respectively. Nearly a million Iranians were refugees in seven countries in that same year, primarily in Germany and the United States. In 2004 nearly 14,000 Iranians sought asylum in 16 countries, primarily in Turkey, Germany, and the United Kingdom. In 2004, Iran was the main asylum country,



LOCATION: 25° to 40° N; 44° to 63° E. BOUNDARY LENGTHS: Afghanistan, 936 kilometers (582 miles); Armenia 35 kilometers (22 miles); Azerbaijan (N) 432 kilometers (268 miles); Azerbaijan (NW) 179 kilometers (111 miles); Caspian Sea coastline, 740 kilometers (460 miles); Gulf of Oman and Persian Gulf coastlines, 2,440 kilometers (1,516 miles); Iraq, 1,458 kilometers (906 miles); Pakistan, 909 kilometers (565 miles); Turkey, 499 kilometers (310 miles); Turkmenistan, 992 kilometers (616 miles).

TERRITORIAL SEA LIMIT: 12 miles.

accounting for 11% of all refugees under the mandate of the United Nations High Commissioner for Refugees (UNHCR).

In 2005 the net migration rate was estimated as -2.64 migrants per 1,000 population. The government views the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

Present-day Iranians, or Persians, are considered to be direct descendants of the Aryans who moved into the plateau in the second millennium BC. They speak Persian, or Farsi, and number more than half the total population. In the Zagros range and its extensions are to be found the Kurds, Lurs, Bakhtiari, Qashqa'i, and Qajars; the first three are said to be of stock similar to the Iranian element, and they speak languages that stem from ancient Indo-

European languages. At various times after the 10th century AD, Turkish tribes settled in the region, and Turkish-speaking groups are still found in several parts of the country. One-eighth of the total population dwells in East and West Azerbaijan, and there are sizable groups of Azerbaijanis in major cities elsewhere, including Tehrān. Arab groups arrived during and after the 7th century AD; their descendants live in the south and southwest and in scattered colonies elsewhere.

In general, non-Iranian elements are to be found along the perimeter of the country. Of these, certain nomadic groups move back and forth across the frontiers. Tribal groups have been a conspicuous element in Iran for many centuries, migrating vertically in spring and fall between high mountain valleys and hot, lowland plains. The important migratory groups include the Qashqa'i, Qa-

jars, Bakhtiari, Balochi, and Turkmen. A large proportion of these people are now settled, however. The nomadic way of life is on the decline, and official policy has sought to resettle these groups on farmlands.

According to the latest estimates, Persians account for 51% of the population, Azeri 24%, Gilaki and Mazandarani 8%, Kurds 7%, Arab 3%, Lur 2%, Balochi 2%, and Turkmen 2%.

## <sup>9</sup>LANGUAGES

Farsi, commonly called Persian in the West, is the official language of Iran. An Indo-European language of the Indo-Iranian group, Farsi derives from ancient Persian, with an admixture of many Arabic words. Arabic characters and script are used in writing modern Persian. Dialects of Turkish, or Turki—especially Azeri, the language of the Azerbaijanis—are spoken throughout northwestern Iran, by the Qashqa'i tribe in the southwest, and in parts of the northeast by Turkmen tribes and others. The Lurs, Kurds, and Bakhtiari have languages and dialects of their own that descend from earlier Indo-European languages, and the Balochi language spoken in southeastern Iran also is of Indo-European origin. A small number of Brahui in the southeast speak a Dravidian language. About 58% of the population speaks Persian or Persian dialects, 26% Turkic or Turkic dialects, 9% Kurdish, 2% Luri, 1% Balochi, 1% Arabic, 1% Turkish, and 2% other.

## <sup>10</sup>RELIGIONS

Iran is the only Islamic country where Shia Muslims hold the reins of power. Shia Islam is the official religion of the country and the president, prime minister, and cabinet ministers must be Muslims. As of 2004, about 99% of the population were Muslim, with 89% of the people being Shia Muslims and 10% Sunni Muslims. The largest non-Muslim group was the Baha'i faith, with between 300,000 and 350,000 members. Their faith, which sprang from the teachings of a 19th-century Muslim in Iran, has been denounced as heresy to Islam. The Baha'is have been severely persecuted by the Shia government since the 1979 revolution, and many of their religious leaders have been executed. The Jewish community has between 20,000 and 30,000 members. There are about 300,000 Christians, including Nestorian Christians (Assyrians). About 35,000 people adhere to the tenets of Zoroastrianism. The Mandaeans (between 5,000 and 10,000 people) practice a pre-Christian form of gnosticism.

The government openly restricts the freedom of religion. The constitution declares Shia Islam as the official religion and guarantees some freedom to Zoroastrians, Jews, and Christians; however, other religious groups have been persecuted for their beliefs.

## <sup>11</sup>TRANSPORTATION

Iran had 178,152 km (110,811 mi) of roads in 2002, of which 118,115 km (73,468 mi) were paved, including 751 km (467 mi) of expressways. A1, a major paved highway, runs from Bazargan on the Turkish border to the border with Afghanistan. Another major highway, A2, runs from the Iraqi border to the Pakistani border. Much of the revolutionary government's road-building activity centered on improving roads in rural areas. In 2003 there were over 2,578,850 passenger cars and 666,550 commercial vehicles.

The state-owned Iranian State Railway has 7,203 km (4,480 mi) of broad and standard gauge track, as of 2004. Standard gauge

accounts for nearly all—or 7,109 km (4,422 mi)—of all railroad right-of-way. The main line runs south for 1,392 km (865 mi) from Bandar Turkoman on the Caspian Sea, through Tehrān, to Bandar-e Khomeini on the Persian Gulf. Rail construction from Bafq to Sirjan has been completed and is operational.

Iran's main ports at Khorramshahr and Ābādān on the Persian Gulf were largely destroyed in fighting during the 1980–88 war with Iraq. Khorramshahr was restored to operation by November 1992. Other ports on the Gulf are Bandar-e Khomeini, Bandar-e 'Abbās, and Bandar-e Būshehr. Both Bandar-e Khomeini and Bandar-e Būshehr were damaged because of the war. The government was continuing the program to modernize the port at Bandar-e 'Abbās. On the Caspian Sea, there are the ports of Bandar Anzeli (formerly Bandar Pahlavi) and Naushahr. In addition, there are the oil shipment ports of Kharg Island (a principal target in the war with Iraq) and Ābādān. As of 2004, there were 850 km (529 mi) of inland waterways on Daryācheh-ye Orūmiyeh (Lake Orumieh) and the Kārūn River. In addition, the Shatt al Arab is usually navigable by maritime traffic for about 130 km (81 mi). In 2005, the Iranian merchant marine included 144 vessels of at least 1,000 gross registered tonnage (GRT), with a total capacity of 4,715,242 GRT.

Iran had an estimated 305 airports in 2004, 129 of which had paved runways as of 2005; there were 15 heliports. Principal airports include Bandar-e 'Abbās, Mehrabad International at Tehrān, and Shirāz International at Shirāz. The state-owned Iran Air maintains frequent service to 15 cities in Iran and is an international carrier. In 2003, about 9.554 million passengers were carried on scheduled domestic and international flights.

## <sup>12</sup>HISTORY

As early as 6000 BC, communities on the Iranian plateau were carrying on agriculture, raising domestic animals, and producing pottery and polished stone implements. Sites datable to later than 3000 BC are numerous and offer quantities of bronze instruments and painted pottery of the finest types. About 1500 BC, masses of Indo-Europeans, or Aryans, began to cross the plateau of Iran. The Iranian group included Medes, Persians, Parthians, Bactrians, and others. The Medes settled in western Iran (Media) about 900 BC and established their capital at Ecbatana (modern Hamadān); the Persians settled to the south of them (Parsis) around 700 BC. The Median king Cyaxares (625–585 BC), along with the Chaldeans, destroyed the power of neighboring Assyria. In the area of Parsis, the Achaemenid clan became overlords, and in 550 BC, their leader, Cyrus the Great, revolted against the Medes; forming a union of Medes and Persians, he then drove with armies both into Asia Minor and to the east of the Iranian plateau and established the Achaemenid Empire. Cambyses, Darius, Xerxes I, and Artaxerxes I were notable rulers of this line who penetrated Greece, Egypt, and beyond the Oxus. The Achaemenid power was centered at Susa and Persepolis; the ruined site of the latter is impressive even today. Zoroastrianism was the religion of the rulers.

In his eastward sweep (334–330 BC), Alexander the Great defeated vast Achaemenid forces and went on to capture Susa and to burn Persepolis. In the 3rd century BC, the Parthians moved into the area east of the Caspian and then into the Achaemenid Empire, establishing the new Parthian kingdom; later rulers moved west to come in contact with and then to fight the Roman Empire.

The Parthians considered themselves spiritual heirs of the Achae-menids and adopted Zoroastrianism as the official religion. Weakened by long wars with Rome, the Parthians were followed by a local dynasty, the Sassanian, which arose in the area of Fars in southwestern Iran. Wars with Rome continued and were followed by a struggle with the Byzantine Empire. The Sassanian period (AD 226–641) was one of cultural consolidation and was marked by economic prosperity and by a series of enlightened rulers.

During the first half of the 7th century AD, Arab warriors burst out of the Arabian Peninsula to overwhelm the Sassanian Empire and to spread the teachings of the prophet Muhammad, embodied in Islam. By the opening of the ninth century, Islamic doctrine and precepts had spread over the plateau, and local dynasties faithful to the Muslim creed emerged. Early in the 11th century, the Turkish Ghaznavid dynasty held power from western Iran to the Indus River. Their greatest ruler was Mahmud of Ghazni, a renowned conqueror and a patron of the arts. The Ghaznavids were replaced by the Seljuks, descended from Turkish nomad warriors enlisted in their service.

The Seljuk kingdom had its capital at Ray, just south of Tehran, and stretched from the Bosphorus to Chinese Turkestan. Of rude origins, such rulers as Tughril Beg, Alp Arslan, and Malik Shah did much to promote cultural pursuits and enhance the character of Persian civilization.

In 1219, Mongol hordes under Genghis Khan (Temujin) began to move into Iran; successive waves subdued and devastated the country. Hulagu, a grandson of Genghis, settled in Maragheh in Azerbaijan and as Il-khan, or chief of the tribe, gave this title to the Il-khanid dynasty. His successors, such as Ghazan Khan and Oljaitu, ruled from Tabriz and Sultaniya, and once again untutored invaders became converts to Islam and patrons of Persian science, learning, and arts. Rivalries within the military leadership brought about the breakdown of Il-khanid power in the second half of the 14th century.

In 1380, Timur ("Timur the Lame," or, in the West, Tamerlane) began to move into the Iranian plateau from the east. Within a decade, the entire area was in his power, bringing a renaissance of culture at Herāt (in modern Afghanistan) and other towns, but later rulers lacked the force and ability to hold the empire together. Early in the 16th century a number of smaller, local dynasties emerged throughout Iran. The most powerful was the Safavid dynasty, whose leaders, descendants of a spiritual head of the Shia sect, imposed this form of Islam on their subjects. The fourth and greatest of this line, Shah Abbas (r.1587–1628), moved the capital to Esfahān, where he had many splendid buildings constructed. The Safavid period, marked by the emergence of a truly native Iranian dynasty after the lapse of many centuries, was a period of military power and general prosperity. However, decline set in, and in 1722, Esfahān fell to invading forces from Afghanistan. Nadir Shah, an Afshar tribesman from the north, drove off the Afghans and in 1736 established the Afshar dynasty. By the end of the 18th century, Zand rulers, dominant in the south, were replaced by the Qajars, a Turkish tribe.

Qajar power began to fade at the turn of the 19th century. In the 1890s, Shia clerics led a national boycott that made the shah rescind a decree awarding a tobacco monopoly to a foreign agent. In 1906, a coalition of bazaar merchants, clerics, intellectuals, and tribal leaders forced the shah to accept a constitution. This liberal

initiative was frustrated, however, by the power of the British and Russians, who controlled spheres of influence in the south and north of Iran.

After a period of chaos, the British arranged for a Persian cosack officer, Reza Khan, to come to power, first (in 1921) as minister of war in 1921, then as prime minister, and finally (in 1925) as Reza Shah, the first sovereign of the Pahlavi dynasty. With ruthless authority, he sought to modernize Iran along the lines of Atatürk in Turkey. In 1941, suspecting him of pro-German sympathies, the British forced Reza Shah to abdicate in favor of his 21-year-old son, Muhammad Reza. British and Russian forces set up a supply line across Iran to the USSR. In April 1946, the British left, but the USSR refused to withdraw its forces. Under pressure from the United Nations (UN) and the United States, Soviet troops withdrew in December 1946.

Oil, the source of nearly all Iran's national wealth, quickly came to dominate politics after World War II. Muhammad Mossadeq, who, as leader of the National Front in the national assembly (Majlis), led the fight in 1947 to deny the USSR oil concessions in northern Iran, became chairman of the oil committee of the Majlis. On 15 March 1951, the Majlis voted to nationalize the oil industry, which was dominated by the Anglo-Iranian Oil Co. (AIOC), a prewar concession to the United Kingdom. When the government of Prime Minister Hosein Ala took no immediate action against the AIOC, the Majlis demanded his resignation and the appointment of Mossadeq, who became prime minister in April. The AIOC was nationalized, but its output rapidly declined when the United Kingdom imposed an embargo on Iranian oil, as well as other economic sanctions. As Iran's economic situation worsened, Mossadeq sought to rally the people through fervent nationalistic appeals. An attempt by the shah to replace him failed in the summer of 1952, but by August 1953, Mossadeq had lost his parliamentary majority, but not his popular support. With the backing of a referendum, Mossadeq dissolved the Majlis and then refused to resign when the shah again tried to oust him. The shah fled Iran for four days, but returned on 22 August with backing from the military, the United States, and the United Kingdom. A new conservative government issued an appeal for aid; in September, the United States granted Iran \$45 million. Mossadeq was convicted of treason in December.

After 1953, the shah began to consolidate his power. New arrangements between the National Iranian Oil Co. and a consortium of US, UK, and Dutch oil companies were negotiated during April–September 1954 and ratified by the Majlis in October. The left-wing Tudeh (Masses) Party, which had been banned in 1949 but had resurfaced during the Mossadeq regime, was suppressed after a Tudeh organization was exposed in the armed forces. In 1957, two new pseudo-parties (both government-sponsored) arose; both contested parliamentary elections in 1960 and 1961. Meanwhile, Iran became affiliated with the Western alliance through the Baghdad Pact (later the Central Treaty Organization) in 1955. (CENTO was dissolved after Iran pulled out in 1979.) Frontier demarcation agreements were signed with the USSR in April 1957.

US assistance and goodwill were essential for the shah. In 1961, President John F. Kennedy urged him to undertake a more liberal program. Under the "white revolution" of 1962–63, the shah initiated land reform, electoral changes (including, for the first time,

the right of women to hold and vote for public office), and broad economic development. Opposition to the reform program, the dictatorial regime, and the growing American influence was suppressed. Political dissent was not tolerated.

The shah's autocratic methods, his repressive use of the secret police (known as SAVAK), his program of rapid Westernization (at the expense of Islamic tradition), his emphasis on lavish display and costly arms imports, and his perceived tolerance of corruption and of US domination fed opposition in the late 1970s. The economic boom of the previous 15 years also came to an end. Islamic militants, radical students, and the middle class all joined in the revolt, until virtually the entire population turned against the shah. Following nine months of demonstrations and violent army reactions, martial law was declared in Iran's major cities in September 1978, but antigovernment strikes and massive marches could not be stopped. On 16 January 1979, the shah left Iran, appointing an old-line nationalist, Shahpur Bakhtiar, as prime minister. However, the leader of the Islamic opposition, Ayatollah Ruhollah Khomeini (the term *ayatollah* is the highest rank of the Shia clergy), who had spent 15 years in exile, first in Iraq and briefly in France, refused to deal with the Bakhtiar regime. Demonstrations continued, and on 1 February the *ayatollah* returned to a tumultuous welcome in Tehrān. He quickly asserted control and appointed a provisional government, which took power after a military rebellion and the final collapse of the shah's regime on 11 February.

After a referendum, Khomeini on 1 April declared Iran an Islamic republic. However, the provisional government, led by Mehdi Bazargan and other liberal civilians, was unable to exercise control; revolutionary groups made indiscriminate arrests and summary executions of political opponents. Increasingly, radical clerics sought to take power for themselves. The crisis atmosphere was intensified by the seizure, on 4 November 1979, of more than 60 US hostages (50 of them in the US embassy compound in Tehrān) by militant Iranian students who demanded the return of the shah from the United States (where he was receiving medical treatment) to stand trial in Iran. Despite vigorous protests by the US government, which froze Iranian assets in the United States, and by the UN over this violation of diplomatic immunity, 52 of the hostages were held for 444 days; in the intervening period, a US attempt to free the hostages by military force failed, and the shah died in Egypt on 27 July 1980. The crisis was finally resolved on 20 January 1981, in an agreement providing for release of the prisoners and the unfreezing of Iranian assets. A new constitution providing for an Islamic theocracy was ratified by popular referendum in December 1979. In presidential elections in January 1980, 'Abolhassan Bani-Sadr, a moderate who supported the revolution, was elected president. Later elections to the Majlis resulted in victory for the hard-line clerical Islamic Republican Party (IRP).

In June 1981, President Bani-Sadr was ousted by Khomeini; later that month, a bomb explosion at IRP headquarters in Tehrān killed Ayatollah Beheshti, who had been serving as chief justice, as well as 4 cabinet ministers, 20 paramilitary deputies, and dozens of others. Another bombing, on 30 August, killed the new president, Muhammad 'Ali Rajai, and his prime minister, Muhammad Javad Bahonar. The bombings were ascribed by the government to leftist guerrillas. By 1982, at least 4,500 people had been killed in political violence, and some estimates placed the total much high-

er. In September 1982, Sadegh Ghotbzadeh, who had been foreign minister during the hostage crisis, was executed on charges of plotting to kill Khomeini and establish a secular government.

Iraq, meanwhile, had taken advantage of Iran's political chaos and economic disorder to revive a border dispute that had been settled in 1975 when Iranian and Iraqi representatives reached agreement on the demarcation of their frontiers. Full-scale war erupted in September 1980, when Iraq demanded sovereignty over the entire Shatt al Arab waterway. Iraqi forces invaded Khuzistan in the southwest, and captured the town of Khorramshahr and the oil refinery center of Ābādān. The Iranian army, decimated by the revolution, was slow to mobilize, but by June 1982 it had driven Iraqi soldiers out of Ābādān and Khorramshahr and from all undisputed Iranian territory. Iran then launched its own offensive, invading Iraq and thrusting toward Al Baṣrah (Basra), but failed to make significant gains. At this point the land war became stalemated, with Iranian and Iraqi troops setting up an elaborate system of trenches. In 1983, Iraq broadened the war zone to include oil-tanker traffic in the northern Persian Gulf.

The Iraqis first attacked Iranian oil installations, disrupting, but not stopping, oil exports from the main oil terminal at Kharg Island. In mid-1983, Iraq took delivery of French jets bearing Exocet missiles. Iran responded that it would close the Strait of Hormuz if Iraq used the missiles. The United States declared the strait a vital interest and said it would use military force to keep the strait open because of the large volume of oil that passed through it on the way to the West. During 1983, the Iraqis also began to attack civilian targets in Iran with long-range missiles. The attacks caused heavy casualties, and Iran responded by shelling Iraqi border cities. In 1984, Iran began to attack Arab shipping in the Persian Gulf.

Iranian forces staged a surprisingly effective attack on Iraqi forces in the Fao Peninsula in February 1986. The Iranians now controlled Iraq's entire border on the Persian Gulf and were in reach of the major Iraqi city of Al Baṣrah. In April, Khomeini renewed his demands for an end to the war: Iraqi president Saddam Hussein must step down and Iraq must admit responsibility and pay war reparations. Iran rejected all demands for a cease-fire and negotiations until these demands were met.

In November 1986, it was revealed that US national security adviser Robert McFarlane had secretly traveled to Iran to meet with government leaders. The United States supplied Iran with an estimated \$30 million in spare parts and antiaircraft missiles in hopes that Iran would exert pressure on terrorist groups in Lebanon to release American hostages. In the wake of this affair, Iran in 1987 attacked Kuwaiti oil tankers reregistered as American tankers and laid mines in the Persian Gulf to disrupt oil tanker shipping. The United States responded by stationing a naval task force in the region and attacking Iranian patrol boats and oil-loading platforms; in the process, the United States accidentally shot down a civilian passenger jet.

As the war continued to take a heavy toll in casualties and destruction and economic hardships persisted on the home front, the clerics maintained firm control through repression and Khomeini's charismatic hold over the people. In 1988, Iran finally yielded to terms for a cease-fire in the war. On 3 June 1989, a few months after calling for the death of novelist Salman Rushdie for blasphemy, Khomeini died of a heart attack. Over three million

people attended his funeral. He was succeeded as the country's spiritual guide by Ali Khamenei. On 28 July 1989, speaker of the parliament Ali Akbar Rafsanjani, a moderate, was elected president with 95% of the vote. Iran remained neutral during the Gulf War, receiving (and retaining) Iraqi planes that were flown across the border for safekeeping. Iran also accepted thousands of Kurdish refugees from Iraq to add to its heavy burden of Afghan refugees from the civil strife in that country. Inflation, shortages, and unemployment—the products of revolution, war, and mismanagement—continued to generate widespread popular discontent, fueled also by dissatisfaction with the closed and repressive political system.

President Rafsanjani was reelected by a significantly smaller margin in 1993 but continued to press for free-market economic reforms. Rising prices in the wake of decreased government economic subsidies led to civil unrest in 1994 and 1995. Clerical conservatives led by Khamenei continued to battle the political moderates for dominance in the 1996 parliamentary elections, without a decisive victory for either side. Then, in the presidential election of May 1997, a moderate cleric, Mohammad Khatami, who favored economic reform, a more conciliatory foreign-policy stance, and less rigid clerical control of the government, won over two-thirds of the vote. In spite of continued opposition by Islamic conservatives, Khatami established a more tolerant climate in the country and expanded civil liberties. His policies received a decisive endorsement by the Iranian electorate when a political coalition led by the reformist president won 141 out of 290 parliamentary seats in the February 2000 elections and 189 seats in the May runoff elections, despite the shutdown of over a dozen liberal newspapers by conservative elements in the government in the weeks preceding the May polling. On 8 June 2001, Khatami won a landslide reelection victory, securing nearly 80% of the popular vote.

US president George W. Bush, in his 29 January 2002 State of the Union address, labeled Iran—along with Iraq and North Korea—an “axis of evil,” responsible for seeking out weapons of mass destruction and supporting terrorists. Khatami, who long advocated a more pro-Western stance, urged anti-US demonstrators to turn out in large numbers to protest the speech, as the speech had come as a surprise. Although Iran did not support the US-led military campaign in Afghanistan to oust the Taliban regime in late 2001, it had expressed sympathy toward US citizens after the 11 September 2001 attacks on the United States, and stated that it would aid any US service personnel in need on Iranian territory during the war in Afghanistan. Iran supported a greater role for the UN in Afghanistan, and pledged resources to help train an Afghan army. Iran was concerned with securing its border with Afghanistan to prevent further destabilization of the region.

In January 2003, in an effort to avoid war Iran urged Iraq to cooperate with UN resolutions requiring it to disarm itself of weapons of mass destruction. Iran took the position that the United States must not take unilateral military action in the dispute, and said that it would not participate or allow its territory to be used in any military action against Iraq. The Iraq War began on 19 March 2003.

While Khatami was in office, a youth movement formed representing people who rejected the rule of Iran's hardline clerics and the “Islamic democracy” of the reformers. Many sought to live in a state based on the rule of law where the clergy's rule is

abolished. In November 2002, Hashem Aghajari, a history professor, was sentenced to death on charges of insulting Islam. He had given a speech in which he stated that each generation should reinterpret aspects of Islam rather than simply following religious leaders. Thousands of students protested against the ruling—the largest in three years.

Parliamentary elections, which marked the end of the campaign for political and social reform, were held on 20 February 2004. The conservative Guardian Council disqualified 43% of the 8,000 candidates who had entered the election, including most reformist incumbents who ran. There were calls for a boycott of the election. Reformists who chose to contest the election took only about 20% of the seats decided in the first round of voting. The conservative win was consolidated in the second round of voting in May. Another victory for conservatives came with the 2005 presidential election, when the ultraconservative former mayor of Tehrān, Mahmoud Ahmadinejad, beat former president Akbar Hashemi Rafsanjani with more than 61% of the vote in the second round. Ahmadinejad appealed to the poor in securing his win.

On 26 December 2003 more than 31,000 people were killed in an earthquake in the Kerman province of southeast Iran. The city of Bām—including its famous Citadel and 85% of all buildings—was largely destroyed. On 22 February 2005 more than 600 people were killed in an earthquake near the city of Zarand, Kerman province.

The European nations of France, Germany, and the United Kingdom led efforts to persuade Iran to give up its nuclear research program. By 2005, Iran resumed what it claimed was a civilian nuclear research program, but which Western nations fear could be used to develop nuclear arms.

### <sup>13</sup> GOVERNMENT

Before the 1979 revolution, Iran was an absolute monarchy, with the constitution of 1906 modified in 1907 and amended in 1925, 1949, and 1957. The shah was the chief of state, with sweeping powers. He commanded the armed forces, named the prime minister and all senior officials, and was empowered to dissolve either or both legislative houses. The legislative branch comprised the national assembly (Majlis) and the senate. Members of the Majlis were elected for four-year terms from 268 constituencies by adults 20 years of age and older. Half of the 60 senators were named by the shah, and half were elected. Members of the Majlis ostensibly represented all classes of the nation, while the somewhat more conservative Senate consisted of former cabinet ministers, former high officials, and retired generals.

The constitution of December 1979, which was approved in a public referendum and revised in 1989, established an Islamic republic in conformity with the principles of the Shia faith. Guidance of the republic is entrusted to the country's spiritual leader (*faqih*) or to a council of religious leaders. An appointed Council of Guardians consists of six religious leaders, who consider all legislation for conformity to Islamic principles, and six Muslim lawyers appointed by the supreme judicial council, who rule on limited questions of constitutionality. In accordance with the constitution, an 86-member Assembly of Experts chooses the country's spiritual leader and may nullify laws that do not conform to Islamic tenets. In 1998, seats on the council (which have eight-year terms) were opened for the first time to nonclerics.

The executive branch consists of a president and council of ministers. The president is elected by popular vote to a maximum of two consecutive four-year terms and supervises government administration. Candidates for the presidency and parliament must have the approval of Iran's spiritual leaders. The Majlis consists of 290 members elected directly to four-year terms. Iran has the lowest voting age in the world: suffrage is universal for those ages 15 and over.

There were more than 800 candidates for president in 2001, and the Council of Guardians narrowed them to 10. Mohammad Khatami was the sole moderate, with all of the other candidates having ties to conservative or hard-line parties. On 8 June 2001, Khatami secured 77% of the popular vote, with four-fifths of 43 million eligible voters turning out. In 2005, more than 1,000 candidates initially put forth their names for president, but the Council of Guardians disqualified all but seven. In the run-off election held on 24 June 2005, former president Akbar Hashemi Rafsanjani faced Tehrān mayor Mahmoud Ahmadinejad. In a surprise victory, Ahmadinejad beat Rafsanjani with more than 61% of the vote. Almost 60% of all eligible voters turned out to cast their ballots. The next presidential election was scheduled for 2009.

## <sup>14</sup>POLITICAL PARTIES

During the reign of Reza Shah (1925–41), political parties were not permitted to function. After 1941, parties sprang up, but most of them were of an ephemeral nature. The Communist-oriented Tudeh (Masses) Party was better organized than the others and benefited from the services of devoted followers and foreign funds. In 1949, an unsuccessful attempt to assassinate the shah was traced to the Tudeh, and it was banned. It continued to work through front groups, and its views were reflected in some periodicals, but the organization was extinguished in the shah's post-1953 crackdown.

In 1957, the government created facade political parties, the Nationalist (Mellioun) Party, headed by Manochehr Eqbal, then prime minister, and the People's (Mardom) Party, headed by former prime minister Asadullah Alam. Neither of these parties ever attracted any popular following. In 1975, the shah ordered the formation of a single political organization, the Iran Resurgence (Rastakhiz) Party, into which were merged all existing legal parties. Three cardinal principles were cited for membership in the party: faith in Iran's constitution, loyalty to the monarchical regime, and fidelity to the "white revolution." This party, like others before it, lacked a popular base.

After the overthrow of the shah's regime in February 1979, new political parties were formed, the most powerful being the Islamic Republic Party (IRP), which took control of the Majlis. However, power was wielded primarily by the military, the president, the clerical elite, and the heads of the bonyads (autonomous financial organizations that have considerable power and were formed from the confiscated wealth of the former royal family and its cronies).

As of 2006 Iran's parliament, or Majlis, is made up of various groups representing a spectrum of views ranging from hard-line radical Islam to moderates and liberals. Moderates generally hold less hostile views about the West while still believing in an Islamic republic. In 1997, a moderate politician, Mohammad Khatami, was elected president of Iran. The moderates scored a further triumph in the parliamentary elections of February and May 2000. A

moderate reformist coalition headed by Khatami won 189 out of 290 seats in the Majlis, with radical Islamists winning 54, independents 42, and religious minority parties 5. The following organizations had success at the 2000 parliamentary elections: Assembly of the Followers of the Imam's Line, Freethinkers' Front, Islamic Iran Participation Front, Moderation and Development Party, Servants of Construction Party, and the Society of Self-sacrificing Devotees. Khatami was reelected president in 2001 after receiving just under 77% of the vote.

In 2004, the hard-line Guardian Council banned 3,605 reformist candidates out of a total 8,157 candidates running for parliament. About 80 of the candidates were sitting members of parliament. The first round of elections was held on 20 February 2004. Reformists who chose to contest the election took only about 20% of the seats decided in the first round. The conservative win was consolidated in the second round of voting in May. Conservatives held 190 seats, reformers took 50, independents, 43; religious minorities, 5; and 2 seats were vacant as of 2005. The next legislative election was scheduled for February 2008.

## <sup>15</sup>LOCAL GOVERNMENT

Iran is divided into 28 *ostans* (provinces), each headed by a governor-general; the governor-general and district officials of each province are appointed by the central government. The *ostans* are subdivided into *sharestans* (counties), which are in turn divided into *bakhsh* (districts). Each *bakhsh* consists of two or more *dehistan*s, which are composed of groups of villages or hamlets. Each of the municipalities (*shahrdarys*) is headed by a mayor. Some *sharestan* officials are elected; others are appointed by Tehrān.

## <sup>16</sup>JUDICIAL SYSTEM

The overthrow of the shah and the approval in 1980 of a constitution making Iran an Islamic state have radically changed Iran's judicial system. The 1980 constitution was revised in 1989.

In August 1982, the supreme court invalidated all previous laws that did not conform with the dictates of Islam, and all courts set up before the 1979 revolution were abolished in October 1982. An Islamic system of punishment, introduced in 1983, included flogging, stoning, and amputation for various crimes. There are two different court systems: civil courts and revolutionary courts.

The judicial system is under the authority of the religious leader (*faqih*). A supreme judicial council responsible to the *faqih* oversees the State Supreme Court, which has 33 branches. The chief justice of the Supreme Court is appointed by the *faqih* to a five-year term and must be a Muslim cleric and judicial expert. The Ministry of Justice oversees law courts in the provinces.

The revolutionary courts try cases involving national security, political offenses, narcotics trafficking, and "crimes against God." Although the constitution guarantees a fair trial, the revolutionary courts provide almost no procedural safeguards. The trials in revolutionary courts are rarely held in public and there is no guarantee of access to an attorney.

A Special Clerical Court deals with crimes committed by members of the clergy, including what can be termed ideological offenses, such as issues like interpretations of religious dogma deemed not acceptable to the establishment clergy.

Elements of the prerevolutionary judicial system continue to be applied in common criminal and civil cases. In these cases the

right to a public trial and the benefit of counsel are generally respected. In 1995 the government began implementing a law authorizing judges to act as prosecutor and judge in the same case.

The constitution states that “reputation, life, property, (and) dwelling(s)” are protected from trespass except as “provided by law.” However, in practice, security forces do not respect these provisions.

## 17 ARMED FORCES

In 2005, the total active armed forces of Iran numbered 420,000 with 350,000 reservists. The Iranian Army had 350,000 active personnel. Their equipment included 1,613 main battle tanks, 80 light tanks, 35 reconnaissance vehicles, 610 armored infantry fighting vehicles, 640 armored personnel carriers, and more than 8,196 artillery pieces, which included over 876 multiple rocket launchers. The Air Force had active personnel numbering an estimated 52,000, including 15,000 air defense personnel. The Air Force had 281 combat capable aircraft, including 153 fighters and 102 fighter ground attack aircraft. Iran's Navy had 18,000 active personnel in 2005. Major naval units included three tactical submarines, three frigates, two corvettes, five mine warfare vessels, and more than 254 patrol/coastal craft. Iran's Islamic Revolutionary Guard Corp (Pasdaran) was estimated at over 125,000 active personnel. The land-based element was estimated at more than 100,000 active members, while the naval element had 20,000 active personnel, including a 5,000-member Marine force. In addition, there was also an Air Force element. Although there was no data as to how many active personnel comprised that force, it was responsible for controlling Iran's strategic missile force, which consisted of one brigade and one battalion. Iran's paramilitary forces had 40,000 active members, which included security troops and border guards. There was also a reserve of the Popular Mobilization Army (Basij Resistance Force), which upon mobilization, could reach up to one million combat capable personnel. As of 2006, it was widely believed that Iran was developing the capability to produce nuclear weapons. The official military budget in 2000 (the latest year for which data was available) was \$9.7 billion or 3.1% of GDP.

## 18 INTERNATIONAL COOPERATION

Iran is a charter member of the United Nations, having joined on 24 October 1945, and belongs to ESCAP and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, the World Bank, and WHO. Iran is also a member of the Organization of the Islamic Conference (OIC), G-24, G-77 and the Colombo Plan. It is a founding member of OPEC and a leading supporter of higher petroleum prices. Iran is one of ten members in the Economic Cooperation Organization (ECO).

Iran's revolutionary government has aligned itself with the radical Arab states of Libya and Syria, which were the only Arab countries to support Iran in its war with Iraq (1980–88). Since before 1979, Iranian foreign policy has been to curtail superpower influence in the Persian Gulf area. It also encourages the Islamization of the governments throughout the Middle East, in such countries as Sudan, Algeria, Bahrain, and Saudi Arabia. This policy of Islamization includes strong anti-US and anti-Israeli sentiments. Despite past troubles with Iraq, Iran remained neutral during the 2003 US-led coalition invasion of Iraq, which resulted in the oust-

ing of the Hussein government. Iran is considered to be a state sponsor of terrorism by the United States. Iran is part of the Non-aligned Movement.

In environmental cooperation, Iran is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

A country with a substantial economic potential, Iran witnessed rapid economic growth during the reign of Shah Muhammad Reza Pahlavi. Development of its extensive agricultural, mineral, and power resources was financed through oil revenues. The traditional land tenure system, under which farmers were sharecroppers, was replaced through a land reform program inaugurated in 1962. In addition to carpets, Iran produced a variety of consumer goods and building materials. Oil, however, became the lifeblood of the economy. With the astonishing growth of its oil revenues, Iran became a major world economic power, whose investments helped several industrialized countries pay for their oil needs during the 1970s.

The economy changed drastically after 1979. The war with Iraq, which curtailed oil exports, coupled with the decrease in the price of oil, especially in 1986, sent oil revenues spiraling downward from \$20.5 billion in 1979 to an estimated \$5.3 billion in 1986. This forced annual GDP growth down from 15.2% in 1982 to 0.2% in 1984; GDP was estimated to have fallen by 8% in 1986. The war's drain on the state budget, the drop in oil prices, poor economic management, declining agricultural output, an estimated 1987 inflation rate of 30–50%, and large budget deficits combined to put enormous strains on the economy.

After Iran accepted a UN cease-fire resolution in 1988, it began reforming the economy with the implementation of the Islamic republic's first five-year social and economic development plan for 1989–94. The plan emphasized revitalizing market mechanisms, deregulating the economy, and rebuilding basic infrastructure. These reforms led to economic growth and lowered budget deficits. GDP grew an average 7% a year in real terms over 1989–92. The general government deficit was reduced from 9% of GDP in 1988 to an estimated 2% in 1992. The inflation rate decreased from 29% in 1988 to around 10% in 1990, but had redoubled to 20% in 1991–92.

Other impacts of the first plan included a growth in agricultural production of 5.6%; industrial production of 15%; water, gas and electricity of 18.9%; and transport of 11.9%. In 1991, the government adopted a structural adjustment program similar in nature to the kind the IMF imposes on developing nations in exchange for aid. Iran, however, did not need aid, but rather imposed the adjustments on itself in an effort to liberalize its economy, making it more market-oriented while still retaining an authoritarian regime. The structural adjustments advocated by then-president Rafsanjani included privatizations of state-owned enterprises, deregulation, cutting government subsidies, and encouraging foreign investment. While marginally well-intentioned, the Rafsanjani reforms led to little economic improvement. Privatization was especially ineffective. Political corruption and rampant cronyism led to many enterprises ending up in the hands of a small

clique of well-connected elites. By 1997, 86% of Iran's GDP came from state-owned businesses. Deregulation also hit considerable snags. In 1996 alone, more than 250 regulations on imports and exports were issued by 24 ministries—many of them repetitive or contradictory.

In April 1995, the United States imposed trade and investment sanctions against Iran, in reprisal for what the United States believed was Iran's continued support of international terrorism. This move, unduplicated even by the strongest allies of the United States, had some economic impact—most notably a precipitous drop in the value of the rial, which the government was forced to prop up.

The GDP growth rate stood at 5.28% in 2000, 5.82% in 2001, 7.64% in 2002, and 6.1% in 2003. For 2005 and 2006, real GDP growth was expected to average 5.6% and 4.8%, respectively. GDP on average grew at a rate of 5.6% over the 2001–05 period. Inflation averaged 14.6% from 2001–05. The unemployment rate stood at 11.2% in 2004, but it is significantly higher among young people. The Iranian economy in the mid-2000s remained determined by its reliance upon oil, and continued to pass through periods of boom and bust as oil prices rose and fell on the volatile international markets. The state remained the dominant economic actor, as it was the recipient of crude oil revenue. The oil sector's share of GDP declined from 30–40% in the 1970s to 10–20%, particularly as a result of war damage to production facilities and OPEC output ceilings. Nevertheless, oil revenue provides about 80% of export earnings and some 40–50% of government revenue; therefore, the hydrocarbons sector receives the vast majority of domestic and foreign investment flows. The services sector has grown, but bureaucracy, the uncertainty of long-term economic planning, and currency-exchange restrictions have made services a volatile sector. The agricultural sector has been aided by state investment, with the improvement of packaging and marketing helping to develop new export markets. Export-based agricultural products—such as dates, flowers, and pistachios—have seen substantial growth, aided by large-scale irrigation projects, although successive years of serious drought in 1999–2001 put a damper on growth in the agricultural sector. In 2005, agriculture accounted for 11.8% of GDP, with industry contributing 43.3% and services 44.9%. As of 2001, 30% of the labor force was engaged in agriculture, with 25% in industry and 45% in services.

## 20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2001 Iran's gross domestic product (GDP) was estimated at \$456 billion. The per capita GDP was estimated at \$7,000. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2005 was 17.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 19% of GDP, industry 26%, and services 55%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$320 million. Worker remittances in 2001 totaled \$326.4 million. Foreign aid receipts amounted to about \$2 per capita.

The World Bank reported that in 2001 per capita household consumption (in constant 1995 US dollars) was \$964. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 5%. Approximately 20% of household consumption was spent on food, 32% on fuel, 12% on health care, and 8% on education. It was estimated that in 1996 about 53% of the population had incomes below the poverty line.

## 21 LABOR

Iran's labor force was estimated at 23.7 million in 2005. In 2001 (the latest year for which data was available), an estimated 30% of the employed workforce was in agriculture, 25% was in industry, and 45% was in the service industry. As of 2004, unemployment was estimated at 11.2%.

The labor code grants workers the right to form and join their own organizations, however, the government-controlled Workers' House is the only authorized national labor organization. The Workers' House controls all workers according to government objectives. Strikes are not permitted. Islamic principles and dress are strictly observed at work with transgressions subjecting the worker to penalties. Workers cannot bargain collectively.

The Labor Law forbids employment of minors under 15 years of age, but these regulations are not enforced. Forced and bonded labor by children remains a serious problem. In 1997, the minimum wage was \$2.80 per day. Many middle class citizens work several jobs to support their families. The Labor Code stipulates a 6-day, 48-hour workweek, with one rest day.

## 22 AGRICULTURE

Of Iran's total area, 11% is cultivated, 27% consists of permanent pastures, and 7% is forest and woodland. The remaining 55% consists of wasteland, lakes, mountains, desert, and urban areas. About one-third of the labor force is employed in agriculture. In 2003, the total land area under cultivation was estimated at 18.2 million hectares (44.9 million acres).

Progress in Iranian agriculture was greatly stimulated by the land reform of 1962–63, under which 4,025,680 farmers and their family members had taken title to their land by 1975, after the old land tenure system was abolished. However, with a rapidly increasing population and a sharply rising standard of living, Iran is no longer self-sufficient in its agricultural production, and food imports have risen steadily.

In 2004, Iranian agricultural production (in thousands of tons) included wheat, 14,000; sugar beets, 6,050; barley, 2,700; rice, 3,400; grapes, 2,800; apples, 2,400; oranges, 1,900; dates, 880; cotton, 105; tea, 52; and tobacco, 21. Almonds and pistachios are grown primarily for export. In 2004, Iran was the largest producer of pistachios in the world (275,000 tons, or 50% of global production), and the fifth-largest producer of almonds (after the United States, Syria, Spain, and Italy), at 80,000 tons.

As of 2003, some 7.65 million hectares (18.9 million acres) were under irrigation. The fifth development plan (1973–78) envisaged an overall increase of 5.5% in agricultural production, but the revised plan raised the target to 8% annually, rescheduled allocations over six years instead of five, and slowed down the projects.

Under the revolutionary government's first five-year plan (1983–88), agriculture was to receive 15.5% of total allocations, with food self-sufficiency the primary objective. However, because of the war with Iraq, planned expenditures were never attained. Moreover, food self-sufficiency still remains only a goal: imports of agricultural products exceeded exports by nearly \$1.3 billion in 2004.

## 23 ANIMAL HUSBANDRY

Not only is animal husbandry the major occupation of nomadic and seminomadic tribes scattered over Iran, but each farming village also keeps flocks that graze on the less productive areas. In 2005 there were 54,000,000 sheep, 26,500,000 goats, 8,800,000 head of cattle, 550,000 water buffalo, 146,000 camels, and 280,000,000 chickens. Cattle are raised as draft animals and for milk and are not fattened for beef. Sheep produce many staple items: milk and butter, animal fat for cooking, meat, wool for carpet making, and skins and hides. During 2002–04, livestock production was up 2.1% from 1999–2001, and up 32% from 1992–94.

## 24 FISHING

The Caspian Sea provides a seemingly inexhaustible source of sturgeon, salmon, and other species of fish, some of which spawn in the chilly streams that flow into this sea from the high Elburz Mountains. In 2003, the total fish catch was 440,835 tons. Caviar of unrivaled quality is produced by the Iranian Fisheries Co., formerly a joint Russo-Iranian venture but now wholly owned by the government of Iran. About 200,000 kg (440,000 lbs) of caviar are sold per year, most of which is exported, providing a substantial share of the world's supply. Exports of fish products in 2003 amounted to nearly \$80.5 million. The fishing grounds of the Persian Gulf were long neglected, but during the 1970s new fishing fleets and packing and conserving facilities were established. The Iran-Iraq war and consequent environmental damage retarded the development of fisheries in this region. Total marine catch has more than doubled from 1982–84 levels.

## 25 FORESTRY

About 7.3 million hectares (18 million acres) were covered by forest in 2000. An estimated 844,000 cu m (30 million cu ft) of roundwood were produced in 2003; about 29% was used for fuel. Along the northern slopes of the Elburz Mountains from near sea level to an altitude of about 2,100 m (7,000 ft) are dense stands of oak, ash, elm, beech, ironwood, cypress, walnut, and a number of other varieties. The high plateau forests of Fars, Kurdistan, Luristan, and Khorasan comprise sparse stands of scrub oak, ash, maple, cedar, wild almond, and pistachio. Date palms, acacias, and tamarisks grow in the Persian Gulf area. The deciduous forests on the Caspian littoral are among the best in the world. The timber industry is controlled by the government; its potential annual capacity is 3 million cu m (106 million cu ft). In 2000, forest plantations covered 2,284,000 hectares (5,643,000 acres). Imports of forest products totaled \$615.7 million in 2004.

A forest ranger school was started in 1957 as an extension of the government's forest service. In 1963, a forestry college was established at Karaj, west of Tehrān, to train forestry engineers.

## 26 MINING

Iran possessed extensive and varied mineral resources and was the world's third-largest producer of gypsum. Of Iran's 2,700 mines, most were privately owned and 2,000 were active, producing 42 minerals; some 65% of the mines produced building and construction materials and 20% were stone quarries. The mining sector accounted for 24% of Iran's industrial output of \$15.4 billion, and mineral and metal exports amounted to \$645 million. Mineral exports included chromite, refined sulfur, lead, zinc, copper, and decorative stone. Iron, steel, and chemicals were leading export commodities. While the petroleum and petrochemicals industries were Iran's top industries in 2002, the production of cement and other construction materials ranked fourth.

Production of gypsum in 2003 (from the Semnan region, east of Tehrān) was an estimated 10.5 million tons, up from 10.38 million tons in 2002. Estimated production of iron ore and concentrate (by gross weight) in 2003 and 2002 totaled 16.1 million tons and 11.3 million tons, respectively. Copper concentrate (29–35% Cu) output by gross weight in 2003 totaled 389,790 metric tons. Bauxite production (gross weight) totaled an estimated 450,000 metric tons in 2003, while output of mined chromite concentrate (by gross weight) in that same year was estimated at 500,000 metric tons. Lead concentrate production by gross weight in 2003 was estimated at 16,000 metric tons. Output of mined zinc concentrate by gross weight in 2003 was estimated at 240,000 metric tons, while manganese mine production by gross weight that same year was estimated at 4,300 metric tons. Mined molybdenum concentrate output by gross weight was estimated at 125,000 metric tons in 2003. Total sulfur output in 2003 was estimated at 1,360,000 metric tons. Marble production (blocks, crushed, and slabs) was estimated at 7.7 million tons in 2003.

Iran also produced orpiment and realgar arsenic concentrates, gold, silver, asbestos, barite, borax, hydraulic cement, clays (bentonite, industrial, and kaolin), diatomite, feldspar, fluorspar, turquoise, industrial or glass sand (quartzite and silica), lime, magnesite, nitrogen (of ammonia and urea), perlite, natural ochre and iron oxide mineral pigments, pumice and related volcanic materials, salt, caustic soda, stone (including granite, marble, travertine, dolomite, and limestone), celestite strontium, natural sulfates (aluminum potassium sulfate and sodium sulfate), and talc. Iran also may have produced ferromanganese, ferromolybdenum, nepheline syenite, phosphate rock, selenium, shell, vermiculite, and zeolite, and had the capacity to mine onyx.

In 2000, the government merged the Ministry of Mines and Metals and the Ministry of Industry to form the Ministry of Industry and Mines. For its third five-year economic development plan (2000–05), the government proposed to privatize 40 mineral industry companies affiliated with the Ministry of Industry and Mines, having already divested itself of numerous smaller mineral enterprises. Since 1998, the government has allowed foreign investment in solid mineral exploration joint ventures, and, in 1999, showcased 102 mining and mineral-processing projects at the First International Mines and Metals Investment Forum. The Iranian constitution prohibited foreign control over natural resources. To diversify and expand the economy in the wake of declining oil prices in the late 1990s, the government sought to increase metal production.

## 27 ENERGY AND POWER

Iran's proven oil reserves as of 1 January 2005 were estimated by the Oil and Gas Journal at 125.8 billion barrels, up from 89.7 billion barrels as of 1 January 2003; these constituted 10% of the world's known reserves, and were exceeded only by those of Saudi Arabia, Iraq, the United Arab Emirates, and Kuwait. However, in July 2004, Iran's oil minister placed the country's proven oil reserves at 132 billion barrels after discoveries in Khuzestan province's Hosseinih and Kushk fields. In 2004, Iran produced around 4.1 million barrels of oil per day, of which crude oil accounted for 3.9 million barrels per day. Domestic oil demand in 2002 was placed at an estimated 1.4 million barrels per day, with oil exports estimated for 2004 at 2.5 million barrels per day.

More than half of Iran's 40 producing fields contain over 1 billion barrels of oil. Most of the reserves are located in onshore fields in the Khuzestan region. The onshore Ahwaz, Marun, Gachsaran, Agha Jari, Bibi Hakimeh, and Pars fields alone account for half of annual oil production. In 1999 Iran announced its largest oil discovery in 30 years, at the Azadegan field in Khuzestan. It is thought to have reserves totaling as much as 24 billion barrels. Oil revenues rose from \$5.1 billion in 1986 to an estimated \$16.4 billion in 2002, when they accounted for about 90% of total export revenues.

In 2004, Iran's natural gas reserves were estimated at 26.7 trillion cu m, and are exceeded only by those in Russia. However, approximately 62% of Iran's natural gas reserves are situated in nonassociated fields and have yet to be developed. Iran's output in 2003 was estimated at 79 billion cu m, up from 59,400 million cu m in 2000. More than one-quarter of Iran's natural gas reserves have been discovered since 1992. Domestic demand for natural gas was estimated for 2003 at 72.4 billion cu m, with exports and imports for that year estimated at 3.4 billion cu m and 4.92 billion cu m, respectively. Exploitation of natural gas is controlled by the National Iranian Gas Co. In the mid-1990s, Iran began developing extensive gas export plans. Inside Iran, a network of pipelines connects Tehrān, Qazvin, Esfahān, Ābādān, Shirāz, and Mashhad to Ahvāz and the gas fields. In 1995, Iran played an important role in regional talks concerning the construction of a 3,200 km (2,000 mi) pipeline that would carry gas from Turkmenistan to European markets via Iran, Turkey, and possibly Ukraine. Also in 1995, Iran and Pakistan signed an agreement to ship up to 450 million cu m per day via a 1,600 km (1,000 mi) overland pipeline to Pakistan. At the end of 2001, Iran signed an agreement to build a pipeline to transmit natural gas to Azerbaijan from Khoi in the northwestern part of the country.

Although Iran is one of the world's leading oil-producing countries, Iranian industry formerly depended on other energy sources, such as electricity, coal, and charcoal. Recently, however, oil and especially gas have been used increasingly in manufacturing. In 2002, Iran's electric power generating capacity was placed at 34,222 million kW, with 31,419 million kW dedicated to conventional thermal fuel plants. Hydropower accounts for 2,803 million kW of capacity for that year. Electric power output in 2002 came to 129 billion kWh, with consumption that year at 119.9 billion kWh. Iran plans to construct ten nuclear power plants by 2015 in order to provide about 20% of the country's power needs. As of 2000, there were five small nuclear reactors in operation.

## 28 INDUSTRY

Principal industries are oil refining, petrochemicals, steel, and copper. In 1987, there were six primary refineries—at Ābādān, Bakhtaran, Tehrān, Shirāz, Esfahān, and Tabriz—with a potential capacity of 950,000 barrels per day. In late 1980, Iraqi bombing forced the closure of the Ābādān refinery, which had a total capacity of 600,000 barrels per day and was one of the world's largest refineries. Several other refineries suffered lesser damage during the war. The Kharg Island oil terminal also was severely damaged by bombing in 1985. Construction by a Japanese consortium of a \$4-billion petrochemical complex at Bandar-e Khomeini, near the Iraqi border, was halted by the war; by mid-1983, the installation, which was 85% complete, had already been attacked six times. In September 1984, the Japanese withdrew their technicians from the site because of renewed Iraqi bombing. Iran took on much of the financial responsibility for the plant, and the ending of all payments of Japanese credits and loans in February 1986 meant that the plant would never be completed according to the original plans. After the cease-fire in 1988, Iran began to rebuild its damaged oil export facilities, concentrating mainly on the rehabilitation of Kharg Island. A 500,000-barrel reservoir terminal at Uhang Island was put into operation in March 1993. The oil complex on the southern island of Lavan was reopened after reconstruction at the end of April 1993. The Ābādān refinery became operational again at 200,000 barrels per day in May 1993. Esfahān's oil production unit became operational in 1992/93, while the construction of a new refinery at Bandar-e 'Abbās was underway. Major refinery products are motor fuel, distillate fuel oil, and residual fuel oil. Oil refining manufacturers had a combined capacity of 1.47 million barrels per day in 2000.

In 2005, Iran had proven oil reserves of 125.8 billion barrels. Oil production that year was 4.3 million barrels per day, of which 93% was crude oil. In 2005, Iran had estimated net exports of 2.7 million barrels of oil per day, the second-largest exporter in the Persian Gulf region. The Doroud 1 & 2, Salman, Abuzar, Foroozan, and Sirri fields comprise the bulk of Iran's offshore output, all of which is exported. Iran planned extensive development of existing offshore fields, and hoped to raise its offshore production capacity to 1.1 million barrels per day, from 675,000 barrels per day in 2004. Iran's major refineries in 2005 were at Ābādān, Esfahān, Bandar Abbas, Tehrān, Arāk, Tabriz, Shirāz, Kermānshāh, and Lavan Island.

The natural gas industry has boomed in Iran, with the second-largest proven reserves in the world (940 trillion cubic feet in 2005). In 2005, Iran produced 2.8 trillion cubic feet of natural gas. In October 2004, Iran and China announced the signing of a deal for Chinese investment in Iran's oil fields and the long-term sale of Iranian natural gas to China, which could eventually be worth \$100 billion. The gas agreement entailed the annual export of some 10 million tons of Iranian liquefied natural gas (LNG) for a 25-year period. The agreement could eventually reach 15–20 million tons a year, taking the total value to as much as \$200 billion. Iran must first build the plants to liquefy the natural gas. This agreement was seen as a blow to US sanctions on Iran. The Iran-Libya Sanctions Act (ILSA), first enacted in 1995, penalizes companies investing more than \$20 million in Iran's oil and gas sector; it was renewed in 2001 for five years. Iran hoped the gas deal with China would encourage other countries (such as Japan,

India, Russia, and European countries) to reconsider doing business with Iran.

A plant in Ābādān for the production of plastics, detergents, and caustic soda was completed in the 1960s. Since then, the petrochemical industry has expanded considerably: by the mid-2000s, Iran's attempt to diversify its economy resulted in its investing some of its oil revenue in the petrochemicals sector and other areas. Petrochemicals has been the main element of the postwar industrialization program. The heavy metals industry began in 1972 with the start of steel production at Esfahān National Steel Mill in Esfahān. Manufactured goods include diesel engines, motor vehicles, television sets, refrigerators, washing machines, and other consumer items.

The textile industry has prospered in recent years with increased production of cotton, woolen, and synthetic fabrics. The making of handwoven carpets is a traditional industry in Iran that flourishes despite acute competition from machine-made products. However, carpet exports declined throughout the war years. To promote self-sufficiency, Iran has encouraged development of the food-processing, shoemaking, paper and paper products, rubber, pharmaceutical, aircraft, and shipbuilding industries. Other industrial products include cement, nitrogenous fertilizer, phosphate fertilizers, and refined sugar.

Iran's industrialization program was set back by political turmoil and labor disruptions of the late 1970s and by the revolutionary government's nationalization of industries in the summer of 1979, causing a flight of capital and trained managers. However, the sector recovered somewhat by 1983/84, when the government reported a 23% gain in industrial production.

The development plan of 1989–94 increased funding to develop heavy industry. A privatization decree in June 1991 led to the identification of 390 public manufacturing and trading firms for divestiture; of these, 185 were already been divested. Industrial production grew at a rate of 5.3% during 1988–98, as opposed to a –3.4% rate during the 1970s. The industrial production growth rate stood at 3% in 2005 (excluding oil). Market reforms were set to continue after 2000, but were placed in question when a conservative parliament was elected in May 2004 and a conservative president, Mahmoud Ahmadinejad, in June 2005.

## 29 SCIENCE AND TECHNOLOGY

The “white revolution” of the 1960s, which emphasized industrialization, involved the importation of petroleum technology and the training of Iranian technicians abroad, but it did not improve Iran's indigenous technology. The principal scientific institution in Tehrān is the International Scientific Research Institute, founded in 1955. Specialized learning societies include the Iranian Mathematical Society and the Iranian Society of Microbiology, both headquartered in Tehrān. Also in the city are the Animal Husbandry Research Institute and the Institut Pasteur. Iran has 37 universities offering degrees in basic and applied sciences. Following the removal of the shah and the formation of an Islamic revolutionary government, Iran suffered a “brain drain” as foreign-trained scientists and engineers either fled the country or refused to return after their education. In 1987–97, science and engineering students accounted for 37% of college and university enrollments. As of 2001, there were 484 researchers and 390 technicians

per million people. High technology exports in 2002 were valued at \$64 million, or 3% of GDP.

## 30 DOMESTIC TRADE

Outside the major cities, most goods are sold in small shops or open-air markets. Most large enterprises are controlled by the state. Privately owned shops for trade and services are typically small. Textile industries are located in Esfahān and Shirāz. Kermān is known for production and distribution of fine carpets. Hamadān is an important trade center for agricultural products from the surrounding areas.

Business hours are from 8 AM to 2 PM, Saturdays through Wednesdays. Since Friday is the official Muslim holy day, many establishments close early on Thursday afternoons or are completely closed on Thursdays. Banking hours are 7:30 AM to 2 PM on weekdays and 7:30AM to 12 PM on Thursdays. Shops are open from 10 AM to 9 PM, Saturdays through Thursdays, and department stores are open until 9:30 PM.

## 31 FOREIGN TRADE

In 2005, major imports included machinery, military supplies, metal works, food, pharmaceuticals, technical services, and refined oil products.

Iran's most expensive export is crude petroleum, which accounts for the majority of its commodity exports revenues (80%). Petrochemicals made up 4.1% of merchandise exports in 2004. Other exports included floor coverings and fruits and nuts, with pistachios accounting for 2.4% of merchandise exports in 2004. Iran accounts for 10% of the world's carpet exports.

Iran's leading markets in 2004 were Japan (18.5% of total exports); China (9.6%); and Italy (6%). Iran's leading suppliers in 2004 were Germany (12.3% of total imports); France (8.4%); and China (7.5%).

## 32 BALANCE OF PAYMENTS

Throughout the 1960s and 1970s, Iran had a favorable trade balance, but substantial imports of services resulted in an annual deficit on current accounts. Long-term capital inflows from private sources reached a peak in 1965; between 1968 and 1973, capital

### Principal Trading Partners – Iran (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	33,788.0	25,638.1	8,149.9
Areas nes	28,179.2	748.7	27,430.5
United Arab Emirates	910.2	3,079.8	-2,169.6
Iraq	437.6	...	437.6
Germany	349.8	2,816.0	-2,466.2
Japan	348.7	959.9	-611.2
Azerbaijan	291.0	...	291.0
India	258.3	949.5	-691.2
Afghanistan	227.4	...	227.4
China	220.9	1,410.2	-1,189.3
Italy-San Marino-Holy See	160.2	1,620.9	-1,460.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Iran (2000)**

(In millions of US dollars)

<b>Current Account</b>		<b>12,645.0</b>
Balance on goods	13,138.0	
Imports	-15,207.0	
Exports	28,345.0	
Balance on services	-914.0	
Balance on income	-200.0	
Current transfers	621.0	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-10,189.0</b>
Direct investment abroad	...	
Direct investment in Iran	39.0	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-8,257.0	
Other investment liabilities	-1,971.0	
<b>Net Errors and Omissions</b>		<b>-1,373.0</b>
<b>Reserves and Related Items</b>		<b>-1,083.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

from foreign governments played a prime role in Iranian development. By 1974, with a net trade surplus of \$17.7 billion and a current account surplus of \$10.9 billion, Iran was one of the world's major exporters of capital. The current accounts balance remained in surplus annually until the massive economic and civic turbulence caused by the revolution of 1979 and the long, devastating war with Iraq (1980–88). By the time the war had ended, Iran's position as a net foreign creditor was badly eroded due to a substantial drop in the world price for oil and a sharp increase in dependence on imports—largely machinery and basic commodities to rebuild infrastructure. By 1993, Iran owed foreign creditors nearly \$30 billion. In following years, the government, still plagued by lessening oil revenues and a quota of production imposed on it by OPEC, was forced to reschedule the debt—with payments coming due in 1996, when foreign debt went down to approximately \$22 billion. Foreign debt stood at approximately \$8.2 billion in 2002.

High oil prices during 2000–04 allowed Iran to record substantial trade surpluses, even though import spending also rose quickly as strong foreign-exchange earnings and the easing of the country's debt-repayment schedule allowed the central bank to relax its import compression program. In 2005, Iran had exports of \$55.42 billion, and imports of \$42.5 billion. The current-account surplus was \$8.179 billion. Foreign debt stood at \$16.94 billion. Iran had \$40.06 billion in foreign exchange reserves and gold.

**3<sup>3</sup> BANKING AND SECURITIES**

The Iranian fiscal year begins on 21 March and runs through 20 March of the following calendar year. Before the modern era in Iranian banking, which dates to the opening of a branch of a British bank in 1888, credit was available only at high rates from noninstitutional lenders such as relatives, friends, wealthy landowners, and bazaar money lenders. As recently as 1988 these non-institutional sources of credit were still available, particularly in the more isolated rural communities. The Central Bank of Iran-

Bank Markazi, established by the Monetary and Banking Law of 1960, issues notes, controls foreign exchange, and supervises the banking sector.

The revolutionary government nationalized all commercial banks shortly after taking office in 1979 and announced that banking practices would be brought in line with Islamic principles, which include a ban on interest payments. By 1993 there were five Islamic banks, which had incorporated the previous banks. Instead of paying interest, the new banks give “guaranteed returns” or commissions on loans. The commissions, which equal 4% of the loan's total, were introduced in 1984, and were known as “profit sharing.” In Islamic terms, this meant that profit (interest) was acceptable only if a lender's money was “not at risk.”

In 1991 measures to promote competition between banks, and to loosen Bank Markazi's control in order to encourage savings within the official banking sector were introduced. In 1994 Bank Markazi introduced reforms allowing private banking operations to register officially and offer most services in competition with the public sector. However, the raft of new currency and export regulations that followed the collapse of the rial in April 1995 put the recently legalized private sector under huge pressure because, for many of the bazaar traders, currency dealings represented a significant share of their total business. There is a basic lack of confidence in the banking system. Many informal banking operations are run from the bazaars. In addition, Iranians who are able to do so operate bank accounts outside the country, importing funds as needed rather than using the domestic system.

Bank Melli, which has acted for the central bank, handles most Iranian banking operations outside the country. The requirements to abide by Islamic principles were never imposed on Bank Melli. The International Monetary Fund reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$71.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$153.6 billion.

The Tehrān Stock Exchange, locally known as the Bourse, was created in 1968. Three years later, the National Bank of Iran and the Industrial and Mining Development Bank of Iran joined with the US firm of Merrill Lynch, Pierce, Fenner and Smith to begin international brokerage activities in Iran. The exchange has stayed open since the revolution but did not play a significant role in the nation's business until the 1990s. Since 1989, the stock exchange has expanded continuously. A total of 344 companies were being traded and the capitalization of the exchange was reported to be nearly \$26 billion in mid-2003.

**3<sup>4</sup> INSURANCE**

The insurance industry had a negligible role in the accumulation of funds to finance development, largely because insurance was not used by most of the population; the insurance industry in Iran had barely started in 1960. On 25 June 1979, the revolutionary government announced the nationalization of all insurance companies. Under a 1971 Act of parliament, all companies operating in Iran were required to cede 25% of total acquired nonlife business and 50% of life business to Bimeh Markazi Iran, the central insurance company of Iran. The company writes all classes of insurance and reinsurance. In 2003, the value of all direct premiums written totaled \$1.484 billion, of which nonlife premiums accounted for

\$1.368 billion. As of 2005, there was no further published data on premium income in Iran.

### 35 PUBLIC FINANCE

Iran's fiscal year coincides with its calendar year, beginning on 21 March. The budget is prepared by the Finance Ministry and submitted to parliament. Trade reforms implemented since 1991 have boosted economic growth and reduced budget deficits. The general government deficit fell from 9% of GDP in 1988 to 2% in 1992, but was up to almost 7% again in 1998. By 2002, however, external debt was equivalent to less than 2% of GDP as a result of market reforms.

The US Central Intelligence Agency (CIA) estimated that in 2005 Iran's central government took in revenues of approximately \$48.8 billion and had expenditures of \$60.4 billion. Revenues minus expenditures totaled approximately -\$11.5 billion. Public debt in 2005 amounted to 27.5% of GDP. Total external debt was \$16.94 billion.

The International Monetary Fund (IMF) reported that in 2004, the most recent year for which it had data, central government revenues were R408,094 billion and expenditures were R383,011 billion. The value of revenues in US dollars was us\$47 million and expenditures us\$44 million, based on a official exchange rate for 2004 of us\$1 = R8,614 as reported by the IMF. Government outlays by function were as follows: general public services, 11.1%; defense, 9.3%; public order and safety, 3.7%; economic affairs, 25.8%; environmental protection, 0.6%; housing and community amenities, 7.5%; health, 6.2%; recreation, culture, and religion, 5.0%; education, 8.2%; and social protection, 22.6%.

### 36 TAXATION

Under tax laws written in May of 1992, individual income is taxed at rates varying from 12–54%. Capital gains and investment income are also taxable and employees pay a 7% social security contribution. As of 2005, corporate profits were taxed at 25%, although

companies listed on the Tehrān Stock Exchange were taxed at a 22.5% rate. Income derived from outbound international transport was taxed at 5%. Capital gains resulting from the transfer of real property were taxed at 5% of the value of the property according to regional value tables. Capital gains resulting from the sale of securities listed on the Tehrān Stock Exchange were taxed on 0.5% of the sales value. Also levied are real estate taxes, municipal taxes, and a levy on expatriate salaries. A value-added tax (VAT) or sales tax of 3% is applied to products considered final. Another tax is a public education cost levy to be paid by manufacturing and service companies.

### 37 CUSTOMS AND DUTIES

Most goods entering Iran are subject to customs duties, the majority of which are on the CIF (cost, insurance, and freight) value. A number of government organizations and charitable institutions are permitted to import goods free of duty. The average tariff was 4% in 2005, down from 18.9% in 2000.

### 38 FOREIGN INVESTMENT

Until the early 1970s, Iran rarely participated in foreign businesses. The National Iranian Oil Company (NIOC) invested in the construction of oil refineries in Madras, India, and other places and participated in several ventures with foreign oil firms that held concessions for Iranian oil. With the vast increase in oil revenues, Iran became one of the world's leading creditor nations; in 1974 alone, bilateral agreements worth hundreds of billions of rials were signed with France, Germany, Italy, and the United Kingdom. In July 1974, Iran agreed to purchase a 25% interest in the German steel-making firm of Krupp Hüttenwerke, an investment believed to be the largest single stake purchased by any oil-producing nation in a major European firm up to that time. In 1975, Iran began negotiating investments through the United Nations Development Programme (UNDP) in developing nations.

Prior to World War II, foreign companies had important investments in Iranian banks, insurance companies, transport, and the oil industry. In 1955, the legislature enacted a law providing for withdrawal of invested capital in the currency that was brought into Iran, for the export of annual profits, and for adequate compensation in the event of nationalization of the industry or business. In 1957, the United States and Iran exchanged notes recognizing that the United States would guarantee its private investments in Iran against loss through actions by Iran, and the following year the Majlis enacted a law protecting foreign capital investments. Foreign companies moved into Iran to exploit mineral resources, to establish banks in partnership with Iranian capital, to build factories, and to carry out segments of the shah's vast economic development program.

Since 1979, the instability of the revolutionary government and the catastrophic war with Iraq have had a chilling effect on Western investment in Iran. In 1995, the United States imposed trade and investment sanctions on Iran for its support of international terrorism; the Iran-Libya Sanctions Act (ILSA) penalizes companies investing more than \$20 million in Iran's oil and gas sector; the ILSA was renewed in 2001 for five more years. The country emerged from the war with Iraq in terrible economic shape. In 1995, desperate for Western assistance in rebuilding its oil sector, Iran contracted with the French Oil Company, Total, to develop its

#### Public Finance – Iran (2004f)

(In billions of rials, central government figures)

<b>Revenue and Grants</b>	<b>408,094</b>	<b>100.0%</b>
Tax revenue	88,878	21.8%
Social contributions	51,907	12.7%
Grants	...	...
Other revenue	267,310	65.5%
<b>Expenditures</b>	<b>383,011</b>	<b>100.0%</b>
General public services	42,691	11.1%
Defense	35,469	9.3%
Public order and safety	14,020	3.7%
Economic affairs	98,853	25.8%
Environmental protection	2,398	0.6%
Housing and community amenities	28,881	7.5%
Health	23,703	6.2%
Recreational, culture, and religion	19,009	5.0%
Education	31,518	8.2%
Social protection	86,470	22.6%

(...) data not available or not significant. f = forecasted or projected data.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

Sirri oil field. It was the first instance of foreign investment in the vital petroleum sector since the 1979 revolution. In 1995, Iran had negative direct foreign investment of about \$50 million, reflecting repatriation of profits greater than inflows of new investment.

Inward foreign investment outside the oil and gas sectors in the fiscal year ending in March 2005 was a mere \$1 billion. Some large investment deals have made their way through the system, however, and the oil minister in 2005 called for \$150 billion of new investment to double petroleum production. Foreigners observe investment in Iran warily, although Iran hopes to attract billions of dollars worth of foreign investment by creating a favorable investment climate (by reducing restrictions and duties on imports and creating free trade zones). Additionally, disagreements between reformers and conservatives make foreign investors wary of doing business in Iran, as does the international standoff over the country's nuclear program. In September 2005, Iran threatened to impose investment limits on countries opposing its right to access nuclear fuel cycle technology.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Iran's first development plan (1949–56) foundered because of the lack of oil revenues during the nationalization dispute and also because the IBRD refused to lend the hoped-for one-third of the projected development expenditures. The second plan (1956–63) also ran into financial difficulties when the domestic budget consumed a larger proportion of the oil revenues than expected. An austerity program from 1960, however, facilitated economic recovery. The third plan (1963–68) was successful, and the period witnessed rapid economic growth. This plan placed emphasis not only on the building of an infrastructure but also on projects making use of local resources. The private sector exceeded the target planned for investment. Substantial foreign aid, varied in its sources, was also forthcoming, and foreign investment in Iran totaled more than \$2.7 billion. The fourth plan (1968–73) was far more successful than the previous ones, with most of its objectives realized beyond expectation. The mean annual GNP growth was 11.2%, as compared with the projected figure of 9%. Similarly, per capita GNP rose to about \$560 (\$300 had been the goal).

In its revised form, the fifth plan (1973–78) provided for infrastructural development and other expenditures. However, a lag in oil revenues led to rescheduling of the plan for six years instead of five and the postponement or slowdown of individual projects. Because of political opposition and social unrest during the last year of the shah's reign, the plan was abandoned in 1978. The Islamic government that came to power in 1979 cut economic development funds because of a shortage of revenues, but in 1983 it proposed its own five-year development plan for 1983–88, with allocations totaling \$166 billion and emphasis given to agriculture and service industries. However, the government's cutbacks on oil production (and, consequently, of the oil revenues that were to finance the plan), coupled with the diversion of resources to the war with Iraq, made it impossible to fulfill the plan's goals.

The five-year plan (1989–94) authorized up to \$27 billion in foreign borrowing. It aimed to increase productivity in key industrial and economic sectors and to promote the non-oil export sector. The 1994–99 plan aimed at investing money in transport, particularly in the railroad system and in the construction of a public underground for Tehrān. Other projects were aimed at revitalizing

the petroleum sector and developing the natural gas sector. The five-year plan implemented from 2000–04 was to privatize at least six major state-owned enterprises (such as communications and tobacco), and at least 2,000 smaller state-owned firms. The conservative parliament that took office in May 2004 ruled against key reforms planned for the 2005–09 economic plan. Nevertheless, Iran's five-year plans have envisaged a gradual move towards a market-oriented economy, but political and social concerns and external debt problems have hampered progress. Upon being elected president in June 2005, conservative populist Mahmoud Ahmadinejad pledged to fight poverty and corruption while creating new jobs in the public sector. He proposed sharing the nation's oil wealth more broadly and reducing the country's income gap between rich and poor. Ahmadinejad also favored the promotion, where possible, of local firms over foreign enterprises.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

Traditionally, the family and the tribe were supplemented by Islamic waqf (obligatory charity) institutions for the care of the infirm and the indigent. Social welfare programs include workers' compensation, disability benefits, maternity allowances, retirement benefits, death benefits, and family and marriage allowances. These programs cover all employed persons between the ages of 18 and 65 who reside in the country. There is a special pension system in force for public employees. Old age benefits are available at age 65 for men and age 60 for women. Seasonal workers are covered for medical services during the working season. Employed persons in urban areas are covered by workers' compensation. Family allowances are available for working families with limited means.

Statistics on violence against women including spousal abuse are unavailable. Provisions in the Islamic Penal and Civil code discriminate against women, especially in property rights. The testimony of a woman in court is worth half of a man's statement. Women receive more harsh punishments for criminal offenses. A woman can only divorce a man for limited reasons, but a man may divorce his wife without cause. Gender segregation is enforced in most public places.

The Jewish, Christian, and Baha'i minorities face government discrimination in education, employment, and public accommodations. They also suffer harassment and abuse. Serious human rights abuses persist, including summary execution, disappearance, torture, rape, stoning, flogging, arbitrary arrest and detention, and harsh prison conditions. The Iranian government continues to restrict freedoms of speech, assembly, religion, association, and the press.

### **4<sup>1</sup> HEALTH**

Beginning in the 1960s, national campaigns against such major diseases as malaria and smallpox were undertaken. Other major health problems included high infant mortality, smallpox outbreaks, venereal disease, trachoma, typhoid fever, amoebic dysentery, malaria, tuberculosis, and the debilitating effects of smoking opium. The creation in 1964 of a health corps, consisting of physicians and high school graduates who agreed to spend the period of their military service serving in semimobile medical units in rural areas, helped to reduce the death rate. Roving health corps teams, comprising a doctor, a dentist, a pathologist, and (when

possible) a nurse, served the villages, offering medical services to 10,000–15,000 rural inhabitants annually.

As of 2002, the death rate was estimated at 5.4 per 1,000 people. The infant mortality rate in 2005 was 41.58 per 1,000 live births.

The Islamic republic has continued to provide health care programs to rural areas. As of 2004, there were an estimated 105 physicians, 246 nurses, and 19 dentists per 100,000 people in Iran. Many physicians left the country after the 1979 revolution and health conditions were reportedly deteriorating; however, by the mid-1980s, many doctors who had been in exile during the shah's reign had returned. Approximately 80% of the population had access to health care services. Total health care expenditure was estimated at 4.2% of GDP. Average life expectancy in 2005 was estimated at 69.96. In 2000, 95% of the population had access to safe drinking water and 81% had adequate sanitation. Some form of contraceptive was used by 73% of married women ages 15–49 as of 2000. Iran's estimated birth rate in 2002 was 17.5 per 1,000 people. Children up to one year old were immunized against tuberculosis, 100%; diphtheria, pertussis, and tetanus, 95%; polio, 95%; and measles, 95%.

The prevalence of low birth weight babies has risen from 4% of all births in 1980 to 10% in 1999. As of 2000, 16% of all children were malnourished. Cholera was reported in 2,177 individuals. Malaria cases are high. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 31,000 people living with HIV/AIDS in the country. There were an estimated 800 deaths from AIDS in 2003.

## 42 HOUSING

Rapid urbanization and migration of refugees into the country have made housing one of the country's most acute social problems. Although housing has always been given top priority in development plans, the gap between supply and demand for dwellings has grown increasingly wide. During the fourth plan (1968–73), nearly 300,000 housing units were built, but because some 120,000 new families were added to the urban population during that period, the average density rose from 7.7 to 8.5 persons per dwelling. During the same period, the national urban housing deficit rose from 721,000 to 1.1 million units. However, housing starts fell sharply after the 1979 revolution, as construction declined precipitously because of lack of funding (construction of all buildings dropped by 21% in 1981/82 and 24% in 1982/83). In 1995–2000, the government presented programs focused on attracting private sector investment and approving legal and economic measures.

In 1986 (the latest year for which such statistics are available), 43% of all housing units were constructed of brick with iron beams, 19% were adobe and wood, 16% were brick with wooden beams, 10% were adobe and mud, 5% were cement block, and 3% were iron with a cement skeleton. Electricity was available in 84% of all housing units, 95% had a water toilet, 75% had piped water, 54% had a kitchen, and 47% had a bath. According to 1996 national statistics, there were about 12,349,003 private households in permanent dwellings. About 38,940 households were listed as "unsettled," meaning that they were either homeless or nomadic.

## 43 EDUCATION

Education is virtually free in Iran at all levels, from elementary school through university. At the university level, however, every student is required to commit to serve the government for a number of years equivalent to those spent at the university.

During the early 1970s, efforts were made to improve the educational system by updating school curricula, introducing modern textbooks, and training more efficient teachers. The 1979 revolution continued the country's emphasis on education, but Khomeini's regime put its own stamp on the process. The most important change was the Islamization of the education system. All students were segregated by sex. In 1980, the Cultural Revolution Committee was formed to oversee the institution of Islamic values in education. An arm of the committee, the Center for Textbooks (composed mainly of clerics), produced 3,000 new college-level textbooks reflecting Islamic views by 1983. Teaching materials based on Islam were introduced into the primary grades within six months of the revolution.

Education is compulsory for five years of primary school. A middle school program covers three years of study. After this stage, students may choose to continue in general academic studies or vocational studies for three years. Students interested in continuing on to university studies complete an additional year. The academic year runs from September to June.

Primary school enrollment in 2003 was estimated at about 86% of age-eligible students. Nearly all students complete their primary education. In 2001, secondary school enrollment was about 76% of age-eligible students. The student-to-teacher ratio for primary school was at about 24:1 in 2003; the ratio for secondary school was about 28:1.

The tradition of university education in Iran goes back to the early centuries of Islam. By the 20th century, however, the system had become antiquated and was remodeled along French lines. The country's 16 universities were closed after the 1979 revolution and were then reopened gradually between 1982 and 1983 under Islamic supervision. While the universities were closed, the Cultural Revolution Committee investigated professors and teachers and dismissed those who were believers in Marxism, liberalism, and other "imperialistic" ideologies. The universities reopened with Islamic curriculums.

The University of Tehrān (founded in 1934) has 10 faculties, including a department of Islamic theology. Other major universities are at Tabriz, Mashhad, Ahvāz, Shirāz, Esfahān, Kermān, Babol Sar, Rasht, and Orūmiyeh. There are about 50 colleges and 40 technological institutes. In 2003, about 21% of the tertiary age population were enrolled in some type of higher education program.

A literacy corps was established in 1963 to send educated conscripts to villages. During its first 10 years, the corps helped 2.2 million urban children and 600,000 adults become literate. The adult literacy rate for 2004 was estimated at about 77%, with 83.5% for men and 70.4% for women. As of 2003, public expenditure on education was estimated at 4.9% of GDP or 17.7% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

Public libraries and museums are fairly new in Iran. The National Library at Tehrān had a good general collection of about 590,000 volumes as of 2002. The Library of Parliament, with 170,000 volumes, has an extensive collection of manuscripts and an unrivaled collection of documentary material in Farsi, including files of all important newspapers since the inception of the press in Iran. The Central Library of the University of Tehrān holds some 650,000 volumes. In 2005, there were over 1,000 public library branches throughout the country.

Tehrān has the Archaeological Museum, overflowing with fabulous treasures from the long cultural and artistic history of Iran, and the Ethnological Museum. Iran's crown treasures—manuscripts, jeweled thrones, and a vast variety of other objects—may be seen at the Golestan Palace. Museums at Esfahān, Mashhad, Qom, and Shirāz feature antique carpets, painted pottery, illuminated manuscripts, and fine craftsmanship in wood and metal; most of these objects date from the 12th to the 18th centuries.

#### 45 MEDIA

Telegraph, telephone, and radio broadcasting services are state-owned. In 1996, 25 regional telecommunications authorities were formed to oversee paging services and cellular systems. In 2003, there were an estimated 220 mainline telephones for every 1,000 people; over one million people were on a waiting list for telephone service installation. The same year, there were approximately 51 mobile phones in use for every 1,000 people.

Both radio and television were nationalized in 1980. Principal stations are located in Tehrān, and other major stations broadcast from Ahvāz, Zahedan, Tabriz, Rasht, Kermānshāh, and Bandar-e Lengeh. As of 1999 there were 72 AM and 6 FM radio stations and 28 television broadcast stations. Television of Iran, a privately owned station, began broadcasting in 1956 in Tehrān and Ābādān. The national radio organization and the government television network were merged in 1971 to form National Iranian Radio and Television (NIRT). After 1979, it became the Islamic Republic of Iran Broadcasting Company. Though there is an official ban on owning a satellite dishes, many still do, particularly wealthier citizens. In 2003, there were an estimated 281 radios and 173 television sets for every 1,000 people. The same year, there were 90.5 personal computers for every 1,000 people and 72 of every 1,000 people had access to the Internet. There were 13 secure Internet servers in the country in 2004.

Among Iran's most widely read newspapers are *Ettela'at* (2002 circulation 500,000) and *Kayhan* (350,000). *Alik* (3,400) is an Armenian daily, *Journal de Teheran* (8,000) is published in French, and *Teheran Times* (7,700) is published in English. There are also several weeklies and special interest magazines. Most print media originate in Tehrān.

The constitution does not mention freedom of speech and limits freedom of the press; a press law requires publications to be licensed, and their editors are subject to imprisonment for printing reports the religious authorities deem insulting. As of 2004, there were many reports of continuing government infringement on freedom of the press.

#### 46 ORGANIZATIONS

Long renowned for their individualism, Iranians now actively associate with modern public and private organizations. Under the shah, the government greatly encouraged the growth of the cooperative movement; the first Workers' Consumers Society was established in 1948. Many villages have founded producers' cooperatives with official advice and support, and consumers' cooperatives exist among governmental employees and members of the larger industrial and service organizations. Rural cooperative societies are wide spread. The Chamber of Commerce, Industries, and Mines has its headquarters in Tehrān.

Private charitable organizations date from as early as 1923, when the Iranian Red Lion and Sun Society was established; this organization has since joined the corresponding international organization of the Red Crescent Society. Other charitable institutions include the Organization for Social Services and the Mother and Infant Protection Institute. The Islamic Women's institute is active. The Society to Combat the Use of Opium has waged a campaign against use of the drug. Human Rights Monitor is a multinational organization based in Tehrān.

For youth, the Boy Scout movement in Iran began before World War II. There are several sports associations active within the country, representing such pastimes as badminton, tennis, baseball, and track and field. There are active organizations of the Special Olympics.

#### 47 TOURISM, TRAVEL, AND RECREATION

Political and civil unrest has kept many tourists from visiting Iran in recent years. Principal tourist attractions include historic and beautifully decorated mosques, mausoleums, and minarets. There are many sports and physical culture societies in Tehrān and the provinces, where the emphasis is on skiing and weight lifting. Other popular sports include football (soccer), wrestling, and volleyball.

A valid passport and visa are required to enter Iran. All travelers are required to have a certificate of inoculations against meningitis.

#### 48 FAMOUS IRANIANS

The long history of Iran has witnessed many conquerors, wise rulers and statesmen, artists, poets, historians, and philosophers. In religion, there have been diverse figures. Zoroaster (Zarathushtra), who probably lived in the 6th century BC, founded the religion known as Zoroastrianism or Mazdaism, with Ahura-Mazda as the god of good. In the 3rd century AD, Mani attempted a fusion of the tenets of Mazdaism, Judaism, and Christianity. The Bab (Sayyid 'Ali Muhammad of Shirāz, 1819–50) was the precursor of Baha'ism, founded by Baha' Allah (Mirza Husayn 'Ali Nuri, 1817–92).

Persian rulers of the pre-Christian era include Cyrus ("the Great"; Kurush, c.550–529 BC), Cambyses II (Kambuiya, c.529–522 BC), Darius I ("the Great"; Darayavaush, c.521–486 BC), Xerxes I ("the Great"; Khshayarsha, c.486–465 BC), and Artaxerxes I (Artakhshathra, c.464–424 BC). Shah 'Abbas (r.1587–1628) expanded Persian territory and conquered Baghdad. Prominent political figures of modern times are Reza Shah Pahlavi (1877–1944), who

reigned from 1925 to his abdication in 1941; and his son, Muhammad Reza Pahlavi (1919–80), who was shah from 1941 until his abdication in 1979. Until his death in 1989, Iran was under the leadership of Ayatollah Ruhollah Khomeini (1900–89). Ayatollah Ali Khamenei (b.1939) took over the position of Supreme Leader upon Khomeini's death.

The great epic poet Firdawsi (Abdul Qasim Hassan ibn-i-Ishaq ibn-i Sharafshah, 940–1020), writing about AD 1000, produced the *Shahnama* (*Book of Kings*) dealing with four ancient dynasties and full of romantic and heroic tales that retain their popularity today. Omar Khayyam (d.1123?), astronomer and poet, is known in the Western world for his *Rubáiyât*, a collection of quatrains freely translated by Edward Fitzgerald. Important figures of the Seljuk period (11th and 12th centuries) include Muhammad bin Muhammad al-Ghazali (1058–1111), philosopher and mystic theologian, who exerted an enormous influence upon all later speculative thought in Islam; Farid ad-Din 'Attar (Muhammad bin Ibrahim, 1119–1229?), one of the greatest of mystic poets; and Nizami (Nizam ad-Din Abu Muhammad, 1141–1202), noted for four romantic epic poems that were copied and recopied by hand and illuminated with splendid miniatures. In the 13th century, Jalal ad-Din Rumi (1207–73) compiled his celebrated long mystic poem, the *Mathnavi*, in rhyming couplets; and Sâdi (Muslih ud-Din, 1184?–1291), possibly the most renowned Iranian poet within or outside of Iran, composed his *Gulistan* (*Rose Garden*) and *Bustan* (*Orchard*). About a hundred years later, in 1389, another poet of Shirâz died, Hafiz (Shams ud-Din Muhammad); his collected works comprise nearly 700 poems, all of them ghazals or lyrical odes.

Poets of the modern period include Iraj Mirza (1880–1926), Mirzadeh Eshqi (d.1924), Parveen Ettasami (d.1941), and the poet laureate Behar (Malik ash-Shuara Bahar, d.1951). Preeminent among prose writers was Sadeq Hedayat (1903–51), author of the novel *Bu f i kur* (*The Blind Owl*) and numerous other works, including films. Azar Nafisi (b.1955) is an Iranian-born professor and writer residing in the United States whose book *Reading Lolita in Tehran* gained international acclaim and was translated into 32 languages.

Miniature painting came to full flower in the second half of the 15th century. The greatest figure in this field was Bihzad, whose limited surviving work is highly prized. The School of Herât was composed of his followers.

Abbas Kiarostami (b.1940) is an influential and controversial postrevolutionary filmmaker who is highly respected in the international film community.

## 49 DEPENDENCIES

Iran has no territories or colonies.

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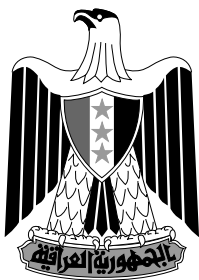
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# IRAQ

Republic of Iraq  
*Al-Jumhuriyah al-'Iraqiyah*



**CAPITAL:** Baghdād

**FLAG:** The national flag is a tricolor of red, white, and black horizontal stripes, with three five-pointed stars in green in the center of the white stripe. In 1991 the phrase *Allahu Akbar* ("God is Great") was added in green Arabic script—*Allahu* to the right of the middle star and *Akbar* to the left of the middle star.

**ANTHEM:** *Al-Salaam al-Jumhuri* (*Salute of the Republic*).

**MONETARY UNIT:** The Iraqi dinar (ID) is a paper currency of 1,000 fils. There are coins of 1, 5, 10, 25, 50, 100, and 250 fils, and notes of 250 and 500 fils and 1, 5, 10, 50, and 100 dinars. 1ID = \$0.00068 (or \$1 = ID1,475) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but weights and measures in general use vary, especially in domestic transactions. The unit of land is the dunam, which is equivalent to approximately 0.25 hectare (0.62 acre).

**HOLIDAYS:** New Year's Day, 1 January; Army Day, 6 January; 14th Ramadan Revolution Day, 8 February; Declaration of the Republic, 14 July; and Peaceful Revolution Day, 17 July. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha, Milad an-Nabi, and Islamic New Year.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Present-day Iraq, comprising an area of 437,072 sq km (168,754 sq mi), corresponds roughly to the former Turkish provinces of Baghdād, Al Mawşil (Mosul), and Al Başrah (Basra). Comparatively, the area occupied by Iraq is slightly more than twice the size of the state of Idaho. It extends 984 km (611 mi) SSE–NNW and 730 km (454 mi) ENE–WSW. Iraq is bordered on the N by Turkey, on the E by Iran, on the SE by the Persian Gulf and Kuwait, on the S by Saudi Arabia, on the W by Jordan, and on the NW by Syria, with a total land boundary length of 3,650 km (2,268 mi) and a coastline of 58 km (36 mi).

Iraq's capital city, Baghdād, is located in the east central part of the country.

## <sup>2</sup> TOPOGRAPHY

Iraq is divided into three distinct zones: the desert in the west and southwest; the plains; and the highlands in the northeast, which rise to 3,000 m (10,000 ft) or more. The desert is an upland region with altitudes of 600 to 900 m (2,000–3,000 ft) between Damascus in Syria and Ar-Rutbah in Iraq, but declines gently toward the Euphrates (Al-Furāt) River. The water supply comes from wells and wadis that at times carry torrential floods and that retain the winter rains.

Dominated by the river systems of the Tigris (Dijlah) and Euphrates (Al-Furāt), the plains area is composed of two regions divided by a ridge, some 75 m (250 ft) above the flood plain, between Ar Ramādi and a point south of Baghdād that marks the prehistoric coastline of the Persian Gulf. The lower valley, built up by the silt the two rivers carry, consists of marshland, crisscrossed by drainage channels. At Qarmat 'Ali, just above Al Başrah, the two rivers combine and form the Shatt al Arab, a broad waterway

separating Iraq and Iran. The sources of the Euphrates and Tigris are in the Armenian Plateau. The Euphrates receives its main tributaries before entering Iraq, while the Tigris receives several streams on the eastern bank within the country.

## <sup>3</sup> CLIMATE

Under the influence of the monsoons, Iraq in summer has a constant northwesterly wind (shamal), while in winter a strong southeasterly air current (sharqi) develops. The intensely hot and dry summers last from May to October, and during the hottest time of the day—often reaching 49°C (120°F) in the shade—people take refuge in underground shelters. Winters, lasting from December to March, are damp and comparatively cold, with temperatures averaging about 10°C (50°F). Spring and autumn are brief transition periods. Normally, no rain falls from the end of May to the end of September. With annual rainfall of less than 38 cm (15 in), agriculture is dependent on irrigation.

## <sup>4</sup> FLORA AND FAUNA

In the lower regions of the Tigris (Dijlah) and Euphrates (Al-Furāt) and in the alluvial plains, papyrus, lotus, and tall reeds form a thick underbrush; willow, poplar, and alder trees abound. On the upper and middle Euphrates (Al-Furāt), the licorice bush yields a juice that is extracted for commercial purposes; another bush growing wild in the semiarid steppe or desert yields gum tragacanth for pharmaceutical use. In the higher Zagros Mountains grows the valonia oak, the bark of which is used for tanning leather. About 30 million date palms produce one of Iraq's most important exports.

Wild animals include the hyena, jackal, fox, gazelle, antelope, jerboa, mole, porcupine, desert hare, and bat. Beaver, wild ass, and ostrich are rare. Wild ducks, geese, and partridge are the game

birds. Vultures, owls, and ravens live near the Euphrates. Falcons are trained for hunting. As of 2002, there were at least 81 species of mammals and 140 species of birds throughout the country.

## 5 ENVIRONMENT

Three major armed conflicts since 1980 have had a significant negative effect on the nation's environment. Chemical weapons deployed at various locations along the Iran-Iraq border during the 1980–88 war killed thousands of people. During the 1991 Gulf War, coalition forces initiated a massive air campaign that destroyed nuclear, biological, and chemical facilities, causing toxic agents to seep into the air, soil, and waterways. Electrical plants, oil facilities, and water and sewage treatment plants were heavily damaged in both the 1991 and 2003 conflicts, contributing increased levels of air, water, and soil pollution to an already distressed environment. Plus, the Iraqi government's tactic of setting oil fires to ward off coalition forces set a broad range of toxic chemicals into the air and threatened many of the marshland ecosystems of the Tigris (Dijlah)–Euphrates (Al-Furāt) river basin. Although the full environmental impact of the conflicts had not been assessed as of 2006, it was clear that the new Iraqi government was facing several challenges in restoring basic services of power, water, and sanitation to the population, as well as in addressing issues of environmental renewal.

In 2000, only about 1.8% of the total land area was forested. Desertification has long been a problem in the hot, dry climate. Salinization and soil erosion caused by river basin flooding has affected otherwise fertile agricultural lands. In 2003, there were no protected lands in the country. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 9 types of mammals, 18 species of birds, 2 types of reptiles, 1 species of amphibian, 3 species of fish, and 2 species of invertebrates. Threatened species include the black vulture, the imperial eagle, the wild goat, the striped hyena, and the sand cat. The Saudi gazelle has become extinct.

## 6 POPULATION

The population of Iraq in 2005 was estimated by the United Nations (UN) at 28,807,000, which placed it at number 39 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 44,664,000. The population density was 66 per sq km (170 per sq mi), with Mesopotamia the most densely populated region.

The UN estimated that 68% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.52%. The capital city, Baghdad, had a population of 5,620,000 in that year. Other major cities and their estimated populations included Arbil, 2,368,000, and Al Mawṣil, 1,236,000.

## 7 MIGRATION

Immigration into Iraq was limited until the beginning of the 1970s. However, the rise in oil prices and the increase of oil ex-

ports, as well as extensive public and private spending in the mid-1970s, created a market for foreign labor. The result was a stream of foreign (mainly Egyptian) workers, whose number may have risen as high as 1,600,000 before the Gulf War. During the Iran–Iraq war, many Egyptians worked in the public sector, filling a gap left by civil servants, farmers, and other workers who were fighting at the front. A number of Iraqis, mainly from southern Iraq and influenced by family ties and higher wages, migrated to Saudi Arabia and Kuwait. To weaken local support in the north for Kurdish rebels, the government forced tens of thousands of Kurds to resettle in the south; in September 1987, a Western diplomat in Baghdad claimed that at least 500 Kurdish villages had been razed and 100,000 to 500,000 Kurds relocated.

In 1991 some 1.5 million Iraqis fled the country for Turkey or Iran to escape Saddam Hussein's increasingly repressive rule, but fewer than 100,000 remained abroad as of 2005. Most of the refugees were Kurds who later resettled in areas in Iraq not controlled by the government. In September and October of 1996, around 65,000 Iraqi Kurds fled to Iran due to internal fighting between the Iraqi Kurds.

As of 1999, the United Nations High Commissioner for Refugees (UNHCR) assisted 31,400 refugees in Iraq. Of these, some 19,000 were Iranian Kurds and 11,300 were Turkish Kurds. In 2004, Iraq had 241,403 refugees, 1,353 of these were asylum seekers and 193,990 returned refugees. Some 22,000 refugees were from the Occupied Palestinian Territory, 13,353 from Turkey, and 10,230 from Iran. Nearly 350,000 Iraqis were refugees themselves in 11 countries: 150,196 in Iran, 73,489 in Germany, and more than 23,000 each in Sweden and the United Kingdom. Iraq's asylum seekers in 2004 were from Iran. However, some 22,000 Iraqis sought asylum in 24 countries: 6,510 in Jordan, 5,351 in Sweden, 4,496 in Syria, some 2,000 each in Germany and the Netherlands, and over 1,000 each in Greece and Switzerland. Also in 2004, Iraq had 900,000 internally displaced persons.

In 2005, the net migration rate was estimated as zero migrants per 1,000 population.

## 8 ETHNIC GROUPS

Arabs constitute about 75–80% of the total population. The Kurds, an Islamic non-Arab people, are the largest and most important minority group, constituting about 15–20%. A seminomadic pastoral people, the Kurds live in the northeastern Zagros Mountains, mostly in isolated villages in the mountain valleys near Turkey and Iran. Kurdish opposition to Iraqi political dominance has occasioned violent clashes with government forces. Other minorities (5%) include Turkomans, living in the northeast; Yazidis, mostly in the Sinjar Mountains; Assyrians, mainly in the cities and northeastern rural areas; and Armenians.

## 9 LANGUAGES

Arabic is the national language and is the mother tongue of an estimated 79% of the population. Kurdish—the official language in Kurdish regions—or a dialect of it, is spoken by the Kurds and Yazidis. Aramaic, the ancient Syriac dialect, is retained by the As-

syrians. The Turkomans speak a Turkic dialect. Armenian is also spoken.

## 10 RELIGIONS

Islam is the national religion of Iraq, adhered to by some 97% of the population. Though the interim constitution provided for freedom of religion, that right is restricted by the government. About 60–65% of Muslims belong to the Shia sect and 32–37% to the Sunni sect. Traditionally, the Shia majority has been governed and generally oppressed by members of the Sunni minority. There are also some syncretic Muslim groups, such as the Yazidis, who consider Satan a fallen angel who will one day be reconciled with God. They propitiate him in their rites and regard the Old and New Testaments, as well as the Koran (Quran), as sacred.

About 3% of the population are adherents to Christianity and other religions. The Assyrians (who are not descended from the ancient Assyrians) are Nestorians. In the 19th century, under the influence of Roman Catholic missions, Christian Chaldeans joined the Uniate churches, which are in communion with Rome; their patriarch has his seat in Al Mawṣil. The Sabaeans, or Mandaeans, are often called Christians of St. John, but their religious belief and their liturgy contain elements of many creeds, including some of pre-Christian Oriental origin. Since baptism is their main ritual, they always dwell near water and are concentrated on the riverbanks south of Baghdād. There are a small number of Jews.

## 11 TRANSPORTATION

Major cities, towns, and villages are connected by a modern network of highways and roads, which have made old caravan routes extinct. The city of Baghdād has been reshaped by the development of expressways through the city and by passes built since the 1970s. By 2002, Iraq had 45,550 km (28,304 mi) of roads, of which 38,400 km (23,861 mi) were paved. There were some 747,530 cars and 130,275 commercial vehicles in use as of 2003.

Railroads are owned and operated by the Iraqi State Railways Administration. A standard-gauge railroad connects Iraq with Jordan and Syria, and nearly all the old meter-gauge line connecting Arbil in the north with Al Baṣrah, by way of Kirkūk and Baghdād, has been replaced. In 2004, there were about 2,200 km (1,368 mi) of railway lines, all of it standard gauge.

Iraq had an estimated 111 airports in 2004, down from 150 in 2002. As of 2005, a total of 78 had paved runways, and there were 8 heliports. However, an unknown number of runways were damaged during the March–April 2003 war. Baghdād, Al Baṣrah, and Al Mawṣil have international airports. Iraq Airways is the state-owned carrier; in the 1980s, its international flights landed only at night because of the Iraq-Iran war. The war also virtually closed Iraq's main port of Al Baṣrah and the new port of Umm Qasr on the Persian Gulf. Although Iraq had 5,275 km (3,281 mi) of inland waterways as of 2004, not all were navigable. Of those that were navigable, the Euphrates River (Al Furāt—2,815 km or 1,864 mi), the Tigris River (Dijlah—1,895 km or 1,178 mi) and the Third River (565 km or 351 mi) were the main waterways. In addition, the Shatt al Arab is usually navigable by maritime traffic for 130 km (81 mi). The Tigris and Euphrates have navigable sections for shallow-draft boats, and the Shatt al Al Baṣrah canal was navigable by shallow-draft craft before closing in 1991 because of the Gulf War. Expansion of Iraq's merchant marine, which totaled

1,470,000 gross registered tonnage (GRT) in 1980, was halted by the war with Iran and again by the Persian Gulf War. By 2005, the merchant marine totaled only 14 ships with 1,000 GRT or more, for a total capacity of 83,221 GRT.

## 12 HISTORY

Some of the earliest known human settlements have been found in present-day Iraq. Habitations, shrines, implements, and pottery found on various sites can be dated as early as the 5th millennium BC. Some sites bear names that are familiar from the Bible, which describes the region of the Tigris (Dijlah) and Euphrates (Al Furāt) rivers as the location of the Garden of Eden and the city of Ur as the birthplace of the patriarch Abraham. Scientific exploration and archaeological research have amplified the biblical accounts.

Recorded history in Mesopotamia (the ancient name of Iraq, particularly the area between the Tigris and Euphrates) begins with the Sumerians, who by the 4th millennium BC had established city-states. Records and accounts on clay tablets prove that they had a complex economic organization before 3200 BC. The reign of Sumer was challenged by King Sargon of Akkad (r.c.2350 BC); a Sumero-Akkadian culture continued in Erech (Tall al-Warka') and Ur (Tall al-Muqayyar) until it was superseded by the Amorites or Babylonians (about 1900 BC), with their capital at Babylon. The cultural height of Babylonian history is represented by Hammurabi (r.c.1792–c.1750 BC), who compiled a celebrated code of laws. After Babylon was destroyed by the Hittites about 1550 BC, the Hurrians established the Mitanni kingdom in the north for about 200 years, and the Kassites ruled for about 400 years in the south.

From Assur, their stronghold in the north, the Assyrians overran Mesopotamia about 1350 BC and established their capital at Nineveh (Ninawa). Assyrian supremacy was interrupted during the 11th and 10th centuries BC by the Aramaeans, whose language, Aramaic, became a common language in the eastern Mediterranean area in later times. Assyrian power was finally crushed by the Chaldeans or Neo-Babylonians, who, in alliance with the Medes in Persia, destroyed Nineveh in 612 BC. Nebuchadnezzar II (r.c.605–c.560 BC) rebuilt the city-state of Babylon, but it fell to the Persians, under Cyrus of the Achaemenid dynasty, in 539 BC. Under his son Cambyses II, the Persian Empire extended from the Oxus (Amu Darya) River to the Mediterranean, with its center in Mesopotamia. Its might, in turn, was challenged by the Greeks. Led by the Macedonian conqueror Alexander the Great, they defeated the Persians by 327 BC and penetrated deep into Persian lands. The Seleucids, Alexander's successors in Syria, Mesopotamia, and Persia, built their capital, Seleucia, on the Tigris, just south of Baghdād. They had to yield power to the Parthians, who conquered Mesopotamia in 138 BC.

The Arabs conquered Iraq in AD 637. For a century, under the "Orthodox" and the Umayyad caliphs, Iraq remained a province of the Islamic Empire, but the 'Abbasids (750–1258) made it the focus of their power. In their new capital, Baghdād, their most illustrious member, Harun al-Rashid (ar-Rashid, r.786–809), became, through the Arabian Nights, a legend for all time. Under Harun and his son Al-Ma'mun, Baghdād was the center of brilliant intellectual and cultural life. Two centuries later, the Seljuk vizier Nizam al-Mulk established the famous Nizamiyah Universi-

ty, one of whose professors was the philosopher Al-Ghazali (Ghazel, d.1111). A Mongol invasion in the early 13th century ended Iraq's flourishing economy and culture. In 1258, Genghis Khan's grandson Hulagu sacked Baghdad and destroyed the canal system on which the productivity of the region had depended. Timur, also known as Timur Lenk ("Timur the Lame") or Tamerlane, conquered Baghdad and Iraq in 1393. Meanwhile, the Ottoman Turks had established themselves in Asia Minor and, by capturing Cairo (1517), their sultans claimed legitimate succession to the caliphate. In 1534, Süleyman the Magnificent conquered Baghdad and, except for a short period of Persian control in the 17th century, Iraq remained an Ottoman province until World War I.

Late in 1914, the Ottoman Empire sided with the Central Powers, and a British expeditionary force landed in Iraq and occupied Al Başrah. The long campaign that followed ended in 1918, when the whole of Iraq fell under British military occupation. The collapse of the Ottoman Empire stimulated Iraqi hopes for freedom and independence, but in 1920, Iraq was declared a League of Nations mandate under UK administration. Riots and revolts led to the establishment of an Iraqi provisional government in October 1920. On 23 August 1921, Faisal I (Faysal), the son of Sharif Hussein (Husayn ibn-'Ali) of Mecca, became king of Iraq. In successive stages, the last of which was a treaty of preferential alliance with the United Kingdom (June 1930), Iraq gained independence in 1932 and was admitted to membership in the League of Nations.

Faisal died in 1933, and his son and successor, Ghazi, was killed in an accident in 1939. Until the accession to the throne of Faisal II, on attaining his majority in 1953, his uncle 'Abdul Ilah, Ghazi's cousin, acted as regent. On 14 July 1958, the army rebelled under the leadership of Gen. 'Abd al- Karim al-Qasim (Kassim). Faisal II, Crown Prince 'Abdul Ilah, and Prime Minister Nuri al-Sa'id (as-Sa'id) were killed. The monarchy was abolished, and a republic established. Iraq left the anticommunist Baghdad Pact, which the monarchy had joined in 1955. An agrarian reform law broke up the great landholdings of feudal leaders, and a new economic development program emphasized industrialization. In spite of some opposition from original supporters and political opponents, tribal uprisings, and several attempts at assassination, Qasim managed to remain the head of Iraq for four and a half years. On 9 February 1963, however, a military *junta*, led by Col. 'Abd as-Salam Muhammad 'Arif, overthrew his regime and executed Qasim.

Since 1961, Iraq's Kurdish minority has frequently opposed with violence attempts by Baghdad to impose authority over its regions. In an attempt to cope with this opposition, the Bakr government passed a constitutional amendment in July 1970 granting limited political, economic, and cultural autonomy to the Kurdish regions. But in March 1974, Kurdish insurgents, known as the Pesh Merga, again mounted a revolt, with Iranian military support. The Iraqi army countered with a major offensive. On 6 March 1975, Iraq and Iran concluded an agreement by which Iran renounced support for the Kurds and Iraq agreed to share sovereignty over the Shatt al Arab estuary. The new regime followed a policy based on neutralism and aimed to cooperate with Syria and Egypt and to improve relations with Turkey and Iran. These policies were continued after 'Arif was killed in an airplane crash in 1966 and was succeeded by his brother, 'Abd ar-Rahman 'Arif. This regime, however, was overthrown in July 1968, when Gen. (later Marshal) Ah-

mad Hasan al-Bakr, heading a section of the Ba'ath Party, staged a coup and established a new government with himself as president. In the 1970s, the Ba'ath regime focused increasingly on economic problems, nationalizing the petroleum industry in 1972-73 and allocating large sums for capital development. Bakr resigned in July 1979 and was followed as president by his chosen successor, Saddam Hussein (Husayn) al-Takriti.

Tensions between Iraq and Iran rose after the Iranian revolution of 1979 and the accession to power of Saddam Hussein. In September 1980, Iraq sought to take advantage of the turmoil in Iran by suddenly canceling the 1975 agreement and mounting a full-scale invasion. Iraqi soldiers seized key points in the Khuzistan region of southwestern Iran, captured the major southern city of Khorramshahr, and besieged Abadan, destroying its large oil refinery. The Iraqi army then took up defensive positions, a tactic that gave the demoralized Iranian forces time to regroup and launch a slow but successful counterattack that retook Khuzistan by May 1982. Iraq then sought peace and in June withdrew from Iranian areas it had occupied. Iran's response was to launch major offensives aimed at the oil port of Al Başrah. Entrenched in well-prepared positions on their own territory, Iraqi soldiers repelled the attacks, inflicting heavy losses, and the war ground to a stalemate, with tens of thousands of casualties on each side.

Attempts by the UN and by other Arab states to mediate the conflict were unsuccessful; in the later stages of the war, Iraq accepted but Iran regularly rejected proposals for a compromise peace. Although most Arab states supported Iraq, and the Gulf oil states helped finance Iraqi military equipment, the war had a destabilizing effect both on the national economy and on the ruling Ba'ath Party. France also aided Iraq with credits to buy advanced weapons (notably, Super Étendard fighters and Exocet missiles), and it provided the technology for Iraq to construct the Osirak nuclear reactor near Baghdad. (In June 1981, this installation was destroyed in a bombing raid by Israel, which claimed that the facility would be used to produce nuclear weapons, a charge Iraq denied.) Other Western countries provided supplies, financing, and intelligence to Iraq but denied the same to Iran.

In February 1986, the Iranians made their biggest gain in the war, crossing the Shatt al Arab and capturing Fao (Al-Faw) on the southernmost tip of land in Iraq. In early 1987, they seized several islands in the Shatt al Arab opposite Al Başrah. The war soon spread to Persian Gulf shipping, as both sides attacked oil tankers and ships transporting oil, goods, and arms to the belligerents or their supporters.

The war ended on 20 August 1988 after Iran accepted a UN cease-fire proposal on 18 July. Having suffered enormous casualties and physical damage plus a massive debt burden, Baghdad began the postwar process of reconstruction. Before and after the war, there were scores to settle, primarily against the Kurds, some of whom had helped Iran and were the victims of Iraqi poison gas attacks. Many border villages were demolished and their Kurdish populations relocated.

When Iraq's wartime allies seemed unwilling to ease financial terms or keep oil prices high and questioned Iraq's rearmament efforts, Saddam Hussein turned bitterly against them. Kuwait was the principal target. After threats and troop movements, Iraq reasserted its claim (which dated from the days of the monarchy) to that country and on 2 August 1990, invaded and occupied it. Sad-



LOCATION: 29° to 37°30' N; 39° to 48° E. BOUNDARY LENGTHS: Turkey, 305 kilometers (190 miles); Iran, 1,458 kilometers (906 miles); Persian Gulf coastline, 19 kilometers (12 miles); Kuwait, 254 kilometers (158 miles); Saudi Arabia, 895 kilometers (556 miles); Jordan, 147 kilometers (91 miles); Syria, 603 kilometers (375 miles).

TERRITORIAL SEA LIMIT: 12 miles.

dam Hussein was unflinching in the face of various peace proposals, economic sanctions, and the threatening buildup of coalition forces led by the United States.

A devastating air war led by the United States began on 17 January 1991 followed by ground attack on 24 February. Iraq was

defeated, but not occupied. Despite vast destruction and several hundred thousand casualties, Saddam's regime remained firmly in control. It moved to crush uprisings from the Shia in the south and Kurds in the north. To protect those minorities, the United States and its allies imposed no-fly zones that gave the Kurds vir-

tually an independent state, but afforded much less defense for the rebellious Arabs in the south whose protecting marshes were being drained by Baghdad. There were several clashes between allied and Iraqi forces in both areas.

In 1996, in an effort to boost morale in Iraq and bolster its image abroad, Iraq conducted its first parliamentary elections since 1989. However, only candidates loyal to Saddam Hussein were allowed to run. A government screening committee reviewed and approved all 689 candidates, who either belonged to Hussein's Ba'ath Party or were independents that supported the 1968 coup that brought the party to power.

The Iraqi economy continued to decline throughout the 1990s, with the continuation of the UN sanctions, imposed in 1990, which prohibited Iraq from selling oil on the global market in major transactions and froze Iraqi assets overseas. The deteriorating living conditions imposed on the Iraqi population prompted consideration of emergency measures. In 1996 talks were held between Iraq and the United Nations on a proposed "oil for food" humanitarian program that would permit Iraq to sell a limited quantity of oil in order to purchase food and basic supplies for Iraqi citizens. The United States and Britain wanted money earmarked for Iraq's Kurdish provinces funneled through the existing United Nations assistance program there. They also raised the issue of equity with respect to Iraq's existing rationing system. In December 1996, the UN agreed to allow Iraq to export \$2 billion in oil to buy food and medical supplies. Iraq began receiving 400,000 tons of wheat in the spring of 1997.

Since the end of the Gulf War, Iraq had demonstrated cooperation with UNSCOM, the special UN commission charged with monitoring weapons of mass destruction. However, Saddam Hussein refused to dismantle his country's biological weapons and had stopped cooperating with UNSCOM by August 1997, leading to increasing tension and a US military buildup in the region by early 1998. Personal intervention by UN Secretary General Kofi Annan helped diffuse the situation temporarily. However, renewed disagreements arose in the latter half of the year, ultimately leading to a December bombing campaign (Operation Desert Fox) by US and UK forces, with the goal of crippling Iraq's weapons capabilities. In late 1998 the US Congress also approved funding for Iraqi opposition groups, in hopes of toppling Saddam Hussein politically from within.

In 1999 the oil for food program was expanded to allow for the sale of \$5.25 billion in oil by Iraq over a six-month period to buy goods and medicine. By 2000, most observers agreed that the decade-long UN sanctions, while impoverishing Iraq and threatening its population with a major humanitarian crisis, had failed in their goal of weakening Saddam's hold on power.

The situation in Iraq intensified in 2002. In his January 2002 State of the Union Address, US president George W. Bush labeled Iraq, along with Iran and North Korea, part of an "axis of evil"—states that threatened the world with weapons of mass destruction and sponsored terrorism. Throughout 2002, the United States, in partnership with the United Kingdom, brought the issue of the need to disarm the Iraqi regime of weapons of mass destruction (WMD) to the forefront of international attention. On 8 November 2002, the UN Security Council unanimously approved Resolution 1441, calling upon Iraq to disarm itself of all biological, chemical, and nuclear weapons and weapons capabilities, to allow

for the immediate return of UN and International Atomic Energy Agency (IAEA) weapons inspectors (they had been expelled from the country in 1998), and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. UN and IAEA weapons inspectors returned to Iraq, but the United States and the United Kingdom were neither satisfied with their progress nor with Iraq's compliance with the inspectors. The United States and the United Kingdom began a military buildup in the Persian Gulf region (eventually 250,000 US and 45,000 British troops would be stationed there), and pressed the UN Security Council to issue another resolution authorizing the use of force to disarm the Iraqi regime. This move was met by stiff opposition from France, Germany, and Russia (all members of the Security Council at the time, with France and Russia being permanent members with veto power); the diplomatic impasse ended on 17 March 2003, when the United States, the United Kingdom, and Spain withdrew from the Security Council the resolution they had submitted that February that would have authorized the use of military force. War began on 19 March 2003, and by early April, the Iraqi regime had fallen.

The postwar period proved to be a difficult one for the United States and the United Kingdom, as their troops attempted to prevent looting and violence, to disarm Iraqis, and to begin the process of reconstruction. Especially contentious was the issue of the formation of a new Iraqi government: Iraqi exiles returned to the country, attempting to take up positions of power; Kurds demanded representation in a new political structure; and Shias (who make up some 60% of the Iraqi population) agitated for recognition and power. The United States initially installed retired US Army Lt. Gen. Jay Garner as head of the Office of Reconstruction and Humanitarian Assistance to oversee Iraq's civil administration while a new government was to be installed. Garner was replaced by former US State Department official L. Paul Bremer III in May 2003 in what some called an effort to put a civilian face on the reconstruction effort. Many Iraqi political figures in June labeled the allied campaign to remove the Saddam Hussein regime more like an "occupation" than a "liberation," and called for elections to a national assembly that would produce a new constitution for the country.

On 13 December 2003, Saddam Hussein was found alive hiding in a hole 2.5-m (8-ft) deep near his hometown of Tikrit. He was taken into custody, and beginning in October 2005, was put on trial for the killing of 143 Shias from Dujail, in retaliation for a failed assassination attempt in 1982.

In June 2004, the United States disbanded the Coalition Provisional Authority led by Bremer and transferred sovereignty back to Iraq in the form of an interim government, headed by Prime Minister Iyad Allawi. On 30 January 2005, Iraqi voters elected a 275-member Transnational National Assembly. The Assembly was given the tasks of serving as Iraq's national legislature and forming a constitution. In April 2005, the National Assembly appointed Jalal Talabani, a prominent Kurdish leader, president. Ibrahim al-Jaafari, a Shia, whose United Iraq Alliance Party won the most votes in the January elections, was named prime minister. A constitution was written and presented to the people in a national referendum held on 15 October 2005: more than 63% of eligible voters turned out to vote. The constitution passed with a 78% majority, although three provinces voted against it, two of them by a two-

thirds majority. Under election rules, had two-thirds of voters in each of the three provinces voted against the constitution, it would have failed. The vote was sharply divided along ethnic and sectarian lines: Shias and Kurds generally supported the document. As it was, the constitution was largely drafted by Shias and Kurds, who together make up some 80% of the population. The Iraqi insurgency is largely composed of Sunni Arabs.

On 15 December 2005, the country turned out in new parliamentary elections to elect a permanent government. Turnout was high; 10.9 million out of 15.6 million registered voters cast ballots across the country. Some fraud was detected, but in general the elections were held in a free and democratic manner. Official results were announced in January 2006, showing that the Shia and Kurdish coalitions once again dominated the voting, although they came up short of the two-thirds majority needed to form a government of their own. Sunni Arab parties won 58 of the 275 seats, which was the second-largest bloc of seats, giving them a much larger voice than they had in the January 2005 elections. In all, four main coalitions won 250 of the 275 seats in the parliament, which was elected for a term lasting until 2009. Of the remaining 25 seats, most were won by smaller groups with ideological or geographic links to the winning coalitions. The United Iraqi Alliance, the alliance of the main Shia parties, took 128 seats. The Kurdistan Alliance, an alliance of the primary Kurdish parties, won 53 seats. The Iraqi Consensus Front, an alliance of predominantly Sunni parties, took 44 seats, and the Iraqi List, an alliance of the main secular parties, won 25 seats.

Although the election held the fragile promise of a stable government, by the end of February 2006, sectarian violence had reached new levels. On 22 February 2006, Sunni insurgents bombed the important Shia Askariya Shrine in Sunni-dominated Sāmarrā; the shrine's gold dome was reduced to rubble by explosives. Thousands of Shias took to the streets in both peaceful demonstrations and retaliatory attacks: the sectarian violence that ensued left at least 138 people dead in two days, and political negotiations over the new government in ruins. Civil war was not an unthinkable future for Iraq as of mid-2006.

### **13 GOVERNMENT**

The coup d'état of 14 July 1958 established an autocratic regime headed by the military. Until his execution in February 1963, 'Abd al-Karim al-Qasim ruled Iraq, with a council of state and a cabinet. On 27 July 1958, a fortnight after taking over, Qasim's regime issued a provisional constitution, which has been repeatedly amended to accommodate changes in the status of the Kurdish regions. Since the 1968 coup, the Ba'ath Party ruled Iraq by means of the Revolutionary Command Council, "the supreme governing body of the state," which selected the president and a cabinet composed of military and civilian leaders. The president (Saddam Hussein from 1979–2003) served as chairman of the Revolutionary Command Council, which exercised both executive and legislative powers by decree. He was also prime minister, commander-in-chief of the armed forces, and secretary-general of the Ba'ath Party. A national assembly of 250 members that was elected by universal suffrage in 1980, 1984, 1989, 1996, and 2000, had little

real power. Most senior officials were relatives or close associates of Saddam Hussein; nevertheless, their job security was not great.

The precarious nature of working in the regime of Saddam Hussein, even for relatives, was made evident in 1995 when two of his sons-in-law defected to Jordan along with President Hussein's daughters. The defection was widely reported in the international media and considered a great embarrassment to the regime as well as a strong indicator of how brutal and repressive its machinations were. After a promise of amnesty was delivered to the defectors by Iraq, the men returned and were executed shortly after crossing the border into Iraq.

In the aftermath of the Iraq war which began in March 2003, Iraq was effectively ruled by the US-installed Office of Reconstruction and Humanitarian Assistance, and then by a Coalition Provisional Authority. In December 2003, Saddam Hussein was captured and brought into US custody; beginning in October 2005, he went on trial for the killing of 143 Shias from Dujail. In June 2004, sovereignty was transferred back to Iraq and an interim Iraqi government was installed, led by Prime Minister Iyad Allawi. On 30 January 2005, Iraqi voters elected a 275-member Transnational National Assembly. In April 2005, the National Assembly appointed Jalal Talabani, a prominent Kurdish leader, president. Ibrahim al-Jaafari, a Shia, was named prime minister. A constitution was written and presented to the people in a national referendum held on 15 October 2005: more than 63% of eligible voters turned out to vote. The constitution passed with a 78% majority.

Under the 2005 constitution, the government is broken down into four branches: legislative, executive, judicial, and independent associations. In the legislative branch, two councils were created: a Council of Representatives, the main law-making body, and the Council of Union, whose primary task is to examine bills related to regions and provinces. The executive branch is composed of a president, who is not directly elected and whose powers are primarily ceremonial; a deputy president; a prime minister, who as head of government is appointed by the president from the leader of the majority party in the Council of Representatives; and a cabinet chosen by the prime minister. The judiciary is independent and composed of the following: a Supreme Judiciary Council; a Supreme Federal Court; a Federal Cassation Court; a Prosecutor's Office; a Judiciary Inspection Dept.; and other federal courts organized by law. The "fourth branch" is that of independent associations whose actions are subject to legislation and supervision by the other branches. They include: a Supreme Commission for Human Rights; a Supreme Independent Commission for Elections; an Integrity Agency; an Iraqi Central Bank; a Financial Inspection Office; a Media and Communications Agency; Offices of (religious) Endowments; Institution of the Martyrs; and the Federal Public Service Council.

On 15 December 2005, new parliamentary elections were held to elect a permanent government. Sunni Arab parties won 58 of the 275 seats in the Council of Representatives, which was the second-largest bloc of seats. In all, four main coalitions won 250 of the 275 seats in the parliament, which will lead the country until 2009. Of the remaining 25 seats, most were won by smaller groups with ideological or geographic links to the winning coalitions. The United Iraqi Alliance, the alliance of the main Shia parties, took 128 seats. The Kurdistan Alliance, an alliance of the primary Kurdish parties, won 53 seats. The Iraqi Consensus Front, an alli-

ance of predominantly Sunni parties, took 44 seats, and the Iraqi List, an alliance of the main secular parties, won 25 seats.

## <sup>14</sup>POLITICAL PARTIES

Until 1945, political parties existed but were ineffective as political factors. In 1946, five new parties were founded, including one that was Socialist (Al-Hizb al-Watani al-Dimuqrati, or the National Democratic Party), one avowedly close to communism (Ash-Sha'b, or the People's Party), and one purely reformist (Al-Ittihad al-Watani, or the National Union Party).

The response to these parties alarmed the conservative politicians. The Palestine War (1948) provided the pretext for suppression of the Sha'b and Ittihad parties. Only the National Democratic Party functioned uninterruptedly; in 1950, with the lifting of martial law, the others resumed work. In 1949, Nuri as-Sa'id founded the Constitutional Union Party (Al-Ittihad ad-Dusturi), with a pro-Western, liberal reform program to attract both the old and the young generations. In opposition, Salih Jabr, a former partisan of Nuri's turned rival, founded the Nation's Socialist Party (Al-Ummah al-Ishtiraki), which advocated a democratic and nationalistic, pro-Western and pan-Arab policy. In 1954, however, Sa'id dissolved all parties, including his own Constitutional Union Party, on the ground that they had resorted to violence during the elections of that year.

After the coup of 1958, parties "voluntarily" discontinued their activities. In January 1960, Premier Qasim issued a new law allowing political parties to operate again. Meanwhile, the Ba'athists, who first gained strength in Syria in the 1950s as a pan-Arab movement with strong nationalist and socialist leanings, had attracted a following among elements of the Syrian military. In February 1963, Qasim was overthrown and executed by officers affiliated with a conservative wing of Iraq's Ba'ath movement. In November, a second coup was attempted by Ba'athist extremists from the left, who acted with complicity of the ruling Syrian wing of the party. With the 1968 coup, rightist elements of the Ba'ath Party were installed in prominent positions by Gen. Bakr. Since then, the Ba'athists, organized as the Arab Ba'ath Socialist Party, were the ruling political group in Iraq. In the national assembly elections of 1980, the Ba'athists won more than 75% of the seats at stake; in the 1984 elections, they won 73% of the seats. Elections were again held in March 1996, with only Ba'athists or independent supporters of Saddam Hussein allowed to run for seats in the Assembly. Altogether, 220 seats were contested by 689 candidates. Only Ba'ath Party members and supporters of the Saddam Hussein regime were allowed to run in the March 2000 elections as well. In the 1990s and into the mid-2000s, most real party activity in Iraq involved the country's Kurdish minority, which had established a number of political groups, most of them in opposition to the central government.

In 1991, the regime issued a decree theoretically allowing the formation of other political parties, but which in fact prohibited parties not supportive of the regime. Under the 1991 edict, all political parties had to be based in Baghdad and all were prohibited from having ethnic or religious affiliations.

Outside of Iraq, ethnic, religious and political opposition groups came together to organize a common front against Saddam Hussein, but they achieved very little until 2003. The Shia al Dawa Party was brutally suppressed by Saddam before the Iran-Iraq war.

In the aftermath of the 2003 war, certain Shia clerics, including Grand Ayatollah Ali al-Sistani and Ayatollah Muhammad Bakr al-Hakim, emerged as political and religious leaders for the Shia community. In August 2003, al-Hakim was killed in a car bomb attack along with dozens of followers in the holy city of Najaf.

The two main Kurdish political parties as of 2003 were the Kurdistan Democratic Party (KDP), led by Massoud Barzani, and the Patriotic Union of Kurdistan (PUK), led by Jalal Talabani. Long rivals, the two parties were called upon to reconcile differences so as to provide for a viable future for Iraq's Kurds. The Iraqi National Congress, based in Salahuddin in northern Iraq and in London, was led by Ahmad Chalabi.

In the parliamentary elections for a permanent government that were held on 15 December 2005, four main coalitions won 250 of the 275 seats in the parliament. The United Iraqi Alliance, the alliance of the main Shia parties, took 128 seats. The Kurdistan Alliance, an alliance of the primary Kurdish parties, won 53 seats. The Iraqi Consensus Front, an alliance of predominantly Sunni parties, took 44 seats, and the Iraqi List, an alliance of the main secular parties, won 25 seats. The remaining 25 seats were held by smaller groups with ideological or geographic links to the winning coalitions.

## <sup>15</sup>LOCAL GOVERNMENT

Iraq until 2003 was divided into 18 provinces (three of which formed an autonomous Kurdish region), each headed by an appointed governor. Provinces were subdivided into districts, each under a deputy governor; a district consists of counties, the smallest units, each under a director. Towns and cities were administered by municipal councils led by mayors. Baghdad's municipality, the "governorate of the capital," under its mayor, or "guardian of the capital," served as a model municipality. A settlement reached with the Kurds in 1970 provided for Kurdish autonomy on the local level. In 1974, the provisional constitution was further amended to provide the Kurdistan region with an elected 80-member legislative council; elections were held in 1980 and 1986, but, in fact, the Iraqi army controlled Kurdistan until the imposition of a UN-approved protected zone in the north at the end of the Gulf War. In May 1992, Kurds held elections there for a new 100-member parliament for the quasi-independent region. This marked the only relatively free elections held in Iraq in several decades.

Local governing authority broke down following the fall of the Iraqi regime in April 2003. US and British troops were responsible for policing the country, and for restoring electricity, running water, sanitation, and other essential services. By 2006, however, sectarian violence was worsening, and the country looked as if it might be on the path to civil war.

Under the 2005 constitution, Iraq's federal system is made up of the capital of Baghdad, regions, decentralized provinces, and local administrations. The country's future regions are to be established from its current 18 governorates (provinces). Any single province, or group of provinces, is entitled to request that it be recognized as a region, with such a request being made by either two-thirds of the members of the provincial councils in the provinces involved or by one-tenth of the registered voters in the province(s) in question. Provinces that are unwilling or unable to join a region still enjoy enough autonomy and resources to enable them to manage their own internal affairs according to the principle of admin-

istrative decentralization. With the two parties' approval, federal government responsibilities may be delegated to the provinces, or vice versa. These decentralized provinces are headed by Provincial Governors, elected by Provincial Councils. The administrative levels within a province are defined, in descending order, as districts, counties and villages.

## **<sup>16</sup>JUDICIAL SYSTEM**

The court system until 2003 was made up of two distinct branches: a security component and a more conventional court system to handle other charges. There was no independence in the operation of the judiciary; the president could override any court decision.

The security courts had jurisdiction in all cases involving espionage, treason, political dissent, smuggling and currency exchange violations, and drug trafficking. The ordinary civil courts had jurisdiction over civil, commercial, and criminal cases except for those that fell under the jurisdiction of the religious courts. Courts of general jurisdiction were established at governorate headquarters and in the principal districts.

Magistrates' courts tried criminal cases in the first instance, but they could not try cases involving punishment of more than seven years in prison. Such cases were tried in courts of sessions that were also appellate instances for magistrates' courts. Each judicial district had courts of sessions presided over by a bench of three judges. There were no jury trials. Special courts to try national security cases were set up in 1965; verdicts of these courts could be appealed to the military supreme court. In other cases, the highest court of appeal was the court of cassation in Baghdad, with civil and criminal divisions. It was composed of at least 15 judges, including a president and two vice presidents.

For every court of first instance, there was a Shariah (Islamic) court that ruled on questions involving religious matters and personal status. Trials were public and defendants were entitled to free counsel in the case of indigents. The government protected certain groups from prosecution. A 1992 decree granted immunity from prosecution to members of the Ba'ath Party. A 1990 decree granted immunity to men who killed their mothers, daughters, and other female family members who had committed "immoral deeds" such as adultery and fornication.

Under the constitution ratified in 2005, the judiciary is independent and composed of the following: a Supreme Judiciary Council; a Supreme Federal Court; a Federal Cassation Court; a Prosecutor's Office; a Judiciary Inspection Dept.; and other federal courts organized by law. The Supreme Judiciary Council administers the judicial branch, nominates members of the courts and departments, and presents the judicial budget to the legislature. The Supreme Federal Court is the highest court in Iraq, oversees election results, and rules in the case of accusations against the president or prime minister. Private courts are banned.

## **<sup>17</sup>ARMED FORCES**

The Iraqi security forces in 2005 had 179,800 active personnel. The Army, including the National Guard, had an estimated 79,000 active personnel, followed by the Navy with an estimated 700 personnel and the Air Wing, which had an estimated 200 active members. In addition to the military forces, Iraq's security forces included an estimated 32,900 Ministry of Interior Forces and

67,000 active members of the Iraqi Police Service. Major naval units consisted of 10 patrol/coastal vessels operated by the Iraqi Coastal Defense Force. The Iraqi Air Wing was under the Department of Border Enforcement, and was equipped with 16 reconnaissance and six transport fixed wing aircraft, plus 36 support and 20 utility helicopters. As of 2005, there was no data available on defense spending by Iraq.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

Iraq is a charter member of the United Nations, having joined on 21 December 1945, and participates in ESCWA and several non-regional specialized agencies. A founding member of the Arab League, Iraq also participates in the Arab fund for Economic and Social Development, the Arab Bank for Economic Development in Africa, the Arab Monetary Fund, the Council of Arab Economic Unity, Organization of the Islamic Conference (OIC), G-19, G-77, OAPEC, and OPEC. Iraq holds observer status in the WTO.

Iraq has given both military and economic support to Arab parties in the conflict with Israel. The war with Iran preoccupied Iraq during the 1980s, and Iraq's relations with other countries in the Arab world have varied. During the 1980s, Iraq maintained friendly relations with some Western countries, notably France, a major arms supplier to Iraq.

In November 1984, diplomatic relations between Iraq and the United States were renewed after a break of 17 years, but were broken off again when Iraq invaded Kuwait in August of 1990. The United States and its allies launched an air war against Iraq after diplomatic efforts and economic sanctions failed to convince Iraq to leave Kuwait. Iraq's international standing deteriorated badly and the nation was placed under an international trade embargo. Iraq was attacked by US and British forces beginning on 19 March 2003, and the regime led by Saddam Hussein was defeated by those forces that April. In the postwar period, the country is undergoing reconstruction and the government is in transition. A Transitional National Assembly (TNA) was formed by direct democratic elections held on 30 January 2005. On 15 December 2005, a permanent 275-seat Council of Representatives was elected.

Iraq is a member of the Nonaligned Movement. In environmental cooperation, Iraq is part of the Nuclear Test Ban Treaty and the UN Convention on the Law of the Sea.

## **<sup>19</sup>ECONOMY**

In 1973, Iraqi oil revenue was \$1.8 billion. By 1978, oil revenues peaked at \$23.6 billion. In 2002, oil revenues were estimated at about \$15 billion. Oil production growth was forecast to be constrained by security problems and long-standing underinvestment over the period 2006–07, but modest increases in output were expected to improve real GDP growth.

GDP growth was in double digits from 1973 to 1980 with the exception of 1974, when it was 7.2%. It was from these lofty heights that the regime of Saddam Hussein launched two wars whose effects on the Iraqi economy, even aside from the tragic human costs, proved devastating. The Iraq-Iran War (1980–88) began with Iraq's attempt to seize control of the economically and strategically important Shatt al Arab from Iran, which the countries had agreed to divide in a treaty in 1975. Saddam miscalculated that Iran could be easily dismembered during its revolutionary upheavals, and when the war ended eight bloody years later,

the Shatt al Arab and all other border issues returned to the status quo antebellum, leaving Iraq with no material gain and a debt of over \$100 billion, much of it owed to Kuwait. Annual oil revenues for Iraq and Kuwait were roughly even—averaging about \$16 billion a year—but Kuwait, instead of spending on armaments, had invested sizeable amounts in the West, essentially doubling its returns. Kuwait refused to see the debts owed it by Iraq as money spent for its own defense, and insisted on being repaid, providing the economic trigger for Iraq's second disastrous foray—the invasion of Kuwait on 2 August 1990. For the first time the UN Security Council agreed to support collective action against an aggressive power and Iraqi forces were driven out of Kuwait in the first Gulf War in February 1991. The UN imposed comprehensive economic, financial, and military sanctions, placing the Iraqi economy under siege. Acting on its own, the United States also froze all Iraqi assets in the United States and barred all economic transactions between US citizens and Iraq. Many other countries imposed similar sanctions on top of the UN-imposed embargo. UN Security Council resolutions authorized the export of Iraqi crude oil worth up to \$1.6 billion over a limited time to finance humanitarian imports for the Iraqi people.

The effect of war in Kuwait and continuing economic sanctions reduced real GDP by at least 75% in 1991, on the basis of an 85% decline in oil production, and the destruction of the industrial and service sectors of the economy. Living standards deteriorated and the inflation rate reached 8,000% in 1992. Estimates for 1993 indicated that unemployment hovered around 50% and that inflation was as high as 1,000%. Because UN costs and reparations for Kuwait were taken out of permitted oil sales before being handed over to the Iraqi regime, the government's revenues were lower than total oil sales. The Organization of Arab Petroleum Exporting Countries (OAPEC) reported that Iraqi oil revenues at current prices were \$365 million in 1994, \$370 million in 1995 and \$680 million in 1996. After the first Gulf War Iraq refused to provide economic data to the UN or any other international organization, and all estimates therefore were subject to wide variability and questions of reliability. Uncertainty was increased by a flourishing black market that was responsible for an increasing share of domestic commerce. There were widespread expectations that the Hussein regime would soon fall from the weight of its disastrous political and economic miscalculations, but this did not happen, and by 1995 it had become apparent that the tight restrictions on oil sales were resulting in serious harm to the Iraqi people. The UN passed its first oil-for-food program (which the Iraqi regime refused to accept until 1996) allowing oil worth \$5.26 billion to be sold every six months, with strict controls over how the money was spent. OAPEC reported that Iraqi oil revenues were about \$4.6 billion in 1997 and \$6.8 billion in 1998. In December 1999 the UN Security Council lifted the limits on Iraq's oil production, which then rose from 550,000 billion barrels per day (bbl/d) in November 1996 to an average of about 2.6 million bbl/d during 2000. Real GDP growth fell by 5.7% in 2001 due to the slowdown in the world economy and lower oil prices.

By 2002, crude exports from Iraq had fallen below normal capacity (about 2 million bbl/d) to an average of 630,000 bbl/d. According to UN assessments, this low export level created a \$2.64 billion shortfall in the oil-for-food program. Low exports were blamed on illegal surcharges of about 15–45 cents per barrel being levied by Iraq from about December 2000, and the tactic of “retro-

active pricing” adopted by the United States and the United Kingdom in January 2001 to combat these surcharges. Both the surcharges and the retroactive pricing—whereby the price charged for Iraqi oil was revealed only after the sale, and then set at a level too high for a surcharge to be paid and still make a profit—raised the price and reduced demand for Iraqi oil. The concerns by the United States and the United Kingdom were that the surcharges were being used to fund a secret military build-up by Iraq. UN estimates are that from 1996 to 2002 the “oil-for-food” program generated about \$60 billion. The US government estimates that through smuggling and illegal surcharges the Iraqi government secured about \$6.6 billion from 1997 to 2001. On 14 May 2002, after Iraq had resumed oil exports, the UN Security Council approved a change in the oil-for-food program to add an extensive list of “dual-use” goods (goods that could be used for military as well as nonmilitary purposes) that Iraq could not purchase with its oil revenues.

On 16 October 2002, US president George W. Bush signed a resolution passed by the US Congress authorizing the use of force in Iraq. On 8 November 2002 the UN Security Council unanimously adopted Resolution 1441 demanding UN arms inspectors be given unconditional access to search anywhere in Iraq for banned weapons, and requiring a “accurate, full and complete” accounting of all of its weapons of mass destruction within 30 days. After failure to secure a second resolution from the UN Security Council in February 2003 explicitly supporting a military invasion of Iraq—all members of the Council were opposed except the United Kingdom—the United States and United Kingdom held to their intention to act without the UN. The US-led attack on Iraq was launched on 19 March 2003. Baghdad fell on 9 April 2003, and President Bush announced the end of major combat operations on 1 May 2003.

Sanctions against Iraq were lifted in May 2003, allowing reconstruction efforts to begin, but serious security problems arising from an Iraqi insurgency hampered the rebuilding effort. In 2003, real GDP growth stood at –21.8%, and the inflation rate was 29.3%. The “oil-for-food” program was phased out that May. A transitional government was elected in January 2005, and constitution-writing began. A referendum on the constitution was held in October 2005, with the constitution being approved overwhelmingly. Elections for a permanent government were held in December 2005. Iraq's unemployment rate in 2005–06 remained high (27–40%), but the overall Iraqi economy appeared to be improving somewhat. The continued sabotage of oil installations put a drag on the economy, however, but real GDP was forecast to grow at a rate of around 6% in 2006. In October 2003, a new Iraqi currency, the “new Iraqi dinar” was introduced, and by 2006 it had appreciated sharply. As of that date, Iraq had requested formal membership in the WTO. In November 2005, the World Bank approved a \$100 million loan (for education purposes) to Iraq. Iraq assumed a heavy debt burden during the Saddam Hussein years of some \$100–\$250 billion, if debts to Gulf states, Russia, and reparations payment claims stemming from the 1990 invasion of Kuwait are included. Iraq's oil export earnings were immune from legal proceedings, including debt collection, until the end of 2007. In 2004, the Paris Club of 19 creditor nations agreed to forgive up to 80% on \$42 billion worth of loans, but the relief was contingent upon Iraq reaching an economic stabilization program with the IMF.

The country's oil exports in 2005 were below 2004 levels. Oil production by 2006 had not returned to its prewar levels: it remained below 2 million barrels per day compared with a level of some 2.5 million barrels per day before the 2003 invasion. Persistent fuel shortages forced the government to raise the heavily subsidized price of gasoline in 2005. This sparked protests and rioting throughout Iraq. Oil exports for 2005 were 1.39 million barrels per day, down from 1.5 million barrels per day in 2004. The poor oil production figures were largely due to attacks on pumping and distribution facilities; death threats were also made to tanker drivers, which led to the closing of a refinery in northern Iraq. More than 75% of the country's GDP comes from oil. The high price of oil (more than \$63 per barrel in the first week of January 2006) mitigated the economic damage from lower production, and oil prices were forecast to remain high over the long term.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reported that in 2005 Iraq's gross domestic product (GDP) was estimated at \$94.1 billion. The per capita GDP was estimated at \$3,400. The annual growth rate of GDP was estimated at 2.4%. The average inflation rate in 2005 was 40%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. In 2004, it was estimated that agriculture accounted for 7.3% of GDP, industry 66.6%, and services 26.1%. More than \$33 billion in foreign aid was pledged for 2004–07.

## **21 LABOR**

In 2004, Iraq's labor force was estimated at 7.4 million; however, there was no data available as to its occupational breakdown. Unemployment in 2005 was estimated to fall within the 25–30% range. The Trade Union Organization Law of 1987 established a centralized trade union structure of committees linked to trade unions, which in turn are part of provincial trade union federations under the control of the Iraqi General Federation of Trade Unions, and ultimately are controlled by the ruling Ba'ath Party. Although workers are legally allowed to strike upon informing the Labor Ministry, no strike has been reported in over 20 years.

Child labor is strictly controlled and in many cases prohibited. The minimum working age is 14, although economic necessity and lack of government enforcement have increased the number of children of all ages that are employed. There is a 6-day, 48-hour workweek, although this does not apply to agricultural workers. Historically, working women have been accepted in Iraq, but the number of women in the workforce dramatically increased because of the prolonged war with Iran as well as the Persian Gulf War, as women replaced men in the labor market.

In many cases, rural labor and farmers employed in government projects get reasonable salaries and good housing, but small, independent farmers receive fewer benefits. Since 1958, the Iraqi government has passed a number of agrarian reform laws. As a general rule, however, the quality of life differs greatly between rural areas and the cities, especially that in Baghdad. This differential has resulted in massive rural to urban migration.

## **22 AGRICULTURE**

The rich alluvial soil of the lowlands and an elaborate system of irrigation canals made Iraq a granary in ancient times and in the Middle Ages. After the irrigation works were destroyed in the Mongol invasion, agriculture decayed. Today, about 13% of the land is considered arable. Unlike the rain-fed north, southern Iraq depends entirely on irrigation, which is in turn heavily reliant on electricity and fuel supply to run the pumping networks. There are similar difficulties with the spring crop of vegetables in the south, also entirely dependent on irrigation. Over half the irrigated area in southern Iraq is affected by water-logging and salinity, diminishing crop production and farm incomes. Agriculture is Iraq's largest employer and the second-largest sector in value.

Under various agrarian reform laws—including a 1970 law that limited permissible landholdings to 4–202 hectares (10–500 acres), depending on location, fertility, and available irrigation facilities—about 400,000 previously landless peasants received land. Agrarian reform was accompanied by irrigation and drainage works, and by the establishment of cooperative societies for the provision of implements and machinery, irrigation facilities, and other services.

Agricultural production in Iraq declined progressively because of the war with Iran and the Persian Gulf War. In 1992, wheat production was estimated at 600,000 tons compared with 965,000 tons in 1982, but by 1999 was only 800,000 tons. During the 2003 conflict, most farmers in Iraq's three northern provinces were not displaced. The northern region produces some 30–35% of the grain crop. FAO estimates for 2004 included the following (in tons): wheat, 2,200,000; barley, 1,315,000; tomatoes, 1,000,000; dates, 910,000; potatoes, 625,000; eggplants, 442,000; cucumbers, 350,000; oranges, 310,000; and grapes, 300,000. Other crops grown for domestic consumption include millet, lentils, beans, melons, figs, corn, sugarcane, tobacco, and mulberries.

Iraq currently imports almost \$3 billion in food commodities annually. Aid programs are helping expand production of wheat to minimize food imports. Efforts on select Iraqi farms doubled wheat production in 2004. Since 2003, the USAID's agriculture program has been working to restore veterinary clinics, introduce improved cereal grain varieties, repair agricultural equipment, and train farmers and Iraqi government staff. The US government has estimated that the Iraqi Ministry of Agriculture would require over \$1 billion of agricultural inputs annually for Iraq's agricultural producers to boost production. Iraq will need to rely on imports to meet a large portion of its food and fiber needs, even with substantial gains in production.

## **23 ANIMAL HUSBANDRY**

Animal husbandry is widespread. Sheep raising is most important, with wool used domestically for weaving carpets and cloaks. In 2001, Iraq had an estimated 6.1 million sheep; 1.6 million goats; 1.4 million head of cattle, and numerous donkeys, camels, mules, buffaloes, and poultry. FAO production estimates for 2004 included: cow's milk, 450,000 tons; sheep's milk, 157,500 tons; and chicken meat, 98,906 tons.

## **24 FISHING**

Centuries of overfishing without restocking reduced the formerly plentiful supply of river fish, but the fishing industry has rebound-

ed since the early 1970s. The 2003 fish catch—including salmon and, especially in the Tigris (Al Furāt), carp—was 23,100 tons.

## 25 FORESTRY

Forests of oak and Aleppo pine in the north cover less than 2% of Iraq's entire area and have been depleted by excessive cutting for fuel or by fires and overgrazing. Since 1954, indiscriminate cutting has been prohibited, and charcoal production from wood has ceased. The forestry research center at Arbil has established tree nurseries and conducted reforestation programs. Output of roundwood was estimated at 114,000 cu m (4,024,000 cu ft) in 2004.

## 26 MINING

Iraq's mineral resources (excluding hydrocarbons) are limited. Crude oil was Iraq's sole export commodity in 2002, and construction materials comprised another leading industry. In 2004, Iraq produced hydraulic cement, nitrogen, phosphate rock (from the Akashat open-pit mine), salt, and native Frasch sulfur from underground deposits at Mishraq, on the Tigris (Al Furāt) River, south of Al Mawşil. In 2001, the State Organization for Minerals reported the discovery of sulfur deposits in the Western Desert, near Akashat. Production figures for 2004, were: phosphate rock 30,000 metric tons, down from 532,000 metric tons in 2002; sulfur, 20,000 metric tons (as a by product only); and salt, 50,000 metric tons. Without exception, production of all mineral commodities (excluding hydrocarbon minerals) has fallen since 2003. However, the output of Portland cement, while down from the 6,834,000 metric tons produced in 2002, had risen in 2004 to 2,500,000 metric tons from 1,901,000 metric tons in 2003, possibly as a result of the fighting and car bomb attacks in urban areas. Geological surveys have indicated usable deposits of iron ore, copper, gypsum, bitumen, dolomite, and marble; these resources have remained largely unexploited, because of inadequate transport facilities and lack of coal for processing the ores.

## 27 ENERGY AND POWER

Iraq's petroleum reserves are among the largest in the world. As of 1 January 2005, Iraq's proven oil reserves were estimated by the Oil and Gas Journal at 115 billion barrels, of which, about 75 billion barrels had yet to be developed. However, the country's reserves may be significantly higher. Only about 10% of the country has been explored for oil and it is believed by some analysts that in Iraq's Western Desert region, deep oil-bearing formations may contain another 100 billion or more barrels of oil. Others are less optimistic, estimating that only another 45 billion barrels may lie undiscovered.

In spite of its huge oil reserves, Iraq's oil production has been deeply affected by the nation's wars, resulting in major drops in crude oil production. During Iraq's war with Iran, output dropped from 3,476,900 barrels per day in 1979 to 897,400 barrels daily in 1981, and from 2,897,000 barrels per day in 1989 to 305,000 barrels daily in 1991, following an embargo on Iraqi oil exports for Iraq's invasion of Kuwait in 1990. Iraq's oil production slowly increased to 600,000 barrels per day by 1996, and with the country's acceptance of United Nations Resolution 986, allowing limited oil exports for humanitarian reasons ("oil-for-food program"), production rose to about 2.58 million barrels per day in January 2003, just before the US-led invasion of Iraq in March of that year. As of

May 2005, maximum sustainable oil production by Iraqi was estimated at 1.9 million barrels per day. Oil production in 2004 was estimated at two million barrels per day. Domestic demand for oil was estimated in 2004 at 550,000 barrels per day, and forecast to reach 650,000 barrels per day in 2005.

According to the Oil and Gas Journal, crude oil refining capacity was estimated as of 1 January 2005 at 597,500 barrels per day.

Iraq's natural gas reserves were estimated, as of 1 January 2005, at 110 trillion cu ft, with production and domestic consumption estimated at 53 billion cu ft in 2003.

Iraq's electric power sector has also been affected by the country's wars. During the 1990–91 Persian Gulf War, about 85–90% of the national power grid was destroyed or damaged. However, 75% of the national grid had been restarted by early 1992. Total electricity production in 2000 was 31,700 million kWh, of which 98% was from fossil fuels and 2% from hydropower. The country's generating capacity was about 9,500 MW in 2001. As of late May 2005, Iraq's available and operating generating capacity was placed at about 4,000 to 5,000 MW. Peak summer demand however, was forecast to be at 8,000 MW. In 2004, electric output came to 32.6 billion kWh, with demand at 33.7 billion kWh and imports at 1.1 billion kWh.

## 28 INDUSTRY

Main industries are oil refining, food processing, chemicals, textiles, leather goods, cement and other building materials, tobacco, paper, and sulfur extraction. In 1964, the government took over all establishments producing asbestos, cement, cigarettes, textiles, paper, tanned leather, and flour. Iraq has eight major oil refineries, at Baiji, Al Başrah, Daura, Khānaqin, Haditha, Muftiah, Qaiyarah, Al Mawşil, and Kirkūk. The Iraq-Iran War, Persian Gulf War, and Iraq War of 2003 seriously affected Iraqi refining. Iraq had a total refinery capacity of 597,500 barrels per day in 2005. The bulk of Iraq's refinery capacity is concentrated in the Baiji complex.

Industrial establishments before the 2003 war included a sulfur plant at Kirkūk, a fertilizer plant at Al Başrah, an antibiotics factory at Sāmarrā, an agricultural implements factory at Iskandariyah, and an electrical equipment factory near Baghdad. In the 1970s, Iraq put strong emphasis on the development of heavy industry and diversification of its industry, a policy aimed at decreasing dependence on oil. During the 1980s, the industrial sector showed a steady increase, reflecting the importance given to military industries during the Iran–Iraq war. By early 1992 it was officially claimed that industrial output had been restored to 60% of pre-Persian Gulf War capacity. Beginning in 1996, Iraq was permitted to export limited amounts of oil in exchange for food, medicine, and some infrastructure spare parts (the UN "oil-for-food" program). By 1999, the UN Security Council allowed Iraq to export as much oil as required to meet humanitarian needs. The program was phased out in May 2003 following the defeat of the Saddam Hussein regime. In 2004, industry accounted for 66.6% of GDP.

## 29 SCIENCE AND TECHNOLOGY

Iraq has imported Western technology for its petrochemical industry. The Scientific Research Council was established in 1963 and includes nine scientific research centers. The Nuclear Research Center (founded in 1967) has conducted nuclear physics experiments and produced radioisotopes with equipment supplied by France. In 1982, the French government agreed to help

rebuild the institute's Osirak reactor, knocked out by an Israeli air attack the previous year. Eight universities offer degrees in basic and applied sciences. In addition, the Ministry of Higher Education has 18 incorporated technical institutes. The Agriculture and Water Resources Research Center (founded in 1980) and the Iraq Natural History Research Center and Museum (founded in 1946) are both located in Baghdād. The Iraqi Medical Society (founded in 1920) is headquartered there.

### **30 DOMESTIC TRADE**

Modern shops and department stores have spread throughout the country, replacing traditional bazaars. Baghdād, Al Mawşil, and Al Başrah, as well as other large and medium-size cities, all have modern supermarkets. Baghdād leads in wholesale trade and in the number of retail shops.

The previously state-owned economy has been suffering since the 1980–88 Iran-Iraq War. The 1990 Kuwait invasion and the subsequent international military intervention caused even greater damage to the infrastructure and resulted in international sanctions that crippled the economy. With the 2003 ousting of Saddam Hussein by international coalition forces, the way was paved to reopen the Iraqi economy to international trade. However, the nation was expected to be highly dependent on foreign aid and investment for the foreseeable future.

### **31 FOREIGN TRADE**

Iraq's most valuable export is oil, which has historically accounted for almost all of its total export value. Rising oil prices during the 1970s created increases in export revenues. However, the drop in world oil prices and Iraq's exporting problems due to international sanctions essentially put an end to Iraqi oil exports. The United Nations (UN) imposed trade restrictions on non-oil exports in August 1990. Non-oil exports (often illegal) were estimated at \$2 billion for the 12 months following the March 1991 cease-fire. Iraq was traditionally the world's largest exporter of dates, with its better varieties going to Western Europe, Australia, and North America.

Until 1994, the UN committee charged with supervising what little international trade Iraq was permitted to engage in—food and medicine, essentially—kept records on the amount of goods it approved for import in exchange for oil. In the first half of 1994, the committee recorded \$2 billion in food imports, \$175 million in medicine, and an additional \$2 billion in “essential civilian needs,” a term that at that time referred to agricultural machinery, seeds, and goods for sanitation.

In 1995, the Iraqi government rationed its people only one-half of the minimum daily requirement in calories. In 1997, the UN permitted Iraq to expand its oil sales to increase its purchasing power of food and other sources of humanitarian relief. In the spring of that year the country received 400,000 tons of wheat to help feed its suffering population, who had been living under strict food rations for four years. Limited exports were organized by the UN, and the oil-for-food program brought in revenues during 1999 equaling \$5.3 billion.

In 2005, Iraq's exports were crude petroleum (83.9%), crude materials excluding fuels (8%), and food and live animals (5%). Imports were food, medicines, and manufactures. Iraq's export partners in 2005 were: the United States (51.9%), Spain (7.3%), Japan (6.6%), Italy (5.7%), and Canada (5.2%). Iraq's import part-

ners were: Syria (22.9%), Turkey (19.5%), the United States (9.2%), Jordan (6.7%), and Germany (4.9%).

### **32 BALANCE OF PAYMENTS**

In 2005, merchandise exports totaled \$25.2 billion, and merchandise imports totaled \$36.5 billion. The current account balance in 2005 was \$1.2 billion. External debt was estimated at \$82.1 billion.

### **33 BANKING AND SECURITIES**

When Iraq was part of the Ottoman Empire, a number of European currencies circulated alongside the Turkish pound. With the establishment of the British mandate after World War I, Iraq was incorporated into the Indian monetary system, which was operated by the British, and the rupee became the principal currency in circulation. In 1931, the Iraq Currency Board was established in London for note issue and maintenance of reserves for the new Iraqi dinar. The currency board pursued a conservative monetary policy, maintaining very high reserves behind the dinar. The dinar was further strengthened by its link to the British pound. In 1947 the government-owned National Bank of Iraq was founded, and in 1949 the London-based currency board was abolished as the new bank assumed responsibility for the issuing of notes and the maintenance of reserves.

In the 1940s, a series of government-owned banks was established: the Agricultural Bank and the Industrial Bank, the Real Estate Bank, the Mortgage Bank, and the Cooperative Bank. In 1956 the National Bank of Iraq became the Central Bank of Iraq. In 1964, banking was fully nationalized. The banking system comprised the Central Bank of Iraq, the Rafidain Bank (the main commercial bank), and three others: the Agricultural Cooperative Bank, the Industrial Bank, and the Real Estate Bank. In 1991 the government decided to end its monopoly on banking. After 1991, six new banks were established—the Socialist Bank, Iraqi Commercial Bank, Baghdād Bank, Dijla Bank, Al-Itimad Bank, and the Private Bank—as a result of liberalizing legislation and the opportunity for large-scale profits from currency speculation.

Preference for investing savings in rural or urban real estate is common. Major private investments in industrial enterprises can be secured only by assurance of financial assistance from the government. The establishment of a stock exchange in Baghdād was delayed by practical considerations (such as a lack of computers), but it was eventually inaugurated in March 1992.

During the 2003 US-led war and subsequent occupation of Iraq, the financial sector essentially disappeared. The banking district of Baghdād was wrecked by the bombing campaign, and until the provisional government becomes stable, it appeared that financial activity would remain at a standstill. Rejuvenation of Iraq's banking system was seen as a high priority. With the passage of the 2005 constitution, a central bank was established, which has the power to issue new currency and set interest rates in the hopes of managing the country's massive debts. USAID gave loans of up to \$250,000 to small businesses and entrepreneurs in order to jumpstart the economy. Iraq's banking system had been one of the region's most advanced prior to the war, so the foundations were already in place for a sound financial sector.

### **3<sup>4</sup>INSURANCE**

The insurance industry was nationalized in 1964. The State Insurance Organization supervises and maintains three companies: the National Life Insurance Co., the Iraqi Life Insurance Co., and the Iraqi Reinsurance Co. Third-party motor vehicle liability insurance is compulsory. In 1999, Iraqis spent \$42 million on insurance.

### **3<sup>5</sup>PUBLIC FINANCE**

There are several budgets: the ordinary budget, under which the regular activities of the government are financed; separate budgets for the Iraqi State Railways, the Port of Al Başrah Authority, the Al-Faw Dredging Scheme, and the tobacco monopoly; municipal budgets requiring government approval; and allocations for semi-independent government agencies. In addition, there is a separate development budget, as well as an undeclared budget for the military believed to have absorbed over half of state funds during the war with Iran. Since 1980, the decline in oil exports and huge war expenditures forced Iraq to borrow and to raise funds from abroad. Iraq's invasion of Kuwait in 1990, with the consequent infrastructural damage, UN sanctions, and oil embargo, severely diminished revenues. The future of the Iraqi economy is highly uncertain. Until a stable government is in place, it will be very difficult for any commercial activity to take place.

The US Central Intelligence Agency (CIA) estimated that in 2005 Iraq's central government took in revenues of approximately \$19.3 billion and had expenditures of \$24 billion. Revenues minus expenditures totaled approximately -\$4.7 billion. Total external debt was \$82.1 billion.

### **3<sup>6</sup>TAXATION**

Direct taxes are levied on income and on property. The rental value of dwellings, commercial buildings, and nonagricultural land is taxed, with a certain tax-free minimum. In 1939, graduated income tax rates were established on income from all sources except agriculture. Most agricultural income is not taxed.

Indirect taxation predominates. The land tax must be paid by all who farm government lands with or without a lease. Owners of freehold (*lazimah*) land pay no tax or rent. Much farm produce consumed on the farm or in the village is not taxed at all, but when marketed, farm products are taxed.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

As of 1 March 2004, a 5% reconstruction levy based on the customs value of the product was imposed upon all imports. However, food, clothing, medicines, humanitarian goods, and books are exempt. In 1989, Iraq joined the newly formed Arab Cooperation Council (ACC) with Egypt, Jordan, and Yemen. The ACC's goals included formation of a common market and economic integration in other areas. The international embargo levied against the nation after it invaded Kuwait essentially ended Iraq's participation in the ACC. Egypt, one of its partners in the Council, was a leader in the military coalition that liberated Kuwait.

### **3<sup>8</sup>FOREIGN INVESTMENT**

UN sanctions effectively froze all of Iraq's foreign transactions in the 1990s. In October 1992, the UN Security Council permitted these frozen assets, including Iraqi oil in storage in Turkey and Saudi Arabia, to be sold without the permission of the Iraqi gov-

ernment. About \$1 billion of frozen assets were to pay for compensation to Kuwaiti victims of the invasion and to cover UN operations inside Iraq.

In September 2003, the American-appointed Coalition Provisional Authority announced it was opening up all sectors of the economy to foreign investment in an attempt to deliver much-needed reconstruction in the war-torn country. The Iraqi Governing Council announced it would allow total foreign ownership without the need for prior approval. The program applied to all sectors of the economy, from industry to health and water, except for natural resources (including oil). The deal also included full, immediate remittance to the host country of profits, dividends, interest, and royalties. Income and business taxes for foreign investors were capped at 15% beginning in 2004. More than \$33 billion in foreign aid was pledged to Iraq for 2004–07.

### **3<sup>9</sup>ECONOMIC DEVELOPMENT**

Until the 2003 Iraq War, the government both controlled and participated in petroleum, agriculture, commerce, banking, and industry. In the late 1960s, it made efforts to diversify Iraq's economic relations and to conserve foreign exchange. As an example, it was announced in 1970 that contracts for all planned projects would be awarded to companies willing to receive compensation in crude oil or petroleum products. The government also undertook to build an Iraqi tanker fleet to break the monopoly of foreign oil-transport companies.

The imposition of sanctions against Iraq in the 1990s destroyed all attempts to stabilize Iraq's payments on its foreign debt. Iraq also faced reparation claims. Iran separately pursued its claim for massive separation payments arising from the 1980–88 war. Iraq was also obligated by UN resolutions to pay for various UN agency activities.

Iraq had an estimated foreign debt in 2005 of \$82.1 billion. However, a large portion of Iraq's debt had been forgiven by that time, and the IMF provided new funds as part of an effort to get Iraq back into capital markets, where it could secure the financing it needs to invest in the critical oil sector. The insurgency against coalition forces, in addition to underinvestment, prevented the oil industry from getting back on its feet. Work was being carried out to rebuild infrastructure, but by 2006, insurgents were destroying much of what was being built.

### **4<sup>0</sup>SOCIAL DEVELOPMENT**

A social security law passed in 1971 provides benefits or payments for disability, maternity, old age, unemployment, sickness, and funerals. This law applies to all establishments employing five or more people, but excludes agricultural employees, temporary employees, and domestic servants. This social insurance system is funded by employee contributions of 5% of their wages, and employer contributions of 12% of payroll. Oil companies are required to pay 25% of payroll. Men may retire at age 60 and women at 55 after they have worked for 20 years. Maternity benefits for employed women include 100% of salary for a period of 10 weeks. Work injury is covered and unemployment assistance is available.

Little is known about the extent of domestic violence in Iraq. Domestic abuse is addressed within the family structure, therefore there are no statistics available or agencies to assist victims. In 2004 there were reports of honor killings. Women who do not wear traditional clothing are subject to harassment.

Human rights are being addressed as the government undergoes significant transformation. The regime of Saddam Hussein was notorious for extensive human rights abuses.

#### **41 HEALTH**

There are many well-trained Iraqi physicians; however, their effectiveness is limited by a lack of trained nursing and paramedical staff. In the period 1985–95, some 93% of the population had access to health care services. Private hospitals are allowed to operate in Baghdad and other major cities. Considerable effort was made to expand medical facilities to small towns and more remote areas of the country, but these efforts have been hampered by a lack of transportation and a desire of medical personnel to live and work in Baghdad and the major cities. In 2000, 85% of the population had access to safe drinking water and 79% had adequate sanitation. Dentists and other specialists are almost unknown in rural districts. Child nutrition has been negatively affected by years of conflict. The UN Children's Fund documented that 4,500 children under five die every month from hunger and disease.

In 2004, Iraq had 54 physicians, 308 nurses, 8 pharmacists, and 11 dentists per 100,000 people. Iraq's 2002 birth rate was estimated at 34 per 1,000 people. Of married women (ages 15 to 49), 14% used contraception in 1989. Life expectancy in 2005 averaged 68.7 years. The fertility rate decreased from 7.2 in 1960 to 4.3 children in 2000 for each woman during childbearing years. Immunization rates for children up to one year old were: tuberculosis, 90%; diphtheria, pertussis, and tetanus, 92%; and measles, 98%. In 1999, there were 156 reported cases of tuberculosis per 100,000 people. The infant mortality rate in 2005 was 50.23 per 1,000 live births. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 500 people living with HIV/AIDS in the country.

#### **42 HOUSING**

In the 20 years leading up to the 2003 Iraq War, living conditions for the vast majority of the population improved greatly. Electricity and running water were normal features of all Iraqi villages in rural areas. Mud huts in remote places were rapidly being replaced by brick dwellings. Major cities like Al Mawşil, Al Başrah, and especially Baghdad had most of the amenities of modern living. Traditionally, Iraqis have lived in single family dwellings, but in the last 15 years, the government had built a number of high-rise apartments, especially in Baghdad. It had done so to control urban sprawl and to cut down on suburban service expenditures.

The 2003 invasion of Iraq by international coalition forces caused destruction and damage to a large portion of the housing sector, particularly in and around Baghdad. The UN responded to the crisis by providing construction materials through the oil-for-food program. The housing sector had been part of this program since 2000. Through the program, about 64,932 housing units were built to accommodate about 551,922 people.

#### **43 EDUCATION**

Under the regime of Saddam Hussein, public education was forcibly secular and militarized, with most textbooks and other curriculum strongly based on promoting the causes of the government. The US-led invasion of Iraq beginning in 2003 and the overthrow of Hussein's regime continue to have damaging effects on the country's infrastructure. Many schools have been severely damaged or destroyed; but reconstruction efforts are being funded by a variety

of international groups and governments. New developments in the post-Hussein system include the reprinting of textbooks and a greater freedom for teachers in designing and implementing curriculums. Some schools are beginning to adopt fundamental Islamic studies as a large part of their curriculum. This has caused some concern for new government officials and analysts, who fear that too much of a fundamentalist approach might lead to a new set of restrictions in academic freedom.

In general, six years of compulsory primary education has been in effect since 1978. Primary schools have provided the six-year course, at the end of which the student passes an examination to be admitted to secondary school. An intermediate secondary school program covers a three-year course of study. After this stage, students choose to attend a preparatory school or a vocational school, both of which offer three-year programs.

Education at all levels from primary to higher education has been free. Private schools are now permitted to operate. There are 20 state universities in Iraq and 47 technical colleges and institutes. The University of Baghdad is the most important higher education institution in the country. Other universities include Al Mawşil, al-Mustansiriya, Al Başrah, and As Sulaymāniyah. In 2003, the adult literacy rate was estimated at about 40.4%, with 55.9% for men and 24.4% for women.

#### **44 LIBRARIES AND MUSEUMS**

Following the war in 2003, arsonists and looters ransacked the libraries and museums of Iraq, causing extensive destruction and damage and nearly eliminating some valuable historic and cultural collections of books, documents, and artwork. Various international groups have stepped forward to offer assistance in rebuilding and restocking the sites of what were Iraq's most prominent museums and libraries, but it is uncertain as to how many rare and valuable items can be recovered. The National Library and Archives in Baghdad was founded in 1961. Two noteworthy academic libraries are the Central Library of the University of Baghdad and the Central Library of the University of Al Mawşil. One of the country's outstanding libraries has been the Iraqi Museum Library (founded 1934), with modern research facilities. The Directorate of Antiquities in Baghdad houses a library as well. There are public library branches in many provincial capitals.

With the exception of the National History Research Center and Museum and the National Museum of Modern Art, museums have been under the control of the Department of the Directorate-General of Antiquities in Baghdad. One of the most outstanding collections were kept at the Iraqi Museum in Baghdad, which contained antiquities dating from the early Stone Age; however, this was one of the sites looted and damaged after the war. The Abbasid Palace Museum and the Museum of Arab Antiquities, both located in Baghdad, are housed in restored buildings from the 13th and 14th centuries, respectively.

#### **45 MEDIA**

In 2003, there were an estimated 28 mainline telephones for every 1,000 people. The same year, there were approximately three mobile phones in use for every 1,000 people.

As of 2005, television and radio stations that were initially launched by the Coalition Provisional Authority were being incorporated into the new publicly-funded Iraqi Public Broadcasting Service. A number of foreign broadcasters are being accessed through satellite. In 2004, there were about 80 radio stations and

21 television stations in operation inside the country. In 2003, there were an estimated 222 radios for every 1,000 people. The number of televisions was not available through the same survey. Also in 2003, there were 8.3 personal computers for every 1,000 people and one of every 1,000 people had access to the Internet. Access is made primarily through Internet cafés.

In 2004, there were over 130 daily and weekly publications nationwide. Prominent daily papers in 2005 included *Al-Sabah*, *Al-Mada*, *Al-Zaman*, *Al-Mashriq*, and *Al-Dustur*. *Iraq Today* is a popular English-language weekly.

The 2005 constitution guarantees freedom of speech, press, and assembly.

#### 46 ORGANIZATIONS

Chambers of commerce are active in Baghdād, Al Baṣrah, and Al Mawṣil. Cooperatives, first established in 1944, have played an increasingly important social role, especially under the post-1968 Ba'ath government. There are many youth centers and sports clubs. Scouting programs are active. The General Federation of Iraqi Youth and the General Federation of Iraqi Women are government-sponsored mass organizations. The Women's Union of Kurdistan (WUK), established in 1989, works toward improving the lifestyle and social development of women by publishing educational magazines and presenting educational seminars on health, education, and legal issues. Red Crescent societies provide social services in many cities and towns.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism declined sharply in the 1980s during Iraq's occupation of Kuwait and the Gulf War, and has not recovered. The March 2003 attack on Iraq by US and UK forces and the subsequent fall of the government led to almost no tourist activity as of 2006. Prior to the political and military challenges of the 1980s, many visitors from other Arab states were pilgrims to Islamic shrines. The other principal tourist attraction is visiting the varied archeological sites. Popular forms of recreation include tennis, cricket, swimming, and squash.

According to the US Department of State in 2004, the estimated daily cost of staying in Baghdād was \$11.

#### 48 FAMOUS IRAQIS

The most famous kings in ancient times were Sargon (Sharrukin) of Akkad (fl.c.2350 BC), Hammurabi of Babylon (r.1792?–1750? BC), and Nebuchadnezzar II (Nabu-kadurri-utsur, r.605?–560? BC) of Babylon.

Under the caliphs Harun al-Rashid (ar-Rashid ibn Muhammad al-Mahdi ibn al-Mansur al-'Abbasi, r.786–809) and al-Mamun (abu al-'Abbas 'Abdullah al-Mamun, r.813–33), Baghdād was the center of the Arab scholarship that translated and modified Greek philosophy. A leading figure in this movement was Hunain ibn Ishaq (d.873), called Johannitus by Western scholastics. His contemporary was the great Arab philosopher Yaqub al-Kindi, whose catholicity assimilated both Greek philosophy and Indian mathematics. The founder of one of the four orthodox schools of Islamic law, which claims the largest number of adherents in the Muslim

world, Abu Hanifa (d.767) was also a native Iraqi. Another celebrated figure in theology, 'Abd al-Hasan al-Ash'ari (c.913), who combated the rationalist Mu'tazila school, also lived in Baghdād; his influence still prevails in Islam. Al-Ghazali (Ghazel, d.1111), though Persian by birth, taught at the Nizamiyah University in Baghdād; he is one of the best-known Islamic philosopher-theologians. Iraq also produced famous mystics like Hasan al-Basri (642–728) and 'Abd al-Qadir al-Jilani (1077–1166); the latter's followers are numerous among Asian Muslims, and his tomb in Baghdād draws many pilgrims. Modern Iraq has produced no artist or writer famous outside the Arabic-speaking world.

Gen. Saddam Hussein (Husayn) al-Takriti (b.1937), served as chairman of the Revolutionary Command Council and president of the country from 1979 until his ousting in 2003.

#### 49 DEPENDENCIES

Iraq has no territories or colonies.

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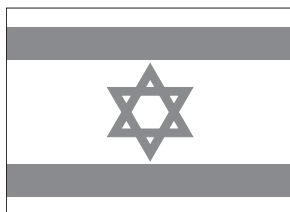


# ISRAEL

State of Israel

[Arabic] *Dawlat Israel*

[Hebrew] *Medinat Yisrael*



**CAPITAL:** Jerusalem (Yerushalayim, Al-Quds)

**FLAG:** The flag, which was adopted at the First Zionist Congress in 1897, consists of a blue six-pointed Shield of David (Magen David) centered between two blue horizontal stripes on a white field.

**ANTHEM:** *Hatikvah* (*The Hope*).

**MONETARY UNIT:** The new Israeli shekel (NIS), a paper currency of 100 new agorot, replaced the shekel (IS) at a rate of 1,000 to 1 in 1985; the shekel replaced the Israeli pound (IL) in 1980 at the rate of 10 pounds per shekel. There are coins of 5, 10, and 50 agora, 1 and 5 shekels and notes of 10, 50, 100, and 200 shekels. NIS1 = \$0.22422 (or \$1 = NIS4.46) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local units are used, notably the dunam (equivalent to 1,000 square meters, or about 0.25 acre).

**HOLIDAYS:** Israel officially uses both the Gregorian and the complex Jewish lunisolar calendars, but the latter determines the occurrence of national holidays: Rosh Hashanah (New Year), September or October; Yom Kippur (Day of Atonement), September or October; Sukkot (Tabernacles), September or October; Simhat Torah (Rejoicing in the Law), September or October; Pesach (Passover), March or April; Independence Day, April or May; and Shavuot (Pentecost), May or June. All Jewish holidays, as well as the Jewish Sabbath (Friday/Saturday), begin just before sundown and end at nightfall 24 hours later. Muslim, Christian, and Druze holidays are observed by the respective minorities.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southwestern Asia along the eastern end of the Mediterranean Sea, Israel claims an area of 20,770 sq km (8,019 sq mi), extending about 320 km (200 mi) N–S and 110 km (70 mi) E–W; at its narrowest, just north of Tel Aviv–Yafo, it is 19 km (12 mi) across. This total includes the Golan Heights area (1,176 sq km/454 sq mi), captured from Syria during the Six-Day War in 1967 and annexed on 14 December 1981; the annexation (technically described as the extension of Israeli “law, jurisdiction, and administration” to the region) was condemned by Syria and by unanimous resolution of the UN Security Council. The Labor Government in 1984 indicated that some (possibly all) of the Golan could be returned to Syria in a peace agreement. Other territories captured in 1967 and classified as administered territories were the West Bank (Judea and Samaria), 5,878 sq km (2,270 sq mi), and the Gaza Strip, 362 sq km (140 sq mi). (The Gaza Strip and Jericho area were transferred in 1994 to Palestinian administration, and six more West Bank cities were included in Palestinian control in 1997. All seven West Bank cities were reoccupied by Israel in 2002, but Jericho was returned to the Palestinians in 2005.) East Jerusalem, captured in 1967, was annexed shortly thereafter.

Israel is bordered on the N by Lebanon, on the E by Syria and Jordan, on the S by the Gulf of Aqaba (Gulf of Elat), on the SW by Egypt, and on the W by the Mediterranean Sea. Comparatively, the area occupied by Israel is slightly smaller than the state of New Jersey. The total land boundary length is 1,017 km (632 mi) and the coastline is 273 km (170 mi).

Israel’s capital city, Jerusalem, is located near the center of the country (including the West Bank).

## <sup>2</sup>TOPOGRAPHY

The country is divided into three major longitudinal strips: the coastal plain, which follows the Mediterranean shoreline in a southward widening band; the hill region, embracing the hills of Galilee in the north, Samaria and Judea in the center, and the Negev in the south; and the Jordan Valley. Except for the Bay of Acre, the sandy coastline is not indented for its entire length. The hill region, averaging 610 m (2,000 ft) in elevation, reaches its highest point at Mt. Meron (1,208 m/3,963 ft). South of the Judean hills, the Negev desert, marked by cliffs and craters and covering about half the total area of Israel proper, extends down to the Gulf of Aqaba on the Red Sea. The Jordan River, forming the border between Israel (including the West Bank) and Jordan, links the only bodies of water in the country: the Sea of Galilee (Yam Kinneret) and the heavily saline Dead Sea (Yam ha-Melah), which, at 408 m (1,339 ft) below sea level, is the lowest point on the earth’s surface.

## <sup>3</sup>CLIMATE

Although climatic conditions are varied across the country, the climate is generally temperate. The coldest month is January; the hottest, August. In winter, snow occasionally falls in the hills, where January temperatures normally fluctuate between 4–10°C (40–50°F), and August temperatures between 18–29°C (65–85°F). On the coastal plain, sea breezes temper the weather all year

round, temperature variations ranging from 8–18°C (47–65°F) in January and 21–29°C (70–85°F) in August. In the south, at Elat, January temperatures range between 10–21°C (50–70°F) and may reach 49°C (120°F) in August. The rainy season lasts from October until April, with rainfall averaging 118 cm (44 in) annually in the Upper Galilee and only 2 cm (0.8 in) at Elat, although dewfall gives the south another several inches of water every year.

#### **4 FLORA AND FAUNA**

The Bible (Deuteronomy 8:8) describes the country as “a land of wheat and barley, of vines and fig trees and pomegranates, a land of olive trees and honey.” The original forests, evergreen and maquis, have largely been destroyed, but some 200 million new trees have been planted during this century, in a major reforestation program. Vegetation cover is thin except in the coastal plain, where conditions are favorable to the cultivation of citrus fruit, and in the Jordan Valley with its plantations of tropical fruit. Among surviving animals, jackals and hyenas remain fairly numerous. There are wild boars in the Lake Hula region. With the growth of vegetation and water supplies, bird life and deer have increased.

As of 2002, there were at least 116 species of mammals, 162 species of birds, and over 2,300 species of plants throughout the country.

#### **5 ENVIRONMENT**

Water pollution and adequate water supply are major environmental issues in Israel. Industrial and agricultural chemicals threaten the nation's already depleted water supply. Israel has only 1 cu km of renewable water resources with 54% used for farming activity and 7% used for industrial purposes. Air pollution from industrial sources, oil facilities, and vehicles is another significant environmental problem. In 1996, Israel's industrial carbon dioxide emissions totaled 52.3 million metric tons; in 2000, the total of carbon dioxide emissions was 63.1 million metric tons.

Reforestation efforts, especially since 1948, have helped to conserve the country's water resources and prevent soil erosion. Israel has reclaimed much of the Negev for agricultural purposes by means of large irrigation projects, thereby stopping the desertification process that had been depleting the land for nearly 2,000 years. Principal environmental responsibility is vested in the Environmental Protection Service of the Ministry of the Interior.

In 2000, about 6.1% of the total land area was forested. In 2003, about 15.8% of the total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 13 types of mammals, 18 species of birds, 4 types of reptiles, 12 species of fish, 5 types of mollusks, and 5 species of other invertebrates. Endangered species included the northern bald ibis, South Arabian leopard, Saudi Arabian dorcas gazelle, and three species of sea turtles. The Mediterranean monk seal, cheetah, Barbary sheep, and Persian fallow deer became extinct in the 1980s. The Israel painted frog and Syrian wild ass have also become extinct.

#### **6 POPULATION**

The population of Israel in 2005 was estimated by the United Nations (UN) at 7,105,000, which placed it at number 97 in population among the 193 nations of the world. In 2005, approximately 10% of the population was over 65 years of age, with another 28%

of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as too low. The projected population for the year 2025 was 9,262,000. The population density was 337 per sq km (874 per sq mi).

The UN estimated that 92% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 1.73%. The capital city, Jerusalem (Yerushalayim, Al-Quds), had a population of 686,000 in that year. Other large cities and their estimated populations are Tel Aviv-Yafo, 3,025,000; Haifa, 948,800; Rishon LeZiyyon, 217,400; Holon, 200,000; Beérsheba, 184,500; Petah Tiqwa, 176,200; Netanya, 163,700; and Yam, 145,300.

#### **7 MIGRATION**

In 1948, 65% of Israel's Jewish population consisted of immigrants; many of these 463,000 immigrant Jews had fled from persecution in Russia and, especially during the Nazi period, Central and Eastern Europe. Israel's declaration of independence publicly opened the state “to the immigration of Jews from all countries of their dispersion,” and the 1950 Law of Return granted every returning Jew the right to automatic citizenship. The Nationality Law specifies other ways—including birth, residence, and naturalization—that Israeli citizenship may be acquired. In the years 1948–92, Israel took in 2,242,500 Jewish immigrants; during 1948–51, the flow was at its heaviest, averaging 171,685 per year, about evenly divided between Eastern European Jews, who were war refugees, and Jews from ancient centers of the Arab world. In the years 1952–56, most immigrants came from French North Africa; in 1957–58 there was a renewed inflow from Eastern Europe. After a lull in 1959–60, the flow of immigrants was renewed, reaching substantial proportions by 1963, when 64,364 Jews arrived. Immigration fell to an annual average of 20,561 persons for 1965–68, rose to an average of 43,258 per year for 1969–74, then declined to an average of 24,965 for 1975–79. The number declined further to an average of 15,383 for 1980–89. As of March 1995, around 525,000 immigrants had arrived in Israel since 1990. Most of these immigrants came from the former Soviet Union; this was the largest wave of immigration since the independence of Israel. In 1991, 14,000 Ethiopian Jews immigrated due to the Operation Solomon airlift. The proportion of Jewish immigrants from Europe and North America (as opposed to those from Asia and Africa) varied during the 1960s, but it rose from 40.4% in 1968 to 97.3% in 1990. (For this purpose the Asiatic republics of the Soviet Union were counted as part of Europe). In 1984–85, some 10,000 Ethiopian Jews, victims of famine, were airlifted to Israel via Sudan. In 1992, the Jewish immigrant population was 39.4% of all Israeli Jews and 31.8% of all Israelis.

A certain amount of emigration has always taken place, but the pace increased after 1975. In a typical year after 1980, about 10,000 Israelis were added to the number who had been away continuously for more than four years. From 1967 to 1992, Israel established 142 settlements in the occupied territories; about 130,000 Jews were living there by 1995. The number of migrants living in Israel in 2000 was 2,256,000.

Considerable Arab migration has also taken place, including an apparent wave of Arab immigration into Palestine between World War I and World War II. During the 1948 war there was a massive

flight of an estimated 800,000 Palestinians. As of 1997 there were 3.2 million Palestinian refugees living in the West Bank, the Gaza Strip, Jordan, Syria, and Lebanon under the mandate of the Gaza-based United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

Immigration to Israel dropped from 43,000 in 2001 to 33,000 in 2002 and 23,226 in 2003. According to Israel's Central Bureau of Statistics the number of immigrants arriving in Israel continues to drop, by 5% in 2005 compared to the first six months of 2004. In addition, according to *Migration News*, in 2005 the number of immigrants from the former Soviet Union fell by 18%, to 3,649 compared to 4,400 in 2004. In 2002 there were about 300,000 foreign migrants in Israel with an estimated 100,000 unauthorized foreigners. After a special unit of Immigration Police was created in 2003 an estimated 100,000 left by July 2004.

In 2004 there were 150,000–300,000 internally displaced persons. In that same year there were 574 asylum seekers from Ethiopia and Nigeria in Israel, and 619 Israelis seeking asylum in Canada. In 2005, the net migration rate for Israel was zero migrants per 1,000 population. This is a significant drop from 18.7 per 1,000 in 1990.

## 8 ETHNIC GROUPS

About 80.1% of the total population is Jewish, with European and American-born Jews accounting for 32.1% and Israeli-born Jews for 20.8%. African-born Jews make up 14.6% and Asian-born 12.6%. About 19.9% of the population is non-Jewish, mostly Arab.

The traditional division of the Jews into Ashkenazim (Central and East Europeans) and Sephardim (Iberian Jews and their descendants) is still given formal recognition in the choice of two chief rabbis, one for each community. A more meaningful division, however, would be that between Occidentals and Orientals (now also called Sephardim). Oriental Jews, who are in the majority, generally believe themselves to be educationally, economically, and socially disadvantaged by comparison with the Occidentals.

The minority non-Jewish population is overwhelmingly Arabic-speaking, but Israel's minorities are divided into a number of religious groups and include several small non-Arab national groups, such as Armenians and Circassians. The government of Israel has declared its intention to strive for equality between the Arab and Jewish sectors of the population. Israel's Arab citizens do not share fully in rights granted to, and levies imposed on, Jewish citizens. The rights of citizenship do not extend to Arabs in the administered territories. The living standards of Arabs in Israel compare favorably with those of Arabs in non-oil-producing Arab countries, but they are considerably below those of the Jewish majority, especially the Ashkenazim. As a consequence of repeated wars between Israel and its Arab neighbors and the development of Palestinian Arab nationalism and terrorism, tensions between Jews and Arabs are a fact of Israeli daily life, especially in the West Bank and Gaza Strip.

## 9 LANGUAGES

The official languages are Hebrew and Arabic, the former being dominant. Hebrew is the language of most of the Old Testament; modern Hebrew is the biblical language as modified by absorption of elements from all historical forms of Hebrew and by de-



LOCATION: 29°29' to 33°17' N; 34°16' to 35°41' E. TERRITORIAL SEA LIMIT: 6 miles.

velopment over the years. Arabic is used by Arabs in parliamentary deliberations, in pleadings before the courts, and in dealings with governmental departments, and is the language of instruction in schools for Arab children. English is taught in all secondary schools and, along with Hebrew, is commonly used in foreign business correspondence and in advertising and labeling. Coins, postage stamps, and bank notes bear inscriptions in Hebrew, Arabic, and Latin characters.

## <sup>10</sup>RELIGIONS

The land that is now Israel (which the Romans called Judea and then Palestine) is the cradle of two of the world's great religions, Judaism and Christianity. In the Hebrew Scriptures, Jewish history begins with Abraham's journey from Mesopotamia to Canaan, to which the descendants of Abraham would later return after their deliverance by Moses from bondage in Egypt. Jerusalem is the historical site of the First Temple, built by Solomon in the 10th century BC and destroyed by the Babylonians in 586 BC, and the Second Temple, built about 70 years later and sacked by the Romans in AD 70. Belief in the life, teachings, crucifixion, and resurrection of Jesus of Nazareth (who, according to the Christian Scriptures, actually preached in the Second Temple) is the basis of the Christian religion. Spread by the immediate followers of Jesus and others, Christianity developed within three centuries from a messianic Jewish sect to the established religion of the Roman Empire. Jerusalem is also holy to Islam; the Dome of the Rock marks the site where, in Muslim tradition, Muhammad rose into heaven.

Present-day Israel is the only country where Judaism is the majority religion, which is professed by 80% of the population; over one-fourth of all the world's Jews live there. About 300,000 of these citizens, however, do not qualify as a Jew under government and/or Orthodox definitions. Most in the Jewish population describe themselves as secular or traditional Jews. About 4.5% are Haredi (ultra-Orthodox) and about 13% are Orthodox. There are also a number of adherents who claim affiliation with Conservative, Reform, and Reconstructionist branches of Judaism, but these are not officially recognized.

Of the 20% non-Jewish population, 80% are Muslims, 10% are Christians, and 10% are Druze. Most of the Muslims are Arabs. The Druzes, who split away from Islam in the 11th century, have the status of a separate religious community. The Baha'i world faith is centered in Haifa. The Christians are largely Greek Catholic or Greek Orthodox, but there are also Roman Catholics, Armenians, and Protestants.

Freedom of religion is guaranteed. The Ministry of Religious Affairs assists institutions of every affiliation and contributes to the preservation and repair of their holy shrines, which are protected by the government and made accessible to pilgrims. Supreme religious authority in the Jewish community is vested in the chief rabbinate, with Ashkenazim and Sephardim each having a chief rabbi.

## <sup>11</sup>TRANSPORTATION

In 2002, Israel's highway system totaled 17,237 km (10,721 mi) all of which were paved, and included 126 km (78 mi) of expressways. With the building in 1957 of a highway extension from Beéršebá to Eilat, the Red Sea was linked to the Mediterranean. Trackage of the state-owned railway totaled 640 km (398 mi), all

standard gauge, in 2004. Railways, buses, and taxis formerly constituted the principal means of passenger transportation; however, private car ownership nearly tripled during the 1970s. In 2003 there were 1,881,092 motor vehicles, including 1,522,112 private cars and 358,980 commercial vehicles.

As of 2005, Israel had 17 merchant vessels of 1,000 gross registered tonnage (GRT) or more, with a total capacity of 752,873 GRT. Haifa can berth large passenger liners and has a 10,000-ton floating dock, but Ashdod (south of Tel Aviv) has outstripped Haifa in cargo handled since the early 1980s. Eilat (Eilat) is also a seaport with full freight services.

Israel had an estimated 51 airports in 2004. As of 2005, a total of 28 had paved runways, and there were also three heliports. Israel Inland Airlines (Arkia) provides domestic service. Israel Airlines (El Al) was founded shortly after Israel became a nation in 1948 and is almost entirely owned by the government. Ben-Gurion International Airport between Tel Aviv and Jerusalem is the center of passenger and cargo operations; Israel is building a new Ben-Gurion International Airport Terminal. Another principal airport is J. Hozman at Eilat. In 2003 about 3.672 million passengers were carried on scheduled domestic and international airline flights.

## <sup>12</sup>HISTORY

Archaeologists have established that the world's earliest known city was Jericho, on the present-day West Bank, built about 7000 BC. The formative period of Israel began in approximately 1800 BC, when the Hebrews entered Canaan, and resumed in approximately 1200 BC, when the Israelite tribes returned to Canaan after a period of residence in Egypt. At various times, the people were led by patriarchs, judges, kings, prophets, and scribes, and the land was conquered by Assyrians, Babylonians (or Chaldeans), Persians, Greeks, and Romans. The ancient period neared its end in AD 70, when the Roman legions conquered Jerusalem after an unsuccessful revolt and destroyed the Temple, and it ended in AD 135, when the Roman Empire exiled most Jews after another unsuccessful revolt, led by Simon Bar-Kokhba, and renamed the region Syria Palaestina, which eventually became Palestine. During the next two millennia there were successive waves of foreign conquerors—Byzantines, Persians, Arabs, Crusaders, Mongols, Turks, and Britons. Most Jews remained in dispersion, where many nourished messianic hopes for an eventual return to Zion; however, Jews in varying numbers continued to live in Palestine through the years. It is estimated that by 1900, only about 78,000 Jews were living in Palestine (less than 1% of the world Jewish population), compared with some 650,000 non-Jews, mostly Arabs.

Modern Zionism, the movement for the reestablishment of a Jewish nation, dates from the late 19th century, with small-scale settlements by Russian and Romanian Jews on lands purchased by funds from Western European and US donors. The movement received impetus from the founding of the World Zionist Organization in Basel, Switzerland, in 1897, under the leadership of Theodor Herzl. Zionist hopes for a Jewish national homeland in Palestine were greatly bolstered when the British government pledged its support for this goal in 1917, in the Balfour Declaration, which was subsequently incorporated into the mandate over Palestine (originally including Transjordan) awarded to the United Kingdom by the League of Nations in 1922. Under the mandate, the Jewish community grew from 85,000 to 650,000, largely through

immigration, on lands purchased from Arab owners. This growth was attended by rising hostility from the Arab community, which felt its majority status threatened by the Jewish influx. In 1939, shortly before the outbreak of World War II, the British mandatory authorities issued a White Paper that decreed severe restrictions on Jewish immigration and a virtual freezing of land purchase and settlement. Armed Jewish resistance to this policy, as well as growing international backing for the establishment of a Jewish state as a haven for the survivors of the Nazi Holocaust, finally persuaded the British government to relinquish the mandate.

On 29 November 1947, the UN General Assembly adopted a plan for the partition of Palestine into two economically united but politically sovereign states, one Jewish and the other Arab, with Jerusalem as an international city. The Arabs of Palestine, aided by brethren across the frontiers, at once rose up in arms to thwart partition. The Jews accepted the plan; on 14 May 1948, the last day of the mandate, they proclaimed the formation of the State of Israel. The next day, the Arab League states—Egypt, Iraq, Jordan, Lebanon, Saudi Arabia, and Syria—launched a concerted armed attack. There followed a mass flight of hundreds of thousands of Palestinian Arabs abroad. The war left Israel in possession of a much larger territory than that awarded the Jews under the UN partition plan; the planned Arab state failed to materialize, as Jordan annexed the West Bank. Meanwhile, the Palestinian refugees were resettled in camps on both banks of the Jordan River, in the Gaza Strip (then under Egyptian administration), in southern Lebanon, and in Syria.

Armistice agreements concluded in 1949 failed to provide the contemplated transition to peace, and sporadic Arab incursions along the borders were answered by Israeli reprisals. Tensions were exacerbated by Arab economic boycotts and by Egypt's nationalization of the Suez Canal on 26 July 1956. On 29 October 1956, Israel (with British and French support) invaded Egypt and soon gained control of the Gaza Strip and the Sinai Peninsula. Fighting ended on 4 November; Israel, under US pressure, withdrew from the occupied areas in March 1957 and recognized borders consistent with its military position at the end of the 1948 war. A UN Emergency Force (UNEF) patrolled the armistice line.

Violations by both sides of the armistice lines persisted, and in May 1967, Egypt, fearing an Israeli attack on Syria, moved armaments and troops into the Sinai, ordering withdrawal of UNEF personnel from the armistice line, and closed the Strait of Tiran to Israeli shipping. On 5 June, Israel attacked Egypt and its allies, Syria and Jordan. By 11 June, Israel had scored a decisive victory in the conflict, since termed the Six-Day War, and had taken control of the Sinai Peninsula, the Gaza Strip, the Golan Heights, and the West Bank (including Jordanian-ruled East Jerusalem). The Security Council on 22 November unanimously adopted UK-sponsored Resolution 242, calling for establishment of a just and lasting peace in the Middle East, withdrawal of Israeli armed forces from territories occupied during the war, and acknowledgment of the "sovereignty, territorial integrity, and political independence of every State in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force." Israel indicated that return of the captured territories would have to be part of a general settlement guaranteeing peace; in 1967, the Israeli government began Jewish settlement in these areas; due in good part to the later encouragement of the Likud

governments, by 1997 there were some 160,000 settlers in the occupied territories.

Serious shooting incidents between Egypt and Israel resumed in June 1969, following Egypt's declaration of a war of attrition against Israel. In response to a US peace initiative, a cease-fire took effect in August 1970, but tensions continued, and Palestinian Arab guerrillas mounted an international campaign of terrorism, highlighted in September 1972 by the kidnap and murder of Israeli athletes at the Olympic Games in Munich.

On 6 October 1973, during Yom Kippur, Egypt and Syria simultaneously attacked Israeli-held territory in the Sinai Peninsula and the Golan Heights. The Arabs won initial victories, but by 24 October, when a UN cease-fire took effect, the Israelis had crossed the Suez Canal and were 101 km (63 mi) from Cairo and about 27 km (17 mi) from Damascus. Under the impetus of the "shuttle diplomacy" exercised by US Secretary of State Henry Kissinger, formal first-stage disengagement agreements were signed with Egypt on 18 January 1974 and with Syria on 31 May 1974. On 4 September 1975, a second-stage disengagement pact was signed in Geneva, under which Israel relinquished some territory in the Sinai (including two oil fields) in return for Egyptian declarations of peaceful intent, free passage of nonmilitary cargoes to and from Israel through the Suez Canal, and the stationing of US civilians to monitor an early warning system.

The 30-year cycle of Egyptian-Israeli hostilities was broken in November 1977, when Egyptian President Anwar al-Sadat (as-Sadat) paid a visit to Jerusalem on 19–21 November 1977, during which, in an address to parliament, he affirmed Israel's right to exist as a nation, thereby laying the basis for a negotiated peace. In September 1978, at a summit conference mediated by US president, Jimmy Carter at Camp David, Maryland, Israeli prime minister Menachem Begin and Sadat agreed on the general framework for a peace treaty which, after further negotiations, they signed in Washington, DC, on 26 March 1979. The treaty provided for the withdrawal of Israeli forces from the Sinai over a three-year period and for further negotiations concerning autonomy and future status of Arab residents of the West Bank and the Gaza Strip, territories still under Israeli occupation. Israel withdrew from the Sinai oil fields within a year, and from the remainder of Sinai by 25 April 1982. However, the two countries failed to reach agreement on Palestinian autonomy in the West Bank and Gaza, and Israel continued to establish Jewish settlements in the West Bank despite Egyptian protests. Sadat was assassinated by Muslim fundamentalists on 6 October 1981.

Israel's relations remained tense with other Arab countries, which ostracized Egypt for signing the peace accord. In March 1978, Israel (which had long been supporting Lebanese Christian militias against the Palestine Liberation Organization—PLO—and its Muslim backers) sent troops into southern Lebanon to destroy PLO bases in retaliation for a Palestinian terrorist attack; Israel withdrew under US pressure. In April 1981, Israeli and Syrian forces directly confronted each other in Lebanon; Israeli jet aircraft shot down two Syrian helicopters in Lebanese territory, and Syria responded by deploying Soviet-made antiaircraft missiles in the Bekaa (Biq'a) Valley, which Syria had been occupying since 1976. On 7 June 1981, Israeli warplanes struck at and disabled an Iraqi nuclear reactor under construction near Baghdad; the Israeli

government claimed that the reactor could be employed to produce nuclear bombs for use against Israel.

Hostilities between Israel and the PLO and Syria reached a climax in early June 1982, when Israel launched a full-scale invasion of southern Lebanon, citing continued PLO shelling of the north and terrorist acts elsewhere. An estimated 90,000 troops rapidly destroyed PLO bases within a 40 km (25 mi) zone north of the Israeli border, captured the coastal towns of Tyre (Sur) and Sidon (Sayda), and then moved on to bomb and encircle Beirut by 14 June, trapping the main force of PLO fighters in the Lebanese capital and causing massive casualties and destruction. Meanwhile, Israeli warplanes destroyed Syria's Soviet-built missile batteries in the Bekaa Valley—the announced objective of the invasion. A negotiated cease-fire was arranged by US envoy Philip Habib on 25 June, and more than 14,000 Palestinian and Syrian fighters were allowed to evacuate Beirut in late August. A multinational peace-keeping force of British, French, Italian, and US military personnel was stationed in the Beirut area.

Within Israel, the Lebanese war was divisive, and there were protest rallies against the Begin government. The protests increased when, after Israeli troops moved into West Beirut in the wake of the assassination of Lebanese President Bashir Gemayel, Christian militiamen were allowed to “mop up” remaining resistance in the Palestinian camps. The ensuing massacres, for which an Israeli government investigating commission determined that some of Israel's civilian and military leaders were indirectly responsible, led to the resignation of Ariel Sharon as defense minister. Subsequent Israeli attempts to extricate its occupying forces from Lebanon by negotiating an agreement for the withdrawal of all foreign forces were rejected by Syria. In September, Israel pulled back its forces from the Shuf Mountains, east of Beirut, to south of the Litani River. In 1985, withdrawal from southern Lebanon took place in stages over six months, punctuated by terrorist acts of Shia Muslim militants against departing Israeli troops, resulting in retaliatory arrests and detention of hundreds of Lebanese. Negotiations over a Trans World Airlines (TWA) jetliner hijacked en route from Athens to Rome by Shia militants in June 1985 led to gradual release by Israel of its Shia prisoners. In 1986, troubles continued despite the occupation of a swath of southern Lebanon, which Israel continued to term a “security zone,” as Shia militants and infiltrating Palestinian guerrillas continued to launch attacks. The war was a drain on the economy, already suffering from hyperinflation and huge foreign-exchange deficits. Prime Minister Begin resigned because of failing health in the autumn of 1983 and was replaced by Yitzhak Shamir, who, after inconclusive elections in 1984, was replaced on a rotational basis by Labor Party leader Shimon Peres. In 1986, a ground-breaking summit meeting took place when Prime Minister Peres traveled to Morocco for two days of secret talks with King Hassan II. In that year, Israel also improved relations with Egypt when Prime Minister Peres conferred with Egypt's President Hosni Mubarak in the first meeting of the two nations since 1981. Shamir replaced Peres as prime minister in October 1986. Elections were again held with equally inconclusive results in November 1988, leading to a coalition government of the Labor and Likud parties. Four years later, Labor edged Likud in elections and was able to form a government supported by left wing and religious parties. Yitzhak Rabin became

prime minister with Shimon Peres as Foreign Minister; both were committed to reaching peace agreements with Arab antagonists.

In December 1987, unarmed Palestinians in Gaza began what became a multi-year series of stone-throwing riots against Israeli troops in the occupied territories. In this uprising (or *intifada* in Arabic), well over 1,000 Palestinians were killed and—by Palestinians—several hundred Israelis and Palestinian collaborators. Israeli use of lethal force, curfews, deportations, destruction of houses, and ten thousand detentions failed to stop the demonstrations while producing criticism abroad and anxiety at home. Waves of Jewish immigrants from the collapsing Soviet Union further provoked Palestinians.

During the Gulf War of 1991, Israel was hit by Iraqi missile attacks, demonstrating for some the state's vulnerability and need to move toward peace with the Arabs. Prime Minister Shamir, who opposed the return of occupied territory, reluctantly accepted a United States and Russian invitation to direct peace talks in Madrid in October 1991. These and subsequent negotiations produced few results until, under a Labor government, Israeli and Palestinian representatives met secretly in Oslo to work out a peace agreement involving mutual recognition and transfer of authority in Gaza and Jericho to interim Palestinian rule with the final status of a Palestinian entity to be resolved in five years. The Oslo Accords were signed at the White House in Washington on 13 September 1993. Promises of international aid for the new Palestinian units poured in but the agreement was opposed by extremists on both sides and further set back by a massacre of 30 Muslims at prayer in the Hebron mosque on 25 February 1994 by a militant Israeli settler. Finally, delayed by several months, the withdrawal of Israeli forces from certain sectors and establishment of Palestinian self-rule took place on 18 May 1994. By 1997, six West Bank cities had been turned over to the Palestinian Authority. Israel balked at turning over control of Hebron even though it agreed to do so. A 1997 Hebron Protocol split the city between Palestinian rule in one part of it and Israeli rule in the remaining 20%, to guarantee the security of settlers living in Jewish enclaves. All seven of the major cities controlled by the Palestinian Authority were reoccupied by Israel in 2002.

In November 1995, the greatest setback to the peace process occurred when a militant Israeli assassinated Prime Minister Yitzhak Rabin in retaliation for slowing Jewish settlement in the occupied territories and for his generally dovish policy toward the PLO. The nation then entered into a tumultuous period as Shimon Peres, Rabin's co-prime minister, took control of the government. Peres was not as popular as Rabin had been and in response to civil protest he called for early elections, which were held in May 1996. For the first time in these elections, Israelis were given the opportunity to directly elect their prime minister, and Peres, Likud, and Benjamin Netanyahu fought a bitter campaign, focusing mainly on the status of the occupied territories and the threat of terrorism from radical Palestinians. The prime minister race was very close and some news reports early on suggested, based on exit polling, that Peres had won. By morning of the next day, however, Netanyahu had emerged as Israel's first directly elected prime minister and Likud emerged with a slight majority (in coalition with a range of right wing parties) in the Knesset. Netanyahu immediately took a tough stance on the occupied territories, increasing the construc-

tion of Jewish settlements and enraging the Palestinians and the international community.

As expected, progress in the Middle East peace process slowed under Netanyahu. Hostilities between Palestinians and Israeli soldiers in the fall of 1996, following the opening of a tunnel in the Old City of Jerusalem, were the worst to occur since the days of the *intifada*. In 1997 and 1998 peace talks stalled over the terms of Israeli withdrawal from the West Bank. A new agreement, the Wye Memorandum, was reached at an October 1998 meeting in the United States between Netanyahu, Yasser Arafat, and President Bill Clinton. It set up a timetable for Israeli withdrawal from the West Bank. However, Netanyahu faced stiff opposition to the plan at home, and by the end of 1998, his governing coalition had collapsed, and implementation of the Wye plan was suspended until a new government could be formed following national elections the following May.

Labor candidate Ehud Barak triumphed in the May 1999 elections and formed a coalition government in July. In September, Barak and Arafat signed an agreement reviving the Wye accord (the Sharm el-Sheikh Memorandum), and in December peace talks between Israel and Syria—broken off in 1996—were resumed. In May 2000, Israel unilaterally withdrew from the nine-mile-wide security zone in southern Lebanon.

At the end of 1999 and into early 2000, three-way negotiations took place between Israel, the Palestinians, and the United States as mediator. In July 2000, President Clinton invited Barak and Arafat to Camp David, Maryland, for peace talks. The summit began on 11 July and ended on 25 July without an agreement being reached. President Clinton was determined to achieve a peace agreement before he left office, however, and he hosted talks with Israeli and Palestinian teams in Washington in December 2000. Negotiations between Israeli and Palestinian delegations were also held in Taba, Egypt, in late January 2001. By then President Clinton was out of office and incoming President George W. Bush took a position of nonengagement in the conflict.

On 28 September 2000, Likud leader Ariel Sharon visited the Temple Mount (Haram al-Sharif) in Jerusalem in what was seen as a provocative move, setting off large-scale Palestinian demonstrations, beginning the al-Aqsa *intifada*. By the end of 2000, Barak was presiding over an extremely violent situation. On 9 December 2000 Barak resigned, making a special prime ministerial election necessary, in which he stated he would seek a new mandate to pursue peace with the Palestinians. On 6 February 2001, Sharon was elected prime minister in a landslide victory over Barak. Barak announced he would resign his seat in the Knesset, step down as head of the Labor Party as soon as a new government was formed, and retire from politics.

The *intifada* intensified, with Israel assassinating Palestinian militants and conducting air strikes and incursions into Palestinian self-rule areas; Palestinian militants increased suicide bomb attacks in Israeli cities. In spring 2002 Israel launched its largest military offensive in 20 years, since the invasion of Lebanon. In December 2001 Israeli forces besieged Yasser Arafat's headquarters in Ramallah, and until being flown to Paris for an undisclosed illness on 29 October 2004, Arafat remained confined in his compound. Arafat died on 11 November 2004.

On 28 January 2003, Ariel Sharon's Likud Party won a strong victory in parliamentary elections, defeating the Labor Party and

its chairman Amram Mitzna. The Shinui or "Change" Party, which campaigned on a platform of curtailing privileges and benefits the state offers to highly observant Orthodox Jews, also registered a clear win.

In 2002 Israel began erecting a security barrier around the West Bank, intended to separate Israelis and Palestinians. The barrier, part wall, part fence, is up to 30 ft (9 m) high in some areas. When completed it will stretch some 375 mi (603.5 km) through the West Bank to Jerusalem. In July 2004 the International Court of Justice (ICJ) ruled that the security barrier violates international law and must be torn down. Israel said it would ignore the ruling, but it later made changes in the barrier route according to a ruling of the Israeli Supreme Court.

On 22 March 2004 Hamas founder and spiritual leader Sheikh Ahmed Yassin was assassinated in a targeted Israeli airstrike as he was leaving a Gaza City mosque. In another targeted killing, Abdel Aziz al-Rantissi—who took over the Hamas leadership after Yassin's death—was assassinated on 17 April 2004. These killings provoked widespread outrage among Palestinians. Palestinian attacks on Israeli soldiers in Gaza followed.

In January 2005 Prime Minister Sharon formed a unity government with Likud, Labor, and the United Torah Judaism parties to implement the planned withdrawal of Israeli settlements in the Gaza Strip. On 8 February 2005, a summit conference in Sharm el-Sheikh, Egypt, was held; attending were Sharon, Palestinian Authority President Mahmoud Abbas, Egyptian President Hosni Mubarak, and King Abdullah II of Jordan. Abbas and Sharon declared an end to violence. Israel announced it would release some 900 Palestinian prisoners and withdraw from Palestinian cities in the West Bank. Jordan and Egypt agreed to return ambassadors to Israel. The *intifada* that began in 2000 was declared over. However, after a Palestinian suicide bombing, Israel froze the return of Palestinian cities to Palestinian control.

The evacuation of Israeli settlements from Gaza began on 15 August 2005 and continued until 24 August. Ultra-Orthodox Jews and ultra-nationalists sympathetic to the settlers' cause traveled to the settlements, held protests, and clashed with Israeli armed forces and police trying to remove them. The "disengagement plan" was marked by high emotions. That month, former Prime Minister Benjamin Netanyahu made a bid to challenge Sharon's leadership, threatening to split the Likud Party. Netanyahu accused Sharon of betraying the core values of Likud in withdrawing from occupied territory and of moving to the left. On 21 November, Sharon resigned as head of Likud and dissolved parliament. He formed a new center-right party, Kadima ("Forward"), to participate in elections on 28 March 2006. On 20 December 2005, Netanyahu was named Sharon's successor as head of Likud.

On 4 January 2006, Sharon suffered a massive stroke and cerebral hemorrhaging. He underwent brain surgery. He was declared "temporarily incapable of discharging his powers," and Ehud Olmert, the deputy prime minister, was named acting prime minister of Israel.

Palestinian legislative elections were held on 25 January 2006. The radical Islamic party Hamas won an overwhelming victory, taking 76 out of 132 seats in parliament, deposing the former governing Fatah party, which won only 43 seats. This ended more than 40 years of domination by Fatah, which along with the Palestinian Authority was looked upon by Palestinians as corrupt and

ineffective. Hamas is regarded as a terrorist organization by Israel, the United States, and the European Union (EU). Israel declared it would not negotiate with a Palestinian administration led by Hamas, and refused to continue transferring about \$50 million in monthly tax and customs receipts to the Palestinian Authority, collected on behalf of the Palestinians. The “Quartet”—composed of the United States, Russia, the EU, and the UN—was looking for a way to continue financial support for the Palestinian Authority without providing direct assistance to a Hamas-led government. Palestinians receive approximately \$1 billion of their \$1.9 billion annual budget from overseas donors. Hamas indicated it would turn to the Arab world to supplant the monthly tax and customs revenue being withheld by Israel. A Hamas leader, Ismail Haniya, was named the new Palestinian prime minister in February 2006.

### **13 GOVERNMENT**

Israel is a democratic republic, with no written constitution. Legislative power is vested in the unicameral Knesset (parliament), whose 120 members are elected for four-year terms by universal secret vote of all citizens 18 years of age and over, under a system of proportional representation. New elections may be called ahead of schedule, and must be held when the government loses the confidence of a majority of parliament.

The head of state is the president, elected by the Knesset for a seven-year term. The president performs largely ceremonial duties and traditionally chooses the prime minister from the ruling political party. In 1996, however, a new law went into effect whereby the prime minister would be directly elected by the people. In May of that year, Benjamin Netanyahu became Israel's first directly elected prime minister. Three years later he was succeeded in that post by Ehud Barak. In March 2001, the Knesset voted to change the system of direct elections and restore the one-vote parliamentary system of government that operated until 1996. The law went into effect with the January 2003 elections, won by Likud. The cabinet, headed by the prime minister, is collectively responsible to the Knesset, whose confidence it must enjoy.

### **14 POLITICAL PARTIES**

Israel's multiparty system reflects the diverse origins of the people and their long practice of party politics in Zionist organizations. The first five Knessets were controlled by coalitions led by the Mapai (Israel Workers Party), under Israel's first prime minister (1949–63), David Ben-Gurion, and then under Levi Eshkol (1963–69). The Mapai formed the nucleus of the present Israel Labor Party, a socialist party, which in coalition with other groups controlled Israel's governments under prime ministers Golda Meir (1969–74) and Yitzhak Rabin (1974–77 and 1992–95).

In September 1973, four right wing nationalist parties combined to form the Likud, which thus became the major opposition bloc in the Knesset. Unlike the Israel Labor Party, the core of support of which lies with the Ashkenazim and older Israelis generally, the Likud has drawn much of its strength from Oriental Jewry, as well as from among the young and the less well-educated. Besides the State List and the Free Center, the Likud consists of the Herut (Freedom) Movement, founded in 1948 to support territorial integrity within Israel's biblical boundaries and a greater economic role for private enterprise, and the Liberal Party, formed in 1961 to support private enterprise, a liberal welfare state, and elec-

toral reform. The Likud originally advocated retention of all territories captured in the 1967 war, as a safeguard to national security. It won 39 seats in the 1973 elections and then became the largest party in the Knesset by winning 43 seats in the May 1977 elections, to 32 seats for the Israel Labor Party–United Workers (Mapam) alignment. Likud leader Menachem Begin became prime minister of a coalition government formed by Likud with the National Religious Party and the ultraorthodox Agudat Israel.

In elections on 30 June 1981, Likud again won a plurality, by taking 37.1% of the popular vote and 48 seats in the Knesset, compared with the Labor coalition's 36.6% and 47 seats. Begin succeeded in forming a new government with the support of smaller parties. The elections of July 1984 again left both Labor (with 44 seats) and Likud (with 41) short of a Knesset majority; under a power-sharing agreement, each party held an equal number of cabinet positions in a unity government, and each party leader served as premier for 25 months. Labor's Shimon Peres became prime minister in 1984, handing over the office to Likud's Yitzhak Shamir in late 1986. Elections in 1988 produced a similar power-sharing arrangement. In 1989, rotation was ended as Likud and Labor joined in a coalition. After a vote of no confidence, Likud formed a coalition of religious and right wing parties which held power for two years until 1992. Elections in June gave Labor 44 seats (32 for Likud) and enabled it to form a coalition with Meretz (a grouping of three left wing parties) and Shas (a religious party) and the support of two Arab parties.

In 1995, Prime Minister Yitzhak Rabin was assassinated by an extremist Jew. Shimon Peres became prime minister and called for early elections, which were held in May 1996. The main issue of the election was Israel's response to terrorist attacks and the disposition of the occupied territories. Labor favored continued and increased negotiations with the PLO and the Palestinian Authority (PA), while Likud favored a tougher stance, increased settlement on occupied lands, and a rethinking of the Oslo accords—at the very least a slowing of the process of land-turnover. The elections were extremely close with the Likud-Geshe-Tsamet coalition winning a slim majority, or 62 seats. In a separate election, Benjamin Netanyahu was directly elected prime minister, the first such election in Israeli history after the passage of a 1996 law.

After Netanyahu's governing coalition collapsed at the end of 1998, new elections were called for May of 1999. In the election for a new prime minister, Ehud Barak, heading a Labor-led center-left coalition (One Israel), defeated Netanyahu 56% to 44%. In the legislative elections, Barak's One Israel/Israeli Labor Party coalition won a plurality of 26 seats, followed by 19 for the Likud. After Barak resigned in December 2000, Ariel Sharon won a special prime ministerial election in February 2001 with the largest vote margin ever in Israeli politics. He took 62.4% of the vote to Barak's 37.6%.

In March 2001, the Knesset voted to replace the system of direct election for the prime minister established in 1996 back to the parliamentary system. In parliamentary elections held in January 2003, Likud won 29.4% of the vote to Labor's 14.5%. The Shinui, or “Change” Party, came in third with 12.3% of the vote. Overall, the distribution of seats in the Knesset after the election was as follows: right wing parties held 45 seats (Likud 38, National Unity 7); center-left parties held 34 (Labor-Meimad 19, Shinui 15); left wing parties held 17 (Meretz 6, Hadash 3, Am Ehad 3, Balad 3,

United Arab List 2); religious parties accounted for 22 seats (Shas 11, National Religious Party 6, United Torah Judaism 5); and the immigrant party Israel Ba-Aliya held 2.

Due to friction within his ruling coalition over the planned evacuation of Israeli settlements in the Gaza Strip, Ariel Sharon in January 2005 formed a new unity government with Likud (40 seats in the Knesset), Labor (19 seats), and the United Torah Judaism (5 seats) parties. In November 2005, in response to friction within Likud, Sharon dissolved parliament and formed a new party, Kadima ("Forward"). Netanyahu took over the helm as leader of Likud. After Sharon suffered a massive hemorrhagic stroke in January 2006, Ehud Olmert took over as leader of Kadima.

## **15 LOCAL GOVERNMENT**

Israel is divided into six administrative districts: Jerusalem, Tel Aviv, Hefa, Northern (Tiberias), Central (Ramla), and Southern (Be'er Sheva'). The occupied Golan Heights is a subdistrict of the Northern District. Each district is governed by a commissioner appointed by the central government. At the local level, government is by elected regional and local councils, which govern according to bylaws approved by the Ministry of the Interior. Local officials are elected for four-year terms. Until 1994, Israel governed all of the occupied territories through the Civil Administration, which is responsible to the Ministry of Defense. Palestinian towns have Israeli-appointed mayors. Israeli settlers were removed from the Gaza Strip in 2005; settlers in the West Bank are subject to Israeli law. In 1994 a Palestinian National Authority (PNA) was established; control over Gaza and some Palestinian towns on the West Bank were turned over to the PNA. The West Bank towns were reoccupied in 2002, but Jericho was handed back over to the Palestinians in March 2005.

## **16 JUDICIAL SYSTEM**

The law of Israel contains some features of Ottoman law, English common law, and other foreign law, but it is shaped largely by the provisions of the Knesset. Judges are appointed by the president on recommendation of independent committees. There are 29 magistrates' courts, which deal with most cases in the first instance, petty property claims, and lesser criminal charges. Five district courts, serving mainly as courts of appeal, have jurisdiction over all other actions except marriage and divorce cases, which are adjudicated, along with other personal and religious matters, in the religious courts of the Jewish (rabbinical), Muslim (Shariah), Druze, and Christian communities. Aside from its function as the court of last appeal, the Supreme Court also hears cases in the first instance brought by citizens against arbitrary government actions. The number of Supreme Court justices is determined by a resolution of the Knesset. Usually, twelve justices serve on the Supreme Court. There is no jury system. Capital punishment applies only for crimes of wartime treason or for collaboration with the Nazis, and has been employed only once in Israel's modern history, in the case of Adolf Eichmann, who was executed in 1962. In the occupied territories, security cases are tried in military courts; verdicts may not be appealed, and the rules of habeas corpus do not apply. There are also labor relations and administrative courts.

There is no constitution, but a series of "basic laws" provide for fundamental rights. The judiciary is independent. The trials are fair and public. Legislation enacted in 1997 limits detention

without charge to 24 hours. Defendants have the right to be presumed innocent and to writs of habeas corpus and other procedural safeguards.

## **17 ARMED FORCES**

The defense forces of Israel began with the voluntary defense forces (principally the Haganah) created by the Jewish community in Palestine during the British mandate. Today Jewish and Druze men between the ages of 18 and 26 are conscripted for 36 and 24 months, respectively. Drafted Jewish women are trained for non-combat duties. Christians and Muslims may serve on a voluntary basis, but Muslims are rarely allowed to bear arms. All men and unmarried women serve in the reserves until the ages of 54 and 24, respectively. Men receive annual combat training until age 45.

In 2005, the Israeli Army had 125,000 active duty soldiers and could mobilize as many as 500,000 more. Armament included 3,657 main battle tanks, 408 reconnaissance vehicles, over 10,419 armored personnel carriers, and 5,432 artillery pieces. The Navy had an estimated 5,500 active personnel that upon mobilization could reach 11,500. Major naval units included 3 tactical submarines, 3 corvettes, and 51 patrol/coastal vessels. The Air Force had 35,000 regulars and 24,500 reservists. There were 402 combat capable aircraft, including 199 fighters and more than 177 fighter ground attack aircraft, along with more than 95 attack helicopters. It is believed that Israel maintained a nuclear arsenal of up to 200 nuclear warheads. The reserve forces can be effectively mobilized in 48–72 hours. In addition, there are an estimated 8,000 paramilitary border police and an estimated 50 Coast Guard personnel. In 2005, the Israeli defense budget totaled \$7.87 billion. Foreign Military Assistance from the United States totaled \$2.2 billion that same year.

## **18 INTERNATIONAL COOPERATION**

Israel was admitted as the 59th United Nations member on 11 May 1949 and subsequently joined several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, UNCHR, IAEA, IFC, the World Bank, and WHO. It is also a member of the WTO. Israel holds observer status with the Council of Europe, the OAS, and the Black Sea Economic Cooperation Zone. The country is a partner in the OSCE.

During the 1970s and early 1980s, Arab governments sought through the "oil weapon" to isolate Israel diplomatically and economically, but Israel's 1979 peace treaty with Egypt helped ease some of the pressure. The United States is Israel's major political, economic, and military ally. A number of African countries reestablished diplomatic relations with Israel in the 1980s; these ties had been broken in 1973, following the Arab-Israeli war. After signing peace accords with the Palestinians in 1993 and 1994, Israel opened liaison and trade missions in certain Arab countries, including Qatar and Oman. Israel also signed a peace agreement with Jordan in 1994, and the two nations exchanged ambassadors in 1995.

Violence between Israel and the Palestinians resulting from the intifada that began in September 2000 increased tensions with the Arab world. In November 2002, 18 of the 22 members of the Arab League agreed to reactivate a half-century-old ban on trade with Israel. In August 2005, Israeli prime minister Ariel Sharon called for the evacuation of Israelis from the West Bank and Gaza Strip

settlements, a move that was meant to improve security inside of the main Israel borders. Though the withdrawal was praised by many international groups and several other nations, many Israelis were opposed to the plan. The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) was established in 1949 to provide assistance to the Palestinian Refugees of the ongoing Arab–Israeli conflicts. This mission, which was meant to be temporary, has been continually renewed, with the latest mandate extended to 30 June 2008. Ten nations serve on the advisory commission for UNRWA.

In environmental cooperation, Israel is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Since independence, Israel's economy has been faced with serious problems. The government makes large outlays for social welfare purposes, but is obliged to divert a considerable portion of its income to defense. In addition, traditional Middle Eastern sources of supply (e.g., of oil and wheat) and nearby markets for goods and services have been closed off. Israel must export on a large scale to maintain its relatively high standard of living; hence, it remains dependent on a continuing flow of investment capital and of private and public assistance from abroad.

The economy is a mixture of private, state, and cooperative ownership and holdings of the labor movement. In the first 35 years of Israel's existence, the number of industrial enterprises more than doubled; over 700 agricultural settlements were established; and there were notable advances in housing, transportation, and exploitation of natural resources. From 1975 to 1980, GNP grew at an annual rate of 3.1% (at constant prices). Between 1980 and 1985, real GNP growth was 10%. In the period 1990–96, real GDP growth averaged 2.6%. It was below this average in the period after 1989 when the country had to absorb more than half a million new immigrants. Most of these immigrants were relatively well educated, however, adding to Israel's already considerable base of technologically aware workforce and population. Real growth in per capita income was 2% in 1990 and 1991, and increased to 3% in 1992, but then fell back to 0.9% in 1993.

The Oslo Peace Accords were signed on 13 September 1993 between Israel and the PLO, ending the first *intifada* (uprising) that had begun in 1987. The Peace Treaty with Jordan followed quickly, signed on 26 October 1994. The Oslo Accords granted the Palestinian Authority (PA) limited sovereignty over areas in the West Bank and Gaza within the context of a timetable of confidence-building expansions. From the inception of the Oslo process, the Israeli economy has wavered between hopeful spurts of growth and cooperation, as openings and investor confidence increase, and recession, as extremists on both sides have sought to shut the process down. The accords brought to a formal end the Arab Boycott of Israel (BOI), in place since 1951, with the shutdown of the Central Boycott Office (CBO) in Damascus. From 1992–95, Israeli exports to Asia grew by 86% and by 1999 accounted for 20% of Israel's total exports. In October 2000, however, following the eruption of the second *intifada* in September, the Arab League passed a resolution calling for the reinstatement of the BOI. This time,

however, agreement was not unanimous among the 22 members, and international pressure was strong against it. In May 2002 in a meeting in Damascus, 19 Arab states drew up a list of firms to be blacklisted, but did not publish it. Tourism also benefited from the Peace Accords. Tourism grew to be Israel's second- or third-largest industry, reaching \$4.3 billion in 2000. In October 2000, however, the month following the eruption of the renewed *intifada*, the number of tourists declined 43%. An estimated 50,000 workers in the tourist industry were laid off, helping push unemployment from 8.8% in 2000 to 9.3% in 2001 and an estimated 10.5% in 2002. In 2002, the Israeli Ministry of Tourism estimated that revenues from tourism had fallen by over half, to \$2.1 billion. Foreign investment, once very hard to obtain, also grew substantially in years following the signing of the Oslo Accords.

The Oslo Accords were both a political agreement and an economic program that explicitly acknowledged that peace could not be attained or sustained without the establishment of mutually beneficial economic relationships. Two annexes to the Oslo Accords laid out protocols for joint economic cooperation and regional development, listing specific projects to be pursued, including a Gaza seaport, a Gaza airport, a Mediterranean–Dead Sea Canal (MDSC) project, (that would also provide water desalinization and farm irrigation), and a Red Sea–Dead Sea Canal (RSDSC) project (similarly aimed at providing desalinization and crop irrigation), as well general provisions for the establishment of border and local industrial estates to encourage economic cooperation and investment. International donors pledged more than \$2.4 billion over the years 1994–99, much of which was to be used on the infrastructural projects identified in Oslo protocols. While the canal projects, which had been under consideration for many years, remained tied up in political and economic controversies, construction proceeded on the sea port and airport for Gaza, and the Kami Industrial Estate on the Gaza–Israeli border, funded primarily by aid from the United States and the European Union (EU). In the years immediately following the Peace Accords, 1994 to 1996, real per capita GDP growth in Israel was propelled to a relatively high sustained average of 4.1% despite the continued heavy influx of immigrants from ex-Soviet countries. In 1995, the political process moved a step forward with an interim agreement, Oslo II, providing for elections under the PA. However, in November of that year, Israeli Prime Minister Yitzhak Rabin, who had received the Nobel Peace Prize in 1994 for his work on the Oslo Accords, was assassinated by an Orthodox Jew.

The process became increasingly hobbled by rising violence and distrust on both sides, and required the constant vigilance of both its external supporters, primarily the United States and the EU, as well as its domestic supporters, to keep it from being derailed. In May 1996, Likud leader Benjamin Netanyahu defeated Israel's other Nobel Prize recipient for the Oslo Accords, Shimon Peres, by less than 1% under revised election laws that provided for the direct election of the prime minister. For the next three years, real GDP growth moderated to an annual average of 2.87% in part because of the conservative government's greater wariness about moves to greater economic openness and cooperation. Also important, however, was the government's determined adherence to tight monetary and fiscal policies aimed at subduing Israel's chronically high inflation rate and tax burden. In the early 1980s, after the second oil shock, Israeli inflation had soared

to triple digits, reaching a peak of 373.8% in 1985, the year before world oil prices collapsed. In 1986, inflation fell abruptly to 48%, and then, from 1987 to 1996, yearly inflation ranged from 10–20%. In 1997, Israel experienced its first single-digit level of inflation (9%) since 1970. Inflation rates continued to fall in 1998 and 1999, to 5.4% and 5.2%, respectively. Strict monetary policies were not reversed by the return of a Labor-led government in 1999, as inflation fell to a record low of 1.1% in 2000 despite a spurt of real GDP growth of 6.4%. In the recession that accompanied the emergence of the 2000 *intifada*, inflation remained low to moderate, at 1.1% for 2001 and an estimated 3.5% for 2002. The moderate real GDP growth 1997 to 1999 was not sufficient to prevent per capita income from declining during this period because of continued immigration from Russia and other Eastern European countries. Although down from earlier peaks, Israel reported 64,164 immigrants in 1998 and 77,000 in 1999. Per capita GDP, at \$17,720 in 1997, declined 2.5% to \$17,068 in 1998, and a further 1.8% to \$16,756 in 1999.

In 2000, increased investments, foreign and domestic, as well as decreased immigration, helped produce a 6.9% increase in per capita income, which reached a record \$17,913. In the political unrest that ensued, however, per capita income fell back, first moderately, to \$17,158 in 2001 and then sharply, to \$15,895 in 2002. Israel's privatization program, begun in 1986, was given a strong impetus after the election of the Likud-led government in 1996, highlighted by the 1997 divestment of Bank Hapoalim, the country's largest bank. Privatization continued in 1998 and 1999 and the election of a Labor-led coalition in 1999 did not result in a reversal of the privatization initiatives.

Between 1986 and 2000 the total extent of privatization amounted to \$7.7 billion, with 60% raised from 1998 to 2000. A total of 77 companies ceased to be state-owned during this period. In 1999, elections by a margin of over 12% replaced Netanyahu with Ehud Barak of the Labour Party, who reopened peace negotiations on virtually all fronts, seeking a final status agreement. Barak and Arafat signed the Sharm El-Sheikh Agreement on 5 September 1999 finalizing border adjustments in the peace accord with Jordan and setting the Oslo Accords' seventh anniversary, 13 September 2000, as the target for reaching a final status agreement.

For the first nine months of 2000, both Israel and the areas under PA control experienced strong growth spurts. Per capita income growth in Israel was in double digits and there was aggressive investment in new businesses, stimulated by Israel's unilateral withdrawal from southern Lebanon in May 2000. Exports surged ahead 23% on top of increases of 11.6% in 1999 and 6.6% in 1998. In the same nine months, in the areas under PA control, GDP grew 7% and unemployment dropped to an estimated 10%, down from highs of 30% in the West Bank and almost 40% in Gaza in 1996. In July 2000, however, Palestinian negotiators broke off US-sponsored negotiations at Camp David over the status of Jerusalem, scuttling progress toward final agreement. On 28 September 2000, opposition leader Ariel Sharon, and some other Knesset members, paid a visit to the Temple Mount/Haram al-Sharif (the Noble Sanctuary, Arab name for the 35-acre complex that includes the remains of the Jewish temple), to symbolically assert their position that these holy places should remain under Israeli sovereignty. The day after Sharon's visit, on 29 September 2000, the second *intifada* erupted bringing with it an abrupt reversal of the eco-

nomic progress that had marked the first part of the year. Urgently renewed US-sponsored status negotiations failed to produce an agreement and were in any case allowed to lapse by the incoming George W. Bush administration.

On 6 February 2001 Ariel Sharon was elected prime minister, and on 4 March, three days before he assumed office, the violence of the *intifada* was ratcheted up to a new level. The proliferation of suicide bomb attacks and Israel's retaliatory incursions into the Palestinian areas brought economic decline on both sides, particularly after the conflict was effectively globalized in the 11 September 2001 attacks on the World Trade Center in New York and on the Pentagon in Washington, DC. Official statistics estimate that Israel's economy declined 0.6% in 2001 as foreign investment fell by 7% and exports fell 16.7% from \$45 billion in 2000 to \$37.65 billion in 2001.

In 2002, the economy continued to stagnate at an estimated real GDP growth rate of 0.7%, and a decline in per capita income of over 11% from the peak reached in 2000. However, if the Israeli economy stagnated under the impact of the renewed *intifada* and the closely related global slowdown following the 11 September 2001 terrorist attacks, the economy under PA control all but collapsed. A World Bank report on Palestine in 2002 estimated that unemployment had risen from 10% in 2000 to 26% by December 2001, and that the average income had fallen 40%, from \$1,716 to \$1,030, well below the \$1,400 that had been reached five years before in 1996. Tourism, which is Israel's second- or third-leading industry, is the leading industry in PA areas, and it doubly suffered from the loss of security and the destruction of infrastructure in Israeli retaliatory incursions. Virtually all of the projects built under the protocols of the Oslo Accords, including the Gaza seaport, Gaza airport, and Kami Industrial Estate, were significantly damaged or destroyed in the fighting.

In 2005, rising consumer confidence, tourism, and foreign investment in Israel, as well as a high demand for Israeli exports, contributed to GDP growth of 4.3%. Slower global economic growth was expected to be offset by strong domestic performance in 2006, and real GDP expansion therefore was forecast to ease only modestly in 2006–07. Due to improved fiscal management, over the long term the budget deficit was projected to decrease. Per capita GDP in 2005 was \$22,200 in purchasing power parity terms (PPP). Agriculture accounted for 2.8% of GDP in 2003, with industry contributing 37.7% and services 59.5%. The unemployment rate in 2005 was 8.9%, and the inflation rate was 1.3%. Unemployment in the Gaza Strip and the West Bank stood at half the labor force, and more than 80% of the population lives below the poverty line. Per capita GDP in Gaza in 2003 was \$600 and \$1,100 in the West Bank (PPP). International aid in the amount of \$2 billion to the West Bank and Gaza in 2004 prevented the complete collapse of the economy and allowed some reforms in the government's financial operations.

An agreement reached between Israel and the PA in Sharm al-Sheikh, Egypt, in February 2005 significantly reduced violence between the two sides. The election in January 2005 of Mahmoud Abbas as leader of the PA following the November 2004 death of Yasser Arafat, and the Israeli disengagement from the Gaza Strip in August and September 2005 presented an opportunity for renewed peace. However, in January 2006 Israeli Prime Minister Ariel Sharon suffered a massive stroke and went into a coma, se-

riously shaking up the Israeli political establishment. Palestinian elections were held on 25 January 2006, with Hamas routing Abbas's Fatah faction, taking 76 of 132 seats in parliament to Fatah's 43. In response, Israel was predicted to take unilateral actions, speed up the construction of a separation barrier along the West Bank, and establish its future on its own, as talks with Hamas were out of the question.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Israel's gross domestic product (GDP) was estimated at \$139.2 billion. The per capita GDP was estimated at \$22,200. The annual growth rate of GDP was estimated at 4.3%. The average inflation rate in 2005 was 1.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that in 2003 agriculture accounted for 3% of GDP, industry 37%, and services 60%. Foreign aid receipts amount to about \$27 per capita.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$10,684. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 4%. Approximately 23% of household consumption was spent on food, 11% on fuel, 2% on health care, and 6% on education. The richest 10% of the population accounted for approximately 28.3% of household consumption and the poorest 10% approximately 2.4%.

The West Bank and Gaza Strip have experienced a general decline in economic growth and degradation of economic conditions since the beginning of the second *intifada* in 2000. In the West Bank, GDP (PPP) was estimated at \$1.8 billion in 2003, and per capita GDP (PPP) amounted to \$1,100. The GDP growth rate in 2004 in the West Bank was 6.2%. In 2003, GDP (PPP) in the Gaza Strip was estimated at \$768 million and per capita GDP (PPP) amounted to \$600. The GDP growth rate in 2003 in Gaza was 4.5%.

In 2002, in the West Bank and Gaza, agriculture accounted for 9% of GDP, industry for 28%, and services for 63%. The average inflation rate for the West Bank and Gaza in 2001 was 2.2%. Unemployment continues at half the labor force. In 2004, the West Bank and Gaza were the recipients of \$2 billion in foreign aid, which prevented the collapse of the economy. With the election of a Hamas government in 2006, Israel froze its monthly transfer of some \$50 million in tax and customs revenue to the Palestinian Authority. The United States and the European Union, which, along with Israel, consider Hamas to be a terrorist organization, indicated they would cut off foreign aid to Hamas, but continue to provide assistance to the Palestinian civilian population via nongovernmental organizations.

## 21 LABOR

In 2005 Israel's estimated workforce was 2.42 million people. As of 2003, agriculture accounted for 1.8% of the nation's labor force, with industry accounting for 22.6%, the services sector 74.8%, and

undefined occupations 0.7%. The unemployment rate in 2005 was an estimated 8.9%.

The majority of Israeli workers, including those in agriculture, are union members belonging to the General Federation of Labor (*Histadrut*, founded by Jewish farm workers in 1920), which has a membership of 650,000. Histadrut's collective bargaining agreements are also available to nonmembers. The right to strike is exercised; 15 days notice must be provided to the employer. Palestinians in the occupied territories are permitted to organize their own unions and have the right to strike.

Children under 15 are not permitted to work except for school holidays. Employment for those between the ages of 16 to 18 is restricted, and these laws are regularly enforced. The law provides for a maximum eight-hour day and 47-hour week, and establishes a compulsory weekly rest period of 36 hours. By collective agreement the private sector has a maximum workweek of 45 hours, and the public sector went to a 42-hour week. The minimum wage is adjusted periodically for cost of living increases. As of 2002, the minimum wage was about \$760 per month and was supplemented by allowances to provide a family with a decent standard of living.

## 22 AGRICULTURE

Between 1948 and 2003, the cultivated area was expanded from 165,000 to 428,000 hectares (from 408,000 to 1,057,000 acres). Principal crops and 2004 production totals (in tons) were wheat, 165,000; cotton, 20,000; peanuts, 24,600; sunflowers, 12,700; and potatoes, 571,000.

Owing to the uniquely favorable soil and climatic conditions, Israel's citrus fruit has qualities of flavor and appearance commanding high prices on the world market. Total citrus production in 2004 was 540,000 tons, with grapefruit accounting for 44%. Exports of citrus in 2004 generated \$29.5 million. Other fruits, and their 2004 production amounts (in thousands of tons) included: apples, 125; bananas, 95; avocados, 65; table grapes, 95; peaches, 61; olives, 50; plums, 22; pears, 27; and mangoes, 30.

The main forms of agricultural settlement are the *kibbutz*, *moshav*, *moshav shitufi*, and *moshava* (pl. *moshavot*). In the *kibbutz* all property is owned jointly by the settlement on land leased from the Jewish National Fund, and work assignments, services, and social activities are determined by elected officers. Although predominantly agricultural, many *kibbutzim* have taken on a variety of industries, including food processing and the production of building materials. Devoted entirely to agriculture, the *moshavim* (workers' smallholder cooperatives) market produce and own heavy equipment, but their land is divided into separate units and worked by the members individually. This form of settlement has had special appeal to new immigrants. The *moshavim shitufiyim* are 47 collective villages that are similar in economic organization to the *kibbutzim* but whose living arrangements are more like those of the *moshav*. The *moshavot* are rural colonies, based on private enterprise. They were the principal form of 19th century settlement, and many have grown into urban communities.

New immigrants settling on the land are given wide-ranging assistance. The Jewish Agency, the executive arm of the World Zionist Organization, absorbs many of the initial costs; agricultural credits are extended on a preferential basis, and equipment, seeds, livestock, and work animals are supplied at low cost.

Israeli agriculture emphasizes maximum utilization of irrigation and the use of modern techniques to increase yields. A national irrigation system distributed water to 194,000 hectares (479,000 acres) in 2003, down from 219,000 hectares (541,100 acres) in 1986 but still far exceeding the 30,000 hectares (74,000 acres) served in 1948. Water is transported via pipeline from the Sea of Galilee to the northern Negev. More than 90% of Israel's subterranean water supply is being exploited. Agriculture accounts for over 60% of Israel's water consumption.

## **23 ANIMAL HUSBANDRY**

There is little natural pasturage in most areas and livestock is fed mainly on imported feeds and farm-grown forage. Domestic beef production only satisfies between 33% and 40% of demand. Livestock farmers are aided by subsidies. There are 2,500 sheep and goat farms raising 455,000 head, 42% by the Bedu population, 36% by the Jewish sector, and 22% by the Arab and Druze populations. In 2005 there were 30,000,000 chickens, 5,000,000 turkeys, 400,000 head of cattle, 195,000 pigs, 11,000 equines, and 5,300 camels. About 90,700 tons of eggs, 325,000 tons of poultry meat, and 82,000 tons of beef were produced in 2005. That year, milk and honey production were 1,240,000 and 3,200 tons, respectively.

## **24 FISHING**

Jewish settlers introduced the breeding of fish (mostly carp) into Palestine. The total marine catch was 6,350 tons in 2003. In addition to carp, important freshwater fish include catfish, barbel, and trout. The marine catch consists mainly of gray and red mullet, rainbow trout, grouper, sardines, and bogue. Total fish production in 2003 was 24,831 tons, with aquaculture from 2,000 fish ponds accounting for 84%, mostly carp and tilapia. Total production in 2003 was valued at \$94.4 million, or 26% of total agricultural value.

## **25 FORESTRY**

Natural forests and woodlands cover about 132,000 hectares (326,000 acres), mostly in the north. About 180 million trees were planted between 1902 and 1986. Roundwood production in 2004 was 27,000 cu m (953,000 cu ft). Forestry production in 2004 included 181,000 cu m (6.4 million cu ft) of wood-based panels, and 275,000 cu m (9.7 million cu ft) of paper and paperboard.

## **26 MINING**

Israel was the second-largest producer of bromine, ranked fifth in potash production, and eighth in phosphate rock output in 2004. Israel also produces flint clay, kaolin, silica sand gypsum, magnesia and sulfur, as well as metals such as steel, lead, and magnesium. Diamond cutting (from imported rough diamonds) was also performed. In 2003, the value of nonmetallic mineral products fell by 5.2%, and the value of production in the mining and quarrying industry fell by 3%.

Mineral production in 2004 included: beneficiated phosphate rock, 2.947 million metric tons, down from 3.208 million metric tons in 2003; potash, 2.060 million metric tons, up from 1.960 million metric tons in 2003; elemental bromine, 202,000 metric tons; caustic soda, 64,000 metric tons (estimated), up from 57,000 metric tons in 2003; and silica sand, 196,330 metric tons, down from 210,815 metric tons in 2003. Israel also produced in 2004, primar-

ily for the construction sector, crude steel, refined secondary lead, magnesium metal, hydraulic cement, brick and Fuller's clays, gypsum, lime, magnesia, marble, phosphatic fertilizers, phosphoric acid, salt (mainly marine), sand, crushed stone, sulfur, sulfuric acid, and crude construction materials. Dead Sea Works in 2004 produced 2.06 million metric tons of potash. Although Israel did not mine diamonds in 2004, an estimated 770,000 carats of imported diamonds were cut, down from 771,000 carats in 2003.

The Negev Desert contained deposits of phosphate, copper (low grade), glass sand, ceramic clays, gypsum, and granite. Most of the phosphate deposits, located in the northeastern Negev, were, at best, medium grade, and were extracted by open-pit mining. The government was the principal owner of most mineral-related industries. Privately held industries included the diamond cutting and polishing industry, and cement and potassium nitrate manufacturing.

## **27 ENERGY AND POWER**

Israel's energy sector is largely nationalized and state-regulated, ostensibly for national security reasons. With extremely modest reserves of oil and natural gas, and no coal reserves, Israel must rely almost entirely upon imports to meet its fossil fuel needs.

Israel has produced oil in the Negev desert since 1955; exploration there continued. The country's proven oil reserves were placed at two million barrels as of 1 January 2005. In 2004, domestic consumption and imports of oil averaged an estimated 274,000 barrels per day. There was no domestic oil production that year.

As of 1 January 2005, Israel's proven reserves of natural gas totaled 1.4 trillion cu ft (40 billion cu m). Natural gas production and demand in 2003 was each estimated at 7 billion cu ft (200 million cu m).

Domestic refinery output in 2002 averaged 229,610 barrels per day. Demand for refined oil products in that year averaged 270,460 barrels per day.

Nearly all electricity is supplied by the Israel Electric Corp. (IEC), a government owned monopoly. Electricity is generated principally by thermal power stations. As of 31 December 2004, the IEC reported that installed electric power generating capacity totaled 10,083 MW, of which 79.1% of capacity was generated by coal, followed by fuel oil at 16.8%, and by gas oil at 4.1%. In 2003, total electric power output was estimated at 44.2 billion kWh, with demand that year estimated at 39.6 billion kWh.

## **28 INDUSTRY**

More than half of the industrial establishments are in the Tel Aviv-Yafo area, but a great deal of heavy industry is concentrated around Haifa. Most plants are privately owned. State enterprises are mainly devoted to exploitation of natural resources in the Negev; some other enterprises are controlled by the Histadrut. Israel is research and development-oriented. Hundreds of foreign companies invested in Israel during the 1990s, the bulk in strategic high-technology projects in such fields as aviation, communications, computer-aided design and manufacturing (CAD/CAM), medical electronics, fine chemicals, pharmaceuticals, solar energy, and sophisticated irrigation. There was an 88% increase in exports in the 1990s.

Major expansion took place in textiles, machinery and transport equipment, metallurgy, mineral processing, electrical prod-

ucts, precision instruments, and chemicals in the 1990s. However, industry remains handicapped by reliance on imported raw materials, relatively high wage costs, low productivity, and inflation. Incentive schemes and productivity councils, representing workers and management, have been set up in an attempt to increase work output. Whereas in the past Israel's industry concentrated on consumer goods, by the 1980s it was stressing the manufacture of capital goods.

In the early- and mid-2000s, manufacturing activity successfully branched out into such industries as electronics, albeit at the expense of traditional industries such as textiles and footwear. Textile and clothing firms have gone through structural changes and have outsourced labor-intensive activities to neighboring countries such as Jordan, Egypt, and Turkey, where wages are substantially lower than in Israel. This allows Israeli manufacturers to concentrate on their relative advantage in product design and trade agreements with the United States and EU as part of a free-trade zone. Despite the economic recession period that began in 2000, these and other medium- and low-technology export-oriented firms fared relatively well, largely due to greater levels of efficiency. The electronics, communications, and other high-tech industries have gone through high and low cycles in the early- and mid-2000s. The expansion of Israel's high-tech industries and start-up companies soared in 2000, reflecting strong global demand and intense financial market interest in this field. This sector became a focal point of foreign investment. However, the collapse of the US financial markets, especially the NASDAQ, hurt Israel's technology sectors. Nevertheless, as a result of efficiency measures, lower labor costs, and a depreciation of the shekel, many high-tech sub-sectors, particularly electronic component production and exports, recorded growth after 2002.

## 29 SCIENCE AND TECHNOLOGY

Israel manufactures and exports an expanding array of high-technology goods, especially for military purposes. In 2002, Israel spent \$6,547,743, or 5.11% of GDP on research and development (R&D) in science, engineering, agriculture, and medicine. In 2000 (the latest year for which the following data was available) business accounted for 69.9% of R&D spending, followed by the government at 24.7%, with foreign sources and higher education each accounting for 2.8%. National and local governments and industry shared equally in the funding. A privatization program, begun by the government, has resulted in the creation of many science and technology parks and high technology towns, like Migdal He'Emck. Israel has an advanced nuclear research program, and it is widely believed that Israel has the capacity to make nuclear weapons.

Among scientific research institutes are seven institutes administered by the Agricultural Research Organization; the Rogoff-Wellcome Medical Research Institute; institutes for petroleum research, geological mapping, and oceanographic and limnological research directed by the Earth Sciences Research Administration; institutes of ceramic and silicate, fiber, metals, plastics, wine, and rubber research directed by the Office of the Chief Scientist, Ministry of Industry and Trade; the Institutes of Applied Research at the Ben-Gurion University of the Negev; the Israel Institute for Biological Research; the Israel Institute for Psychobiology; the National Research Laboratory; and the Soreg and Negev nuclear re-

search centers attached to the Israel Atomic Energy Commission. The country has eight universities and colleges offering courses in basic and applied sciences; among them are the Weizmann Institute in Rehovot and the Technion-Israel Institute of Technology in Haifa. In 1987-97, science and engineering students accounted for 49% of all college and university students.

Immigration into Israel may be its best science and technology policy. Some consider this a "brain drain" in reverse and claim that it will help Israeli high technology competitiveness in the future. In 2002, high technology exports were valued at \$5.414 billion and accounted for 20% of all manufactured exports.

## 30 DOMESTIC TRADE

Banks, commercial institutions, and the Histadrut labor federation have their headquarters in Tel Aviv-Yafo, the business capital. Supermarkets and department stores are on the increase; installment sales are widespread. Packaged goods are becoming more common, but many sales are still made in bulk. Cooperative societies market the agricultural produce of their affiliated settlements and farms. Tnuva, the Histadrut agricultural marketing society, sells most of Israel's farm products. Advertising media include newspapers, periodicals, posters, billboards, television and radio broadcasts, and motion picture theaters.

Larger shopping centers and malls are becoming more popular in the country. There are about 200 malls nationwide and construction plans for many others. At least half of all food sales are through supermarket and retail chains, but small, open-air produce markets are still common. Foreign franchises have been well established since the mid-1980s, primarily in the fast-food and hardware industries.

Business hours vary widely, depending on the religion of the proprietor. Saturday closing is the custom for all Jewish shops, offices, banks, public institutions, and transport services. Office hours are generally Sunday to Thursday, 8 AM to 5 PM. Retail hours run from 9 AM to 7 PM Sunday through Thursday and 9 AM to 2 PM on Fridays. Shops in malls usually stay open until 10 PM. On days preceding holidays, shops shut down about 2 PM, offices at 1 PM. Banks are open 8:30 AM to 12:30 PM and 4 to 5:30 PM; they close at noon on Fridays and days before holidays and have no

### Principal Trading Partners – Israel (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	31,782.7	34,210.9	-2,428.2
United States	12,089.1	5,331.7	6,757.4
Belgium	2,320.8	3,179.7	-858.9
Areas nes	1,523.7	3,863.6	-2,339.9
China, Hong Kong SAR	1,495.6	892.7	602.9
United Kingdom	1,224.5	2,283.2	-1,058.7
Germany	1,123.4	2,730.9	-1,607.5
Netherlands	1,085.1	1,196.3	-111.2
Italy-San Marino-Holy See	772.5	1,398.2	-625.7
India	717.9	888.8	-170.9
France-Monaco	687.8	1,182.5	-494.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

afternoon hours on Wednesdays. Many Islamic-owned establishments are closed all day Friday, while Christian ones are closed on Sunday.

### 31 FOREIGN TRADE

Israel is a relatively small country with limited natural resources and an affluent, bourgeois citizenry; as such, it is highly dependent on international trade, both to supply its industry with natural resources, and to purchase its value-added products. The vast majority (66%) of Israeli exports are manufactured goods and their primary destinations are the United States and the European Union, which together buy 65% of Israel's exports. Imports are primarily industrial resources (63%)—other large sectors are capital goods (19%) and consumer products (11%).

Cut diamonds top the list of Israel's export commodities. In 2005, Israel's polished and rough diamond exports broke the \$10 billion level for the first time, maintaining Israel's position as a major trading and manufacturing center for polished and rough diamonds. Net polished diamond exports were \$6.7 billion, and rough diamond exports reached \$3.5 billion. Net imports of rough diamonds totaled \$5.3 billion, and Israel's imports of polished diamonds rose 9.3% in 2005 to reach \$3.9 billion. The US is the major export market for Israel's polished diamonds, although its export share dropped from 67% in 2004 to 61% in 2005, with exports to Europe and Asia increasing.

The list of major exports in 2004 included: polished diamonds (gross) (31.4% of all exports); electronic communication, medical, and scientific equipment (17%); chemicals and chemical products (excluding refining) (16.9%); and machinery and equipment (4%). Israel's major imports in 2004 were: diamonds (gross) (22.7% of all imports); machinery and equipment (12.1%); fuel (11.1%); consumer nondurable goods (7%); and chemicals and chemical products (excluding refining) (6.7%).

Israel's leading markets in 2003 were: the United States (42.2% of all exports); Belgium (6.1%); the United Kingdom (4.7%); Germany (4.4%); and the Netherlands (3.7%). Leading suppliers included: the United States (22.4% of all imports); Germany (8.9%); Belgium (8.4%); the United Kingdom (7.3%); and Switzerland (7.2%).

### 32 BALANCE OF PAYMENTS

Israel's foreign trade has consistently shown an adverse balance, owing mainly to the rapid rise in population and the expansion of the industrialized economy, requiring heavy imports of machinery and raw materials. The imbalance on current accounts has been offset to a large extent by the inflow of funds from abroad. Deficits are often offset by massive US aid and American Jewish philanthropy. Even with these funds, however, Israel still runs significant trade deficits. Financing this deficit is easier on Israel than on many nations primarily because of its relationship with the United States.

After falling sharply in 2001–02, merchandise exports recovered in 2003 to \$30.1 billion, and increased to \$36.2 billion in 2004. Imports also increased in 2003, to \$32.3 billion, before rising even more strongly to \$38.6 billion. Overall, the trade deficit fell sharply in 2003 before stabilizing at \$2.4 billion in 2004, which kept the current account in surplus at \$504 million. In 2005, ex-

ports were estimated at \$40.14 billion, and imports at \$43.19 billion. The current account remained stable at \$500 million.

### 33 BANKING AND SECURITIES

The Bank of Israel, with headquarters in Jerusalem, began operations as the central state bank in December 1954. Total banking assets at year-end 2001 were NIS435 billion. The bank issues currency, accepts deposits from banking institutions in Israel, extends temporary advances to the government, acts as the government's sole banking and fiscal agent, and manages the public debt. Among the largest commercial banks are the Bank Leumi, the Israel Discount Bank, and the Histadrut-controlled Bank Hapoalim. There were 24 licensed commercial banks in 1997; one investment bank; and nine mortgage banks. There are also numerous credit cooperatives and other financial institutions. Among the subsidiaries of commercial banks are mortgage banks (some of which were also directly established by the government). The largest of these specialized institutions, the Tefahot Israel Mortgage Bank, provides many loans to home builders.

Industrial development banks specialize in financing new manufacturing enterprises. The Industrial Bank of Israel, formed in 1957 by major commercial banks, the government, the Manufacturers' Association, and foreign investors, has received aid from the IBRD and has played a major role in the industrial development of the Negev area. The government-owned Bank of Agriculture is the largest lending institution in that sector. The Post Office Bank, similar to France's La Poste, is concerned mainly with clearing operations, savings, sale of savings certificates, and postal orders.

The structure of the banking industry is based on the central European model of "universal banking," whereby the banks operate as retail, wholesale, and investment banks, as well as being active in all main areas of capital market activity, brokerage, underwriting, and mutual and provident fund management. However,

#### Balance of Payments – Israel (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>154.0</b>
Balance on goods		-2,177.0
Imports	-32,333.0	
Exports	30,155.0	
Balance on services		312.0
Balance on income		-4,359.0
Current transfers		6,377.0
<b>Capital Account</b>		<b>458.0</b>
<b>Financial Account</b>		<b>-2,527.0</b>
Direct investment abroad		-1,773.0
Direct investment in Israel		3,672.0
Portfolio investment assets		-3,078.0
Portfolio investment liabilities		384.0
Financial derivatives		339.0
Other investment assets		-1,634.0
Other investment liabilities		-438.0
<b>Net Errors and Omissions</b>		<b>1,398.0</b>
<b>Reserves and Related Items</b>		<b>516.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

er, the banks are barred from insurance operations, other than as owners of insurance agents, and have only recently been allowed to enter the pension market.

The Bank of Israel's power to fix the liquidity ratio that banks must maintain against deposits has been an important instrument in governing both volume and types of loans. Legal interest rate ceilings formerly were 10% on loans to industry and agriculture and 11% for commercial loans, but in the early 1980s, rampant inflation caused the large commercial banks to raise the interest rate to 136%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$9.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$114.2 billion. In the financial sector, the banks have benefited from a very slow program of financial deregulation and the absence of foreign competition; until 2000, the only foreign bank licensed to operate in Israel was the Polish PKO Bank, more of a historical curiosity than a serious commercial consideration. However, as deregulation progressed, the prospect of foreign ownership of Israeli banks, in part or whole, grew more real. In 2000, Citibank set up a full branch in Israel, the first major international bank to do so; HSBC followed soon afterward, and Bank of America has also set up a branch office there.

Growing activity on the Israeli securities market made it necessary to convert the rather loosely organized Tel Aviv Securities Clearing House into the formally constituted Tel Aviv Stock Exchange (TASE) in 1953. A further expansion took place in 1955, when debentures linked either to the US dollar or to the cost-of-living index—with special tax privileges—made their first appearance on the market. The market is largely devoted to loans of public and semipublic bodies, with provident funds and banks acquiring most of the securities placed. There is only one quotation daily for each security. As of 2004, there was a combined total of 571 companies listed on the TASE and the S&P EMDB Israel indices, which in that year had a market capitalization of \$95.505 billion. In 2004, the Tel Aviv 100 index rose 19% from the previous year to 636.

By 1983 the price of bank shares was steadily becoming more detached from their true value. When it became obvious in 1983 that the government would have to devalue its currency, many people began to liquidate their holdings of shekel-denominated assets in favor of foreign currency. The assets most widely held and most easily liquidated were bank shares. The selling wave began in the summer of 1983 and peaked in October, forcing the government to intervene. The closing of the TASE, on 6 October 1983, became known as the “economic day of atonement” and represented the end of the speculators’ paradise created and supported by leading Israeli banks.

By the mid-1990s, as Israel moved to liberalize its economy, the banking sector underwent significant reconstruction. In two sell-offs in 1997 and 1998, the government divested itself of a majority of Bank Hapoalim. It also sold sizeable shares of United Mizrahi Bank, Israeli Discount Bank, and Bank Leumi, in the hopes of shedding all remnants of ownership in these banks. In addition to bank privatization, the Israeli government moved to reduce capital markets regulations.

### Occupied Territories

In 1994 the Palestinian Authority (PA) began to take over the management of an economy with a limited capacity to support its expanding population. The PA has acted within the constraints of the economic protocol to revive the financial sector. The reconstruction effort requires the creation of financial markets and institutions that perform the key functions of supplying liquidity, encouraging savings and investments, and facilitating the management of risk.

In expectation of a boom in the financial sector, a number of Jordanian and Palestinian banks opened, or reopened, branches in the West Bank and Gaza. The banks have mainly limited themselves to establishing checking accounts and accepting deposits, specifically noninterest bearing accounts. Despite their success in attracting deposits from Palestinians, the banks have maintained a limited role in lending. The reluctance to invest locally stems from doubts over the political environment and it is widely believed that banks are investing abroad, particularly in Central Bank of Jordan treasury bills. The Commercial Bank of Palestine, one of the first banks to open after the return of the Palestinian Authority, was capitalized at \$14 million and raised its capital to \$20 million by end-2003.

A key factor in the success of the banks will be the supervisory activities of the Palestinian Monetary Authority (PMA), set up as a result of the Paris protocol. The PMA has most of the functions of a central bank. It is empowered to act as the PA's adviser and sole financial agent; to hold its foreign currency reserves; to regulate foreign-exchange dealers; and to supervise the banking sector, as the self-rule areas come under PA jurisdiction. However, in the absence of a Palestinian currency, the PMA's ability to be a lender of last resort is questionable.

The Arab Palestine Investment Bank (APIB) held its first annual general meeting in Ramallah on 15 September 1996 and its first board meeting in 'Ammān the next day. The bank, with paid-up capital of some \$15 million, has four principal shareholders, Jordan's Arab Bank (55%), the International Finance Corp. (25%), the German Investment and Development Co. (15%), and the Palestinian private-sector Enterprise Investment Co. (5%). Total deposits of the Palestinian banking system expanded by over 125% during the year ended June 1996, reaching \$2.06 trillion. However, it was estimated that over half the local deposits were invested abroad, while only \$300 million were loaned internally to the Palestinians.

On 25 February 2004, Israel raided certain banks in the West Bank, seizing some \$8.5 million from bank vaults. However, this move did not significantly affect public confidence in banks, as private sector deposits increased by almost 4% in the first three quarters of 2004. Bank credit to the private sector grew strongly by some 13% in the first three quarters of 2004, after being stagnant in 2001–03. This was partly due to greater demand for loans by creditworthy businesses and an increase in bankable projects, and partly due to the PMA's pressures on banks to increase their financial intermediation role, since only 29% of deposits are invested in the West Bank and Gaza.

Due to the election of a Hamas government in January 2006, and Israel's subsequent decision to cease transferring some \$50 million in monthly tax and customs receipts to the PA (collected on behalf of the Palestinians), Palestinians realized they would

have to take significant steps to court new investment and development funds to support the economy, improve infrastructure, reduce poverty, and secure the living standards of the people. In January 2006, the Palestinian Minister for the National Economy pledged to provide a number of political and financial guarantees to those wishing to invest in Palestine: first on the list was a plan to establish a \$250 million Investment Security Fund as insurance against further political action. The fund was to be established by various entities, including OPEC, the World Bank, the Islamic Investment Bank, German Investment Bank, European Investment Bank, and the Palestinian Investment Fund.

### 34 INSURANCE

The State Insurance Controller's Office may grant or withhold insurance licenses and determine the valuation of assets, the form of balance sheets, computations of reserves, and investment composition. Automobile liability insurance, workers' compensation, and aviation liability are compulsory. War-damage insurance is compulsory on buildings and also on some personal property.

The insurance sector is dominated by a few large firms, of which Migdal and Clal Insurance are the most prominent. However, the easy, cartel-like conditions that have characterized the sector for many years are beginning to crumble and new direct insurance companies are gaining market share. In 1997, the US-based AIG group entered the fray, via a direct insurance joint venture with an Israeli communications company, Aurec, which signaled the opening up of the industry to much greater competition from both domestic and foreign entities. In 2003, the value of direct premiums written totaled \$6.892 billion, of which nonlife premiums accounted for \$3.840 billion. Clal was Israel's top nonlife insurer in 2002, with gross written nonlife premiums of \$479.3 million. Migdal, that same year was the country's leading life insurer, with gross written life premiums totaling \$839.9 million.

### 35 PUBLIC FINANCE

Israel has the most advanced economy in the Middle East, although the country has been plagued with political and social woes for much of its independence. The onset of the intifada in September 2000 threatened to reverse much of the economic progress that had been made in the prior few decades. The violence has left several industries, especially the tourism sector, in critical states. Also, Israel's sizeable external debt, which was equivalent to about 38% of GDP in 2000, has put a damper on the economy's expansion.

The US Central Intelligence Agency (CIA) estimated that in 2005 Israel's central government took in revenues of approximately \$43.8 billion and had expenditures of \$58 billion. Revenues minus expenditures totaled approximately -\$14.2 billion. Public debt in 2005 amounted to 101% of GDP. Total external debt was \$73.87 billion.

In 2002, government outlays by function were as follows: general public services, 14.5%; defense, 20.2%; public order and safety, 3.5%; economic affairs, 4.7%; environmental protection, 0.2%; housing and community amenities, 1.3%; health, 12.8%; recreation, culture, and religion, 1.7%; education, 15.0%; and social protection, 25.6%.

In the West Bank and Gaza in 2004, revenues amounted to \$964 million and expenditures amounted to \$1.34 billion. The occupied territories held no external debt.

### 36 TAXATION

Israel's population is heavily taxed. The personal income tax is progressive, with a top rate of 50%. In addition, there are personal income taxes on gross income from employment, trade, business, dividends, and other sources, with limited deductions. However, special tax concessions are granted to residents in border settlements, new settlements, and the Negev. Taxes of salaried persons are deducted at the source; self-employed persons make advance payments in 10 installments, subject to assessment. Also levied are a value-added tax (VAT) of 25%, a purchase tax, various land taxes, and a national health insurance premium tax on a rising scale to 4.8%.

The main corporate income tax rate is 34%, although tax reliefs are available to "approved enterprises" and international trading companies. Municipalities and local and regional councils levy several taxes. There is an annual business tax on every enterprise, based on net worth, annual sales volume, number of employees, and other factors. General rates, a real estate tax (commonly based on the number of rooms and the location of the building), and water rates are paid by the tenants or occupants rather than the owners.

### 37 CUSTOMS AND DUTIES

Israel has a single-column import tariff based on the Brussels nomenclature classification. Ad valorem rates predominate, although specific and compound rates are also used. Most basic food commodities, raw materials, and machinery for agricultural or industrial purposes are exempt from customs duties. The highest rates are applied to nonessential foodstuffs, luxury items, and manufactured goods that are of a type produced in Israel. There are also an 18% value-added tax (VAT), which is levied on virtually all com-

#### Public Finance – Israel (2002)

(In millions of new sheqalim, central government figures)

<b>Revenue and Grants</b>	<b>239,548</b>	<b>100.0%</b>
Tax revenue	147,479	61.6%
Social contributions	38,233	16.0%
Grants	20,340	8.5%
Other revenue	33,496	14.0%
<b>Expenditures</b>	<b>259,670</b>	<b>100.0%</b>
General public services	37,625	14.5%
Defense	52,564	20.2%
Public order and safety	9,000	3.5%
Economic affairs	12,205	4.7%
Environmental protection	621	0.2%
Housing and community amenities	3,394	1.3%
Health	33,327	12.8%
Recreational, culture, and religion	4,458	1.7%
Education	38,983	15.0%
Social protection	66,396	25.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

modities except fresh fruits and vegetables, and a purchase tax ranging from 5–90% on most consumer goods.

A free-trade agreement between Israel and the then-European Community (today, the European Union) took effect on 1 July 1975. Under this agreement, EC tariffs on Israel's industrial exports were immediately reduced by 60% and were subsequently eliminated. Preferential treatment has also been extended to Israel's agricultural exports. In return, Israel has granted concessions to the European Union on many categories of industrial and agricultural imports and agreed to gradually abolish its customs duties on imports from the European Union.

Israel also belongs to the World Trade Organization (WTO) and operates its trade regime according to WTO guidelines. Most significantly, the WTO calls for the elimination of nontariff barriers. Israel also signed a free trade agreement with the United States in 1985, which called for the elimination of all remaining duties on US-made products by 1 January 1995. However, Israel and the United States differ on the interpretation of the treaty and it has yet to be fully implemented.

### **38 FOREIGN INVESTMENT**

Israel is open to foreign investment, and the government encourages and supports the inflow of capital. There are few restrictions on foreign investment, excepting parts of the defense industry, which are closed to outside investors on national security grounds.

Apart from reparations, capital imports mainly consist of long-term loans and grants designed for investment by the government or the Jewish Agency.

A 1951 law was designed to encourage foreign investment in those industries and services most urgently required to reduce Israel's dependence on imports and to increase its export potential. Applying mainly to investments in industry and agriculture, the law offers such inducements as relief from property taxes during the first five years, special allowances for depreciation, exemption from customs and purchase tax on essential materials, and reductions in income tax rates. In a further effort to attract foreign investment, the government approved the "Nissim Plan" in 1990. This plan gives the investor the option of state loan guarantees for up to two-thirds of a project or the bundle of benefits offered under the "Encouragement of Capital Investments Law." A 1985 US-Israeli Free Trade Area (FTA) agreement reduces tariffs and most nontariffs barriers for US firms. Israel also has an FTA agreement with the European Union (EU) under which tariffs on industrial products and certain agricultural products fell to zero on 1 January 1989. In 1995, Israel attracted \$2.5 billion in foreign investment. This figure came on the heels of several years of economic growth and fiscal austerity.

New direct foreign investment amounted to \$3.7 billion in 2003, about 3.4% of GDP. Portfolio investment stood at \$2.4 billion. The estimated stock of foreign direct investment in Israel was \$31.8 billion at the end of 2003, just under 29% of GDP. Net direct investment by Israelis abroad in 2003 amounted to approximately \$1.8 billion.

### **39 ECONOMIC DEVELOPMENT**

Economic policy is dictated by goals of national security, full utilization of resources, integration of immigrants, and institution of a broad welfare program. The urgency of these goals imposes

responsibilities on the government for planning, financing, and directly participating in productive activities. And, in fact, government infrastructure development since 1990 has played a large part in Israel's powerful economic performance in recent years. Major government projects include an expansion of the Ben-Gurion Airport, a subway for Tel-Aviv, a tunnel through Mt. Carmel, and a major new north-south highway.

In the years immediately following independence, the government influenced the setting in which private capital functions, through differential taxation, import and export licensing, subsidies, and high protective tariffs. The 1962 revaluation of the Israeli pound was accompanied by a new economic policy aimed at reduction of protective tariffs, continued support of development, planning and implementation of long-range development, and maximization of efficiency. Subsequently, the government has periodically decreed further monetary devaluations, new taxes, and other austerity measures designed to curb consumption and stimulate exports. By the mid-1990s, the Israeli government was actively engaged in an economic liberalization program that is a stark contrast from the largely state regulated economy of Israel's first few decades.

By the mid-2000s, security issues remained Israel's top political priority, which impact the economy. The government has made progress stabilizing the economy, widening fiscal reforms, and accelerating privatization and market deregulation.

### **40 SOCIAL DEVELOPMENT**

Israel has a universal social insurance system that covers all residents aged 18 and over, including housewives. Benefits are extensive and include old age pensions, disability, medical care, and family allowances. Employee-based programs include maternity benefits, worker's compensation for injuries, and unemployment benefits. These programs are funded by contributions by employees, employers, and the government. Beginning in 2004, the age for retirement is being increased until it reaches 67 for both men and women. All residents are covered for medical care.

The Equality of Women Law provides equal rights for women in the military, workplace, health, education, housing, and social welfare. It also entitles women to protection from sexual harassment, exploitation, and violence. There were still many reports of spousal abuse in 2004, and some harassment in the military. Although the law mandates equal pay for equal work, a wage gap remains. Jewish women are subject to military draft, and can volunteer to serve in combat units. Jewish and Muslim women are subject to limitations in their respective faiths. Children's rights are protected and education is free and compulsory.

The use of limited physical force during interrogations has been legal, but a high court ruling banned a variety of specific abuses, including sleep deprivation and violent shaking. Administrative detention without trial remains legal, but it is rarely used. Prison conditions for Palestinians have improved but still do not meet all international standards. The government generally protects the human rights of its citizens.

### **41 HEALTH**

The Ministry of Health supervises all health matters and functions directly in the field of medical care. Total health care expenditure was estimated at 9.5 % of GDP. The Arab Department of the

Ministry of Health recruits public health personnel from among the Arab population and its mobile clinics extend medical aid to Bedouin tribes in the Negev. As of 2004, there were an estimated 391 physicians, 616 nurses, 68 pharmacists, and 18 midwives per 100,000 people. In addition, Israel had the third most dentists per capita at an estimated 120 per 100,000 population. The Ministry of Health also operates infant welfare clinics, nursing schools, and laboratories. The largest medical organization in the country, the Workers' Sick Fund (Kupat Holim, the health insurance association of Histadrut), administers hospitals, clinics, convalescent homes, and mother-and-child welfare stations.

The infant mortality rate was 7.03 per 1,000 live births in 2005. The maternal death rate is the lowest in the Middle East and North Africa. As of 2002, Israel's birth and death rates were estimated respectively at 18.9 and 6.2 per 1,000 people. Life expectancy was 79.32 years in 2005. The fertility rate has decreased steadily over the years from 3.9 in 1960 to 2.8 children in 2000 for each woman during childbearing years. Immunization rates for children up to one year old were: diphtheria, pertussis, and tetanus, 92%; polio, 93%; and measles, 95%.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 3,000 people living with HIV/AIDS in the country. There were an estimated 100 deaths from AIDS in 2003.

## 42 HOUSING

Israel suffered from a severe housing shortage at its creation. Despite an extensive national building program and the initial allocation of some abandoned Arab dwellings to newcomers, in early 1958, nearly 100,000 immigrants were still housed in transit camps. By the mid-1960s, however, the extreme housing shortage had been overcome and newcomers were immediately moved into permanent residences. From 1960 to 1985, a total of 943,350 housing units were constructed. In 1986, 94% of all housing units had piped water, 58.2% had flush toilets, and 99% had electric lighting. The period 1990–2001, a surge of immigration from the former Soviet Union and Ethiopia resulted in a dramatic increase in housing demand. The government responded with mortgage packages making it possible for new immigrants to afford housing.

As of the 1995 census, there were about 1,639,410 residential dwellings throughout the nation. The average building rate seems to be at over 30,000 new dwellings per year. About 38,000 new dwellings were added in 1996; 32,482 were added in 2004. In 2003, about 70% of all households lived in dwellings owned by a resident. Homelessness and overcrowding are serious problems in the West Bank and Gaza.

## 43 EDUCATION

In Israel, Education is compulsory for 11 years and free for all children between 5 and 15 years of age. Primary education is for six years followed by three years of lower secondary and three more years of upper secondary education. A state education law of 1953 put an end to the separate elementary school systems affiliated with labor and religious groupings, and established a unified state-administered system, within which provision was made for state religious schools. Four types of schools exist: public religious (Jewish) and public secular schools (the largest group); schools of the orthodox Agudat Israel (which operated outside the public

school system but were assisted with government funds); public schools for Arabs; and private schools, mainly operated by Catholic and Protestant organizations. The language of instruction in Jewish schools is Hebrew; in Arab schools it is Arabic. Arabic is taught as an optional language in Jewish schools, while Hebrew is taught in Arab schools from the fourth grade. The school year runs from October to June.

Most children between the ages of three and five are enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was about 89% of age-eligible students. The student-to-teacher ratio for primary school was at about 15:1 in 2003.

Israel has eight main institutions of higher learning. The two most outstanding are the Hebrew University (founded in 1918) in Jerusalem and the Israel Institute of Technology (Technion, founded in 1912) in Haifa, both of which receive government subsidies of about 50% of their total budgets; the remaining funds are largely collected abroad. The Tel Aviv University was formed in 1956. Other institutions include the Bar-Ilan University in Ramat-Gan, opened in 1955 under religious auspices; the Weizmann Institute of Science at Rehovot, notable for its research into specific technical, industrial, and scientific problems; Haifa University; and Ben-Gurion University of the Negev in Beersheba. An Open University, promoting adult education largely through home study, was established and patterned on the British model. In 2003, about 57% of the tertiary age population were enrolled in some type of higher education program; with 49% for men and 66% for women. The adult literacy rate for 2004 was estimated at about 96.9%, with 98.3% for men and 95.6% for women.

As of 2003, public expenditure on education was estimated at 7.5% of GDP, or 13.7% of total government expenditures.

In the Palestinian school system, basic education covers 10 years of study followed by two years of secondary school or two years of vocational school. The final two years of general secondary school, students are placed in either arts or science courses depending on their performance in their basic education. Primary school enrollment in 2003 was estimated at about 91% of age-eligible students. The same year, secondary school enrollment was about 84% of age-eligible students.

Universities and community colleges offer higher education programs for adults. Schools include Bethlehem University, Islamic University, and Palestine Polytechnic Institute. In 2003, about 35% of the tertiary age population were enrolled in some type of higher education program.

## 44 LIBRARIES AND MUSEUMS

Israel's largest library, founded in 1924, is the privately endowed Jewish National and University Library at the Hebrew University in Jerusalem, with three million volumes. Important collections are housed in the Central Zionist Archives and the Central Archives for the History of the Jewish People, both also in Jerusalem. There are more than 950 other libraries, and the Ministry of Education and Culture has provided basic libraries to hundreds of rural settlements. The Ben Gurion University of the Negev (1966)

holds 720,000 volumes. Tel Aviv University holds two million volumes, including a Holocaust Studies collection.

The country's most important museum is the Israel Museum, opened in 1965 in Jerusalem. Found in the museum are the Bezalel Art Museum, with its large collection of Jewish folk art; a Jewish antiquities exhibit; the Billy Rose Art Garden of modern sculpture; the Samuel Bronfman Biblical and Archaeological Museum; and the Shrine of the Book, containing the Dead Sea Scrolls and other valuable manuscripts. The Rockefeller Archaeological Museum (formerly the Palestine Museum), built in 1938, contains a rich collection of archaeological material illustrating the prehistory and early history of Palestine and Transjordan. There is also in Jerusalem the Central Archives for the History of the Jewish People, containing documents from Jewish communities and organizations around the globe. The Tel Aviv Museum of Art, founded in 1926, has more than 30,000 paintings, drawings, and sculptures. Among Israel's newer cultural institutions are the Museum of the Diaspora in Tel Aviv-Yafo, founded in 1978; the Bible Lands Museum in Jerusalem, founded in 1992; the Museum of Israeli Art in Ramat Gan, founded in 1987; and the Tower of David Museum of the History of Jerusalem at the Jaffa Gate in Jerusalem, founded in 1989.

#### 4<sup>5</sup> MEDIA

The state owns and operates the major telephone communications services, although radio and television are increasingly privately owned. In 2003, there were an estimated 458 mainline telephones for every 1,000 people. The same year, there were approximately 961 mobile phones in use for every 1,000 people.

The state radio stations include the government's Israel Broadcasting Authority (*Shidurei Israel*), the army's Defense Forces Waves (*Galei Zahal*), and the Jewish Agency's Zion's Voice to the Diaspora (*Kol Zion la-Gola*), aimed mostly at Jewish communities in Europe and the United States. The Second Television and Radio Authority is a public organization that operates 2 privately owned television channels and 14 privately owned radio stations. There are one satellite and three cable and television companies. In 2003, there were an estimated 526 radios and 330 television sets for every 1,000 people. Cable subscriptions are common. Also in 2003, there were 242.6 personal computers for every 1,000 people and 301 of every 1,000 people had access to the Internet. There were 869 secure Internet servers in the country in 2004.

All Israeli newspapers are privately owned and managed. Most newspapers have 4–16 pages, but there are weekly supplements on subjects such as politics, economics, and the arts. In 2004, there were 12 daily newspapers, 90 weekly newspapers, and more than 250 periodical publications. The largest national daily Hebrew newspapers (with their average 2002 circulations) are *Yediot Achronot* (*Latest News*, 300,000), *Maa'ariv Evening* (*Evening Prayer*, 160,000), *Hadashot* (*The News*, 55,000), and *Ha'aretz* (*The Land*, 65,000), all published in Tel Aviv. Also out of Tel Aviv are two Russian papers, *Nasha Strana* (*Our Country*, 35,000) and *Tribuna* (*Tribune*); the Polish *Nowiny Kurier* (12,000); the German *Hadashot Israel*; the Hungarian *Uj Kelet* (20,000); and the Romanian *Viata-Noastra* (30,000). The English-language *Jerusalem Post* (30,000) is published in Jerusalem.

Although there is no political censorship within Israel, restrictions are placed on coverage of national security matters. Indi-

viduals, organizations, the press, and the electronic media freely debate public issues and often criticize public policy and government officials.

#### 4<sup>6</sup> ORGANIZATIONS

The World Zionist Organization (WZO) was founded by Theodor Herzl in 1897 for the purpose of creating "for the Jewish people a home in Palestine, secured by public law." The organization is composed of various international groupings represented in its supreme organ, the World Zionist Congress. The Jewish Agency, originally founded under the League of Nations mandate to promote Jewish interests in Palestine, comprises the executive arm of the WZO; since 1948, it has been responsible for the organization, training, and transportation to Israel of all Jews who wish to settle there. The United Israel Appeal (*Keren Hayesod*) is the financial instrument of the Jewish Agency; it recruits donations from world Jewry. The Jewish National Fund (*Keren Kayemet le'Israel*) is devoted to land acquisition, soil reclamation, and reforestation. Hadassah, the Women's Zionist Organization of America, is also active in Israel; it sponsors the Hadassah Medical Organization, which provides hospital and medical training facilities.

The main labor organization is the General Federation of Labor (*Histadrut*), a large economic complex whose interests include some of the largest factories in the country, an agricultural marketing society (*Tnuva*), a cooperative wholesale association (*Hamashbir Hamerkazi*), and a workers' bank. Trade and industry unions are fairly active, including such groups as the Manufacturers Association of Israel, Israel Association of Craft and Industry, and the Citrus Marketing Board of Israel. There are professional associations representing a wide variety of fields. The Israel Medical Organization promotes research and education on health issues and works to establish common policies and standards in healthcare. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions, such as the Israel Heart Society and the Israel Cancer Association.

There are numerous cultural and religious societies and organizations. The Israel Academy of Sciences and Humanities promotes public interest in science and cooperates with foreign academies in research and dissemination of information. The Hebrew Writers Association in Israel represents Hebrew writers worldwide.

An important youth organization is Youth Aliyah, founded in 1934, which has helped to rehabilitate and educate children from all countries of the world. Other national youth organizations include the Israeli Boy and Girl Scouts Federation, National Working Youth Movement of Israel, Orthodox Youth Movement of Israel (*Ezra*), Socialist Youth Movement of Israel, Sons of Akiva Youth Movement of Israel, Tel Aviv University Students' Association, Trumpeldor Covenant Youth Movement of Israel, United Kibbutz Youth Movement of Israel, Young Herut, Zionist Youth Movement, and chapters of the YMCA/YWCA. The Association for Arab Youth was founded in 2000 to be a bipartisan organization promoting pluralism and tolerance through educational and recreational youth activities. Sports associations are also active, including such pastimes as baseball, badminton, ice skating, cricket, and frisbee.

The Council of Women's Organizations in Israel is an umbrella organization promoting legal and social rights for women.

The Arab Association for Human Rights is in Nazareth and the Association for Civil Rights in Israel is in Jerusalem. The Democracy and Workers Rights Center represents those working to create a civil society within the Palestinian-administered territories of the West Bank and the Gaza Strip. Disaster relief and aid services in Israel are organized by the Red Shield of David (Magen David Adom), which cooperates with the International Red Cross. Other international organizations include Defence for Children International and Amnesty International.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Principal tourist attractions are the many holy and historic places, which include sites sacred to three religions: Judaism, Islam, and Christianity. In particular, the Old City of Jerusalem contains the Western ("Wailing") Wall, the Dome of the Rock, and the Church of the Holy Sepulchre; nearby are the Mount of Olives and Garden of Gethsemane. Another holy place is Bethlehem, the birthplace of both King David and Jesus. Also of great interest are the ruins of Jericho, the world's oldest city; the caves of Qumran, near the Dead Sea; and the rock fortress of Masada, on the edge of the Dead Sea Valley and the Judean Desert. Tourists are also drawn to Israel's rich variety of natural scenery, ranging from hills and greenery in the north to rugged deserts in the south, and including the Dead Sea, the lowest spot on Earth. The most popular team sports are football (soccer) and basketball; popular recreations include swimming, sailing, and fishing.

A valid passport, proof of sufficient funds, and onward/return ticket are required for tourists; a three-month visa may be issued upon arrival. The Tourist Industry Development Corporation fosters tourism by granting loans for hotel expansion and improvement. A total of 1,063,381 tourists visited Israel in 2003, a 23% increase from 2002. There were 46,368 hotel rooms with 114,041 beds and an occupancy rate of 45%. The average length of stay was two nights.

In 2004, the US Department of State estimated the daily average of staying in Tel Aviv at \$336. Estimated daily expenses in Jerusalem were \$312 per day in 2002.

#### **48 FAMOUS ISRAELITES AND ISRAELIS**

The State of Israel traces its ancestry to the settlement of the Hebrews in Canaan under Abraham (b.Babylonia, fl.18th cent. BC), the return of the Israelite tribes to Canaan under Moses (b.Egypt, fl.13th cent. BC) and Joshua (b.Egypt, fl.13th cent. BC), and the ancient kingdom of Israel, which was united by David (r.1000?–960? BC) and became a major Near Eastern power under Solomon (r.960?–922 BC). A prophetic tradition that includes such commanding figures as Isaiah (fl.8th cent. BC), Jeremiah (650?–585? BC), and Ezekiel (fl.6th cent. BC) spans the period of conquest by Assyria and Babylonia; the scribe Ezra (b.Babylonia, fl.5th cent. BC) and the governor Nehemiah (b.Babylonia, fl.5th cent. BC) spurred the reconstruction of the Judean state under Persian hegemony. Judas (Judah) Maccabaeus ("the Hammerer"; fl.165–160 BC) was the most prominent member of a family who instituted a period of political and religious independence from Greek rule. During the period of Roman rule, important roles in Jewish life and learning were played by the sages Hillel (b.Babylonia, fl.30 BC–AD 9), Johanan ben Zakkai (fl.1st cent.), Akiba ben Joseph (50?–

135?), and Judah ha-Nasi (135?–220), the compiler of the Mishnah, a Jewish law code; by the military commander and historian Flavius Josephus (Joseph ben Mattathias, AD 37–100?); and Simon Bar-Kokhba (bar Kosiba, d.135), leader of an unsuccessful revolt against Roman rule. Unquestionably, the most famous Jew born in Roman Judea was Jesus (Jeshua) of Nazareth (4? BC–AD 29?), the Christ, or Messiah ("anointed one"), of Christian belief. Peter (Simon, d.AD 67?) was the first leader of the Christian Church and, in Roman Catholic tradition, the first pope. Paul (Saul, b.Asia Minor, d.AD 67?) was principally responsible for spreading Christianity and making it a religion distinct from Judaism.

The emergence of Israel as a modern Jewish state is attributed in large part to Chaim Weizmann (b.Russia, 1874–1952), the leader of the Zionist movement for 25 years, as well as a distinguished chemist who discovered methods for synthesizing acetone and rubber. Theodor Herzl (b.Budapest, 1860–1904), the founder of political Zionism, is buried in Jerusalem. Achad Ha'am (Asher Hirsch Ginsberg; b. Russia, 1856–1927) was an influential Zionist and social critic. Vladimir Jabotinsky (1880–1940) was a dedicated advocate of Jewish self-defense, both in his native Russia and in Palestine. David Ben-Gurion (Gruen; b.Poland, 1886–1973), also a leading Zionist and an eloquent spokesman on labor and national affairs, served as Israel's first prime minister. Golda Meir (Meyerson; b.Russia, 1898–1978), like Ben-Gurion a former secretary-general of Histadrut, became well known as Israel's prime minister from 1970 to 1974. Other prominent contemporary figures include Pinhas Sapir (b.Poland, 1907–75), labor leader and minister of finance; Abba Eban (Aubrey Eban; b. South Africa, 1915–2002), former foreign affairs minister and representative to the UN; and Moshe Dayan (1915–81), military leader and cabinet minister. Menachem Begin (b.Russia, 1913–92), the former leader of guerrilla operations against the British, was prime minister from 1977 to 1983 and received the Nobel Peace Prize in 1978. He was succeeded by Yitzhak Shamir (b.Poland, 1915) in 1983, who gave way to Shimon Peres (b.Poland, 1923) in 1984. Shamir succeeded Peres in 1986. Yitzhak Rabin (1922–1995) was instrumental in the peace accords with the PLO signed in 1993 in Washington. Benjamin Netanyahu (b.1949) succeeded Peres, who had succeeded the assassinated Rabin. Ehud Barak (b.1942) followed Netanyahu as prime minister; Barak was succeeded by Ariel Sharon (b.1928). Sharon suffered a hemorrhagic stroke in January 2006; because he was incapacitated, his deputy prime minister, Ehud Olmert (b.1945), took over the duties of prime minister.

Israel's foremost philosopher was Martin Buber (b.Vienna, 1878–1965), author of *I and Thou*. Outstanding scholars include the literary historian Joseph Klausner (1874–1958); the Bible researcher Yehezkel (Ezekiel) Kaufmann (b.Ukraine, 1889–1963); the philologists Eliezer Ben-Yehuda (b.Lithuania, 1858–1922) and Naphtali Hertz Tur-Sinai (Torczyn; b. Poland, 1886–1973); the archaeologist Eliezer Sukenik (1889–1953); and the Kabbalah authority Gershom Gerhard Scholem (b.Germany, 1897–1982).

The foremost poets are Haim Nahman Bialik (b.Russia, 1873–1934), Saul Tchernichowsky (b.Russia, 1875–1943), Uri Zvi Greenberg (b.Galicia, 1896–1981), Avraham Shlonsky (b.Russia, 1900–1973), Nathan Alterman (b.Warsaw, 1910–70), Yehuda Amichai (b.Germany, 1924), and Natan Zach (b.Berlin, 1930); and the leading novelists are Shmuel Yosef Halevi Agnon (b.Galicia, 1888–1970), a Nobel Prize winner in 1966, and Hayim Hazaz

(b.Russia, 1898–1973). Contemporary Israeli writers include Amos Oz (b.1939), Aharon Appelfeld (b.1932), and David Grossman (b.1954). Painters of note include Reuven Rubin (b.Romania, 1893–1975) and Mane Katz (b.Russia, 1894–1962). Paul Ben-Haim (Frankenburger; b. Munich, 1897–1984) and Ödön Partos (b.Budapest, 1907–77) are well-known composers. Famous musicians include Daniel Barenboim (b.Argentina, 1942), Itzhak Perlman (b.1945), and Pinchas Zukerman (b.1948).

Significant contributions in other fields have been made by mathematician Abraham Halevi Fraenkel (b.Munich, 1891–1965); botanist Hugo Boyko (b.Vienna, 1892–1970); zoologist Shimon (Fritz) Bodenheimer (b.Cologne, 1897–1959); parasitologist Saul Aaron Adler (b.Russia, 1895–1966); physicist Giulio Raccach (b.Florence, 1909–65); rheologist Markus Reiner (b.Czernowitz, 1886–1976); gynecologist Bernard Zondek (b.Germany, 1891–1966); and psychoanalyst Heinrich Winnik (b.Austria-Hungary, 1902–82).

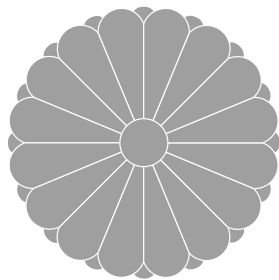
#### 49 DEPENDENCIES

Beginning at the end of the 1967 war until the 1990s, Israel administered the West Bank and the Gaza Strip. The Golan Heights, captured from Syria during the same war, was annexed in 1981; the Sinai Peninsula, taken from Egypt, was restored to Egyptian sovereignty in 1983, in accordance with a 1979 peace treaty. In 1994 Israel returned small pockets of some of the land captured in the war, to be administered in a less than totally sovereign fashion, by the Palestinian Authority. The move was in accord with a peace agreement (the Israel-PLO Declaration of Principles on Interim Self-Government Arrangements or DOP) signed in Washington, DC, on 13 September 1993 by representatives of Israel and the Palestine Liberation Organization (PLO). In January 1996, a Palestinian Legislative Council was elected to form the foundation for the interim self-government for the West Bank and Gaza Strip. In May 1994, a new agreement (the Israel-PLO 4 May 1994 Cairo Agreement on the Gaza Strip and the Jericho Area) transferred responsibility for the Gaza Strip and Jericho to the Palestinians. Over the next several years, agreements between Israel and the PLO transferred responsibility for West Bank territory from Israel to Palestinian control. According to the terms of the DOP, Israel was to continue to provide security for the territories transferred to Palestinian control during the period of transition. In 1999, negotiations to set the terms for permanent status for the West Bank and Gaza began, but a number of factors—continuing expansion of Israeli settlements in territory transferred to Pales-

tinian control, outbreaks of violence and terrorism beginning in 2000 and continuing for the next two years, instability in the Palestinian Authority, and severe reaction on the part of the Israeli military—combined to undermine further progress. The estimated population of the West Bank in 2002 was 2,163,667, not including an estimated 187,000 Israeli settlers; the estimated population of the Gaza Strip that year was 1,225,911, not including an estimated 5,000 Israeli settlers.

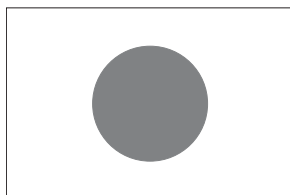
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# JAPAN

Nippon



**CAPITAL:** Tokyo

**FLAG:** The Sun-flag (Hi-no-Marui) consists of a red circle on a white background.

**ANTHEM:** (de facto) *Kimigayo* (*The Reign of Our Emperor*), with words dating back to the ninth century.

**MONETARY UNIT:** The yen (¥) of 100 sen is issued in coins of 1, 5, 10, 50, 100, and 500 yen, and notes of 500, 1,000, 5,000, and 10,000 yen. ¥1 = \$0.00917 (or \$1 = ¥109) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Adults' Day, 15 January; Commemoration of the Founding of the Nation, 11 February; Vernal Equinox Day, 20 or 21 March; Greenery Day, 29 April; Constitution Day, 3 May; Children's Day, 5 May; Respect for the Aged Day, 15 September; Autumnal Equinox Day, 23 or 24 September; Health-Sports Day, 10 October; Culture Day, 3 November; Labor-Thanksgiving Day, 23 November; Emperor's Birthday, 23 December.

**TIME:** 9 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated off the eastern edge of the Asian continent, the Japanese archipelago is bounded on the N by the Sea of Okhotsk, on the E and S by the Pacific Ocean, on the SW by the East China Sea, and on the W by the Sea of Japan. The total area of Japan is 377,835 sq km (145,883 sq mi). Comparatively, the area occupied by Japan is slightly smaller than the state of California. It extends 3,008 km (1,869 mi) NE-SW and 1,645 km (1,022 mi) SE-NW and has a total coastline of 29,751 km (18,486 mi).

The five districts are Honshū, Hokkaidō, Kyūshū, Shikoku, and Okinawa. Each of the five districts consists of a main island of the same name and hundreds of surrounding islands.

Of the thousands of lesser islands, four are of significance: Tsushima, in the straits between Korea and Japan; Amami Oshima, of the northern Ryukyu Islands at the southern end of the Japanese archipelago; Sado Island in the Sea of Japan off central Honshū; and Awaji Island, lying between Shikoku and Honshū. Two groups of islands returned to Japan by the United States in 1968 are located some 1,300 km (800 mi) due east of the Ryukyus: the Ogasawara (Bonin) Islands, about 885 km (550 mi) south of Tokyo, and the Kazan (Volcano) Islands, directly south of the Ogasawara group.

Japan's principal island is Honshū, on which are located the capital city of Tokyo, the principal cities and plains, and the major industrial areas. This island is divided into five regions: Tohoku, from north of Kanto to Tsugaru Strait; Kanto, embracing seven prefectures in the Tokyo-Yokohama region; the Chubu, or central, region, from west of Tokyo to the Nagoya area; Kinki, including the important cities of Kyoto, Osaka, Kobe, and Nara; and Chugoku, a narrow peninsula thrusting westward from Kinki between the Sea of Japan and the Inland Sea, which lies between southern Honshū and the island of Shikoku.

The Japanese government maintains that the Habomai island group and Shikotan, lying just off Hokkaidō and constituting fringe areas of the Kurils, belong to Japan and should be returned to Japanese administration. These islands and the Kuril Islands are occupied by Russia, whose claims are not formally recognized by Japan.

Japan's capital city, Tokyo, is located on the east coast of the island of Honshū.

## <sup>2</sup>TOPOGRAPHY

The Japanese islands are the upper portions of vast mountains belonging to what is sometimes called the Circum-Pacific Ring of Fire, which stretches from Southeast Asia to the Aleutian Islands. Mountains cover over 75% of the land's surface. Landforms are steep and rugged, indicating that, geologically, Japan is still a young area. Through the central part of Honshū, running in a north-south direction, are the two principal mountain ranges: the Hida (or Japan Alps) and the Akaishi mountains. There are 25 mountains with peaks of over 3,000 m (9,800 ft). The highest is the beautiful Mt. Fuji (Fuji-san), at 3,776 m (12,388 ft). Japan has 265 volcanoes (including the dormant Mt. Fuji), of which about 20 remain active.

The plains of Japan are few and small and cover only about 29% of the total land area. Most plains are located along the seacoast and are composed of alluvial lowlands, diluvial uplands, and low hills. The largest is the Kanto Plain (Tokyo Bay region), about 6,500 sq km (2,500 sq mi). Others include the Kinai Plain (Osaka-Kyoto), Nobi (Nagoya), Echigo (north-central Honshū), and Sendai (northeastern Honshū). There are four small plains in Hokkaidō. The population is heavily concentrated in these limited flat areas.

Rivers tend to be short and swift. The longest is the Shinano (367 km/228 mi) in north-central Honshū, flowing into the Sea

of Japan. The largest lake is Lake Biwa, near Kyoto, with an area of 672 sq km (259 sq mi). Lake Kussharo, in the Akan National Park of Hokkaidō, is considered the clearest lake in the world, having a transparency of 41 m (135 ft). Good harbors are limited because in most areas the land rises steeply out of the sea. Yokohama, Nagoya, and Kobe are Japan's most prominent harbors.

The Ryukyu Islands, among which Okinawa predominates, are the peaks of submerged mountain ranges. They are generally hilly or mountainous, with small alluvial plains.

Japan is considered to be one of the most seismically active areas in the world; about 20% of all magnitude of six or higher earthquakes in the world take place in this region. The country experiences an average of 1,500 minor shocks per year. One of the world's greatest recorded natural disasters was the Kanto earthquake of 1923, when the Tokyo-Yokohama area was devastated and upward of 99,000 persons died. In 1995, a 7.2 magnitude quake shook Kobe and left over 6,400 people dead. On October 23, 2004, a series of seven earthquakes in two hours caused severe damage in northern Japan; at least 16 people were killed and over 900 were injured. In the days that followed, at least 450 lesser tremors were felt.

### **3 CLIMATE**

Japan is located at the northeastern edge of the Asian monsoon climate belt, which brings much rain to the country. The weather is under the dual influence of the Siberian weather system and the patterns of the southern Pacific; it is affected by the Japan Current (Kuroshio), a warm stream that flows from the southern Pacific along much of Japan's Pacific coast, producing a milder and more temperate climate than is found at comparable latitudes elsewhere. Northern Japan is affected by the Kuril Current (Oyashio), a cold stream flowing along the eastern coasts of Hokkaidō and northern Honshū. The junction of the two currents is a bountiful fishing area. The Tsushima Current, an offshoot of the Japan Current, transports warm water northward into the Sea of Japan.

Throughout the year, there is fairly high humidity, with average rainfall ranging by area from 100 cm to over 250 cm (39–98 in). Autumn weather is usually clear and bright. Winters tend to be warmer than in similar latitudes except in the north and west, where snowfalls are frequent and heavy. Spring is usually pleasant, and the summer hot and humid. There is a rainy season that moves from south to north during June and July.

Average temperature ranges from 17°C (63° F) in the southern portions to 9°C (48° F) in the extreme north. Hokkaidō has long and severe winters with extensive snow, while the remainder of the country enjoys milder weather down to the southern regions, which are almost subtropical. The Ryukyus, although located in the temperate zone, are warmed by the Japan Current, giving them a subtropical climate.

The typhoon season runs from May through October, and each year several storms usually sweep through the islands, often accompanied by high winds and heavy rains. In September 2005, Typhoon Nabi hit southern Japan causing the deaths of at least 77 people and temporarily displacing more than 300,000.

### **4 FLORA AND FAUNA**

Hokkaidō flora is characterized by montane conifers (fir, spruce, and larch) at high elevations and mixed northern hardwoods

(oak, maple, linden, birch, ash, elm, and walnut) at lower altitudes. The ground flora includes plants common to Eurasia and North America. Honshū supports a panoply of temperate flora. Common conifers are cypress, umbrella pine, hemlock, yew, and white pine. On the lowlands, there are live oak and camphor trees, and a great mixture of bamboo with the hardwoods. Black pine and red pine form the typical growth on the sandy lowlands and coastal areas. Shikoku and Kyūshū are noted for their evergreen vegetation. Sugarcane and citrus fruits are found throughout the limited lowland areas, with broadleaf trees in the lower elevations and a mixture of evergreen and deciduous trees higher up. Throughout these islands are luxuriant growths of bamboo.

About 140 species of fauna have been identified. The only indigenous primate is the Japanese macaque, a small monkey found in the north. There are 32 carnivores, including the brown bear, ermine, mink, raccoon dog, fox, wolf, walrus, and seal. There are 250 breeding bird species and 8 species of reptiles. Japan's waters abound with crabs and shrimp; great migrations of fish are brought in by the Japan and Kuril currents. There are large numbers and varieties of insects. The Japanese beetle is not very destructive in its homeland because of its many natural enemies.

### **5 ENVIRONMENT**

Rapid industrialization has imposed severe pressures on the environment. Japan's Basic Law for Environmental Pollution Control was enacted in 1967 and the Environment Agency was established four years later.

Air pollution is a serious environmental problem in Japan, particularly in urban centers. Toxic pollutants from power plant emissions have led to the appearance of acid rain throughout the country. In the mid-1990s, Japan had the world's fourth-highest level of industrial carbon dioxide emissions, which totaled 1.09 billion metric tons per year, a per capita level of 8.79 metric tons per year. In 2000, the total of carbon dioxide emissions was at 1.18 billion metric tons. Air quality is regulated under the Air Pollution Control Law of 1968; by 1984, compensation had been provided to 91,118 air-pollution victims suffering from bronchitis, bronchial asthma, and related conditions. However, the "polluter pays" principle was significantly weakened in 1987 as a result of years of business opposition. Nationwide smog alerts, issued when oxidant density levels reach or exceed 0.12 parts per million, peaked at 328 in 1973 but had declined to 85 (85% of which took place in the Tokyo and Osaka areas) by 1986, following imposition of stringent automobile emissions standards.

Water pollution is another area of concern in Japan. The nation has 430 cu km of renewable water resources with 64% used in farming activity and 17% used for industrial purposes. Increase in acid levels due to industrial pollutants has affected lakes, rivers, and the waters surrounding Japan. Other sources of pollution include DDT, BMC, and mercury. Environmental damage by industrial effluents has slowed since the promulgation of the Water Pollution Control Law of 1971, but there is still widespread pollution of lakes and rivers from household sources, especially by untreated sewage and phosphate-rich detergents. Factory noise levels are regulated under a 1968 law. Airplanes may not take off or land after 10 PM and the Shinkansen trains must reduce speed while traveling through large cities and their suburbs.



LOCATION: 122°56' to 153°59' E; 20°25' to 45°33' N. TOTAL COASTLINE: 29,751 kilometers (18,486 miles). TERRITORIAL SEA LIMIT: 12 miles.

Most of the nation's forests, which play a critical role in retarding runoff and soil erosion in the many mountainous areas, are protected under the Nature Conservation Law of 1972, and large areas have been reforested. Parks and wildlife are covered by the National Parks Law of 1967. In 2003, 6.8% of Japan's total land area was protected. One of the world's chief whaling nations, Japan vigorously opposed the 1982 resolution of the IWC calling for a phaseout of commercial whaling by 1986/87. However, since

most of its trading partners, including the United States, supported the measure and threatened retaliatory measures if whaling continued, Japan finally agreed to comply with the ban.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 37 types of mammals, 53 species of birds, 11 types of reptiles, 20 species of amphibians, 27 species of fish, 25 types of mollusks, 20 species of other invertebrates, and 12 spe-

cies of plants. Endangered species in Japan included the Ryukyu sika, Ryukyu rabbit, Iriomote cat, Southern Ryukyu robin, Okinawa woodpecker, Oriental white stork, short-tailed albatross, green sea turtle, and tailless blue butterfly. The Ryukyu pigeon, Bonin thrush, Japanese sea lion, and Okinawa flying fox have become extinct.

## 6 POPULATION

The population of Japan in 2005 was estimated by the United Nations (UN) at 127,728,000, which placed it at number 10 in population among the 193 nations of the world. In 2005, approximately 20% of the population was over 65 years of age, with another 14% of the population under 15 years of age. There were 96 males for every 100 females in the country. The projected population for the year 2025 was 121,136,000. The population density was 338 per sq km (876 per sq mi).

Japan is the only Asian country thus far with a birthrate that has declined to the level of industrial areas in other parts of the world. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.1%, a rate the government viewed as too low. The estimated 10 births per 1,000 population in 2000 compares with about 343 births per 1,000 population in 1947. The steep drop since 1950 has been attributed to legalization of abortion, increased availability of contraceptives, and the desire to raise living standards.

Even with the low birth rate, Japan is one of the most densely populated countries in the world. Urban density rates were 14,245 per sq mi (5,500 per sq mi). The UN estimated that 79% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.27%. The capital city, Tokyo, had a population of 34,997,000 in that year. Other major metropolitan areas and their estimated populations include Osaka, 11,286,000; Nagoya, 3,189,000; Kitakyushu, 2,815,000; Sapporo, 1,828,000; Kyoto, 1,805,000; Hiroshima, 1,005,000; and Sendai, 940,000.

## 7 MIGRATION

Japanese nationals living in other countries totaled more than 600,000 in the 1990s, including some 250,000 in the United States and over 100,000 in Brazil. More than one million Japanese have emigrated since 1880; about 70% of them arrived on the US mainland and in Hawaii during the decades prior to World War II. Emigration continued after the war, encouraged by government policy as a way of relieving population pressure. By the mid-1960s, emigration had considerably decreased, as economic opportunities and living standards in Japan improved. From the 1970s–1990s, however, the number of emigrants rose, from 12,445 in 1975 to 34,492 in 1985 to 82,619 in 1992.

Immigration to Japan is generally small-scale, although the illegal entry of workers from neighboring countries has come to be regarded as a problem. Since 1975, 10,000 Indo-Chinese refugees have settled in Japan. The total number of legal migrants who entered or departed Japan in 2002 was 44,651,272, an increase of 3.4% from 2001. The total number of migrants into Japan was 22,311,491, and the total number of people who left Japan was 22,339,781. The number of Japanese migrants increased by 1.9%, and the number of foreigners also increased by 9.8% from 2001. In the mid-2000s, there were 1.9 million foreign residents in Japan, half ethnic Koreans and Chinese who were mostly born in Japan,

followed by 350,000 ethnic Japanese from Latin America, often the descendants of Japanese who emigrated.

Because citizenship is based on nationality of parent rather than place of birth, registered aliens may have spent their entire lives in Japan. According to *Migration News*, Japan continued to struggle with Zainichi, a term that literally means “to stay in Japan,” but is used as a shorthand for Koreans who came to Japan during Japan’s colonial rule, and their descendants. Zainichi are often considered outsiders in both Japan and Korea. Their numbers are reduced as more become naturalized Japanese. In 2003 there were 470,000 Zainichi in Japan. In 2005, the net migration rate was zero migrants per 1,000 population.

Internal migration, providing a steady exodus of people from farm and mountain communities to the cities and suburbs, has been accelerating since 1952. Most such migrants flocked to the three major population centers—the Tokyo, Osaka, and Nagoya metropolitan areas. As pollution and congestion in these areas increased, the government instituted programs to decentralize industry by directing new growth to smaller cities of the north and west, and also began efforts to improve rural living conditions and employment opportunities. Japan’s Ministry of Internal Affairs and Communications reported that the number of inter-prefectural migrants had decreased steadily from 1996–2004; in 2004 inter-prefectural migration was 2.6 million persons, decreased by 2.6% in comparison with the previous year.

According to *Migration News*, Japan began to allow temporary workers in 1986, and by 2004 lifted almost all remaining restrictions on the categories of jobs where temporary workers were permitted. In 2005 about 20% of Japanese manufacturers hired part-time workers. In 2003, Japan had an estimated 760,000 foreign workers, 1.5% of the work force. Foreigners in Japan remitted \$2.8 billion officially in 2003 and an estimated \$5.5 billion unofficially, to China, Korea, the Philippines, Brazil, and Peru.

Since the 1980s some 497 Myanma have sought asylum in Japan, usually on the grounds of religious persecution as Christians in a Buddhist nation. In 2004 Japan had 1,960 refugees and 496 seeking asylum, mainly from Turkey and Myanmar.

## 8 ETHNIC GROUPS

In 2004, 99% of the population was Japanese while only 1% belonged to other ethnic groups (mostly Korean, Chinese, Brazilian, and Filipino). Although it is known that the Japanese are descended from many varied peoples of Asia, there is no agreement as to origins or specific ethnic strains. In physical characteristics, the Japanese belong to the Mongoloid group, with faint admixtures of Malayan and Caucasoid strains. Waves of migration from the continental hinterland reached Japan during the end of the Paleolithic period, blending into a complicated and diverse ethnic, linguistic, and cultural system. It is believed that the Japanese have their roots in the Old Stone Age race of at least 30,000 BC. A major migration appears to have taken place in the 2nd and 3rd centuries AD, and by the 4th century this group, called the Yamato clan, established a monarchy in the present Nara prefecture. Other ethnic strains may have come from Indonesia and China in the south, Korea in the west, and Siberia and Alaska in the north.

The one remaining distinct ethnic group in Japan is the Ainu. These people, living on the northern island of Hokkaidō, are physically distinct from the contemporary Japanese, having Nordic-

like features, including more pervasive facial and body hair. There is no agreement as to their origins; their current population is less than 20,000.

## <sup>9</sup>LANGUAGES

Japanese is the official language. Most linguists agree that Japanese is in a language class by itself, although there is some inconclusive evidence that traces it to the Malayo-Polynesian language family. In vocabulary, Japanese is rich in words denoting abstract ideas, natural phenomena, human emotions, ethics, and aesthetics, but poor in words for technical and scientific expression. For these latter purposes, foreign words are directly imported and written in a phonetic system (*katakana*). A distinct characteristic is the use of honorifics to show proper respect to the listener and his social status.

Written Japanese owes its origin almost entirely to Chinese forms. Having no indigenous script, the Japanese since the 5th century have used Chinese characters, giving them both an approximate Chinese pronunciation and a Japanese pronunciation. In addition, the Japanese invented phonetic symbols (*kana*) in the 9th century to represent grammatical devices unknown to the Chinese.

Attempts have been made to reduce the complexity of the written language by limiting the number of Chinese characters used. The government has published a list of 1,850 characters for use in official communications. Newspapers adhere to this list.

## <sup>10</sup>RELIGIONS

According to a 2002 report by the Agency for Cultural Affairs, about 49.9% of the population practice Shintoism and 44.2% practice Buddhism. Religious identities are not mutually exclusive, however, and many Japanese maintain affiliations with both a Buddhist temple and a Shinto shrine.

Shinto, originally concerned with the worship of spirits of nature, grew under the influence of Chinese Confucianism to include worship of family and imperial ancestors, and thus provided the foundation of Japanese social structure. Shinto became an instrument of nationalism after 1868, as the government officially sponsored and subsidized it, requiring that it be taught in the schools and that all Japanese belong to a state Shinto shrine. After World War II, Shinto was abolished as a state religion, and the emperor issued an imperial prescript denying divine origin. Today, Shinto exists as a private religious organization.

Buddhism is considered by some the most important religion in Japan. Introduced through China and Korea around AD 552, Buddhism spread rapidly throughout Japan and has had considerable influence on the nation's arts and its social institutions. There are 13 sects (*shu*) and 56 denominations, the principal *shu* being Tendai, Shingon, Jodo, Zen, Soto, Obaku, and Nichiren. Japanese Buddhism was founded on the Mahayana school, which emphasizes the attainment of Buddhahood, whereas the Hinayana Buddhism of India emphasizes obedience to commandments and personal perfection. The great temples and gardens of Japan, the famous Japanese tea ceremony (*chanoyu*), and Japanese flower-arranging arts (*ikebana*) owe their development to the influence of Buddhism.

Religions designated as other are practiced by about 6% of the population (including 0.9% practicing Christianity). "Other"

faiths that were founded in Japan include Tenrikyo, Seichounoie, Sekai Kyusei Kyo, Perfect Liberty, and Risho Koseikai. Christianity, introduced to Japan by the Jesuit St. Francis Xavier in 1549, was first encouraged by feudal lords but then banned in 1613, often under penalty of death. After that time, a unique sect known as "hidden Christians" developed, with no tradition of churches or public displays of faith and a syncretic doctrine that incorporated local ideas and history. The prohibition against Christianity was in force until 1873, following the reopening of Japan to international relations in 1854. Following World War II, when the emperor lost his claim to divinity, some Japanese gave up Shinto and converted to Christianity or Judaism.

After World War II, a considerable number of new religious groups sprouted up. One of these, the Soka-Gakkai, a Buddhist offshoot, controlled a political party (*Komeito*), the third-strongest political group in Japan, until politics and religion were officially separated in 1970. In addition to the established and new religions, Confucianism, an ethical system originating in China, has strongly influenced Japanese society since the earliest periods, providing underpinnings for some characteristically Japanese attitudes.

## <sup>11</sup>TRANSPORTATION

Despite its rugged terrain, Japan has a highly developed transportation system. In 2004, Japan had 23,577 km (14,664 mi) of railways, of which about 86% was 1.067-m narrow gauge. Of that total, 13,277 km (8,258 mi) were electrified. Standard gauge lines totaled 3,204 km (1,993 mi), all of which are electrified. The government-owned Japan National Railways (JNR) was privatized in April 1987 and divided into six railway companies. Feeding into these six lines were 144 other private railroads. Like their counterparts elsewhere, Japan's rail lines face increasing competition from automotive, sea, and air transport, as well as rising operating costs. High-speed lines, however, have been successful in partially meeting these problems; the most famous of these is the Shinkansen, which opened to traffic in October 1964 between Tokyo and Osaka and was extended in March 1975 to Fukuoka in northern Kyūshū. In 1984, the Shinkansen superexpress trains covered the 1,069 km (664 mi) between Tokyo and Fukuoka in less than seven hours, with maximum speeds of 210 km/hr (130 mph). In 1982, the first section of the northern Shinkansen line, between Tokyo and Omiya, began operations. This line was extended in 1983 to Niigata and to Morioka, in northern Honshū. By far the longest railway tunnel in the world, the 54.2 km (33.7 mi) Seikan tube linking Honshū with Hokkaidō, was opened in 1983 and completed in 1985. The tunnel, lying beneath the Tsugaru Strait, cost well over \$2 billion. A bridge links Honshū and Shikoku. Subway lines serve nine cities—Tokyo, Osaka, Nagoya, Kobe, Yokohama, Sapporo, Kyoto, Fukuoka, and Sendai. There are 410 km (255 mi) of track, with 196 km (122 mi) in Tokyo's 11 lines. Since 1964, downtown Tokyo has also been linked with that city's Haneda Airport by a monorail transport system, and several other monorails have been put into operation. In addition, a 7 km (4.3 mi) monorail serves the city of Yokohama.

Roads have become the most important means of domestic transport. Motor vehicles in 2003 numbered 55,212,593 passenger cars and 17,312,192 commercial vehicles, up from 25,848,000 and 8,306,000, respectively, in 1985. To speed traffic flow, a total of

6,946 km (4,320 mi) of expressways were open to traffic in 2002. In total, there were 1,177,278 million km (732,267 mi) of roadways, of which about 914,745 km (568,971 mi) were paved.

Japan is one of the world's great maritime nations. The chief ports are Yokohama (for Tokyo), Nagoya, and Kobe. In 2005, Japan's merchant fleet included 702 ships of 1,000 GRT or more, totaling 10,149,196 GRT. Since 1959, Japan has emerged as the world's leading shipbuilder, but output declined in the late 1970s and 1980s in the face of a worldwide recession and increased competition from the Republic of Korea (ROK). Although Japan had 1,770 km (1,101 mi) of navigable inland waterways, as of 2004, they are not used by ocean-going vessels, which prefer to use the country's inland seas.

Japan had an estimated 174 airports in 2004. As of 2005 a total of 142 had paved runways, and there were also 15 heliports. Principal domestic airports include Haneda in Tokyo, Itami in Osaka, Itazuke in Fukuoka, and Chitose on Hokkaidō. Principal international facilities include Kansai International at Osaka and New Tokyo International at Tokyo. Japan Air Lines (JAL), the nation's major domestic and international airline, began operations in 1952 and inaugurated international flights in 1954. All Nippon Airways, established in 1957, began as a domestic system serving smaller areas of the country and acting as a feeder line to JAL but now serves overseas routes; it began to carry freight in 1987. In 2003, Japan's airlines performed 7,985 million freight ton-km. In that same year, about 103.606 million passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Archaeological discoveries revealed the existence of Paleolithic humans in Japan when the islands were connected to the Asian continental landmass. Little is known about the origins of the earliest Japanese beyond the fact that they migrated from the continent. The first distinctive Neolithic culture, the Jōmon, existed in Japan from 11,000 BC to 300 BC. The Jōmon was displaced by the Yayoi culture, which introduced new agricultural and metallurgical skills from the continent. Tradition places the beginning of the Japanese nation in 660 BC with the ascendance to the throne of the legendary Emperor Jimmu. It is generally agreed, however, that as the Yayoi developed, the Yamato clan attained hegemony over southern Japan during the first three or four centuries of the Christian era and established the imperial family line. Earlier contacts with Korea were expanded in the 5th century to mainland China, and the great period of cultural borrowing began: industrial arts were imported; Chinese script was introduced (thereby permitting the study of medical texts), the Chinese calendar and Buddhism also arrived from China. Japanese leaders adapted the Chinese governmental organization but based power upon hereditary position rather than merit. The first imperial capital was established at Nara in 710. In 794, the imperial capital was moved to Heian (Kyoto), where it remained until 1868, when Tokyo became the nation's capital.

Chinese influence waned as native institutions took on peculiarly Japanese forms. Outside court circles, local clans gained strength, giving rise to military clan influence over a weakening imperial system. The Minamoto clan gained national hegemony as it defeated the rival Taira clan in 1185, and its leader, the newly appointed Yoritomo, established a military form of government at

Kamakura in 1192, a feudal system that lasted for nearly 700 years. Under the shogunate system, all political power was in the hands of the dominant military clan, with the emperors ruling in name only. The Kamakura period was followed by the Ashikaga shogunate (1336–1600) which saw economic growth and the development of a more complex feudalism. For over 100 years, until the end of the 16th century, continuous civil war among rival feudal lords (*daimyo*) ensued. During this time, the first contact with the Western world took place with the arrival in 1543 of Portuguese traders, and with that, the first guns were imported. Six years later, St. Francis Xavier arrived, introducing Christianity to Japan.

By 1590, the country was pacified and unified by Toyotomi Hideyoshi, a peasant who had risen to a top military position. Hideyoshi also invaded Korea unsuccessfully, in 1592–93 and in 1598, dying during the second invasion. Ieyasu Tokugawa consolidated Hideyoshi's program of centralization. Appointed shogun in 1603, Tokugawa established the Tokugawa shogunate (military dictatorship), which was to rule Japan until the imperial restoration in 1868. Tokugawa made Edo (modern Tokyo) the capital, closed Japan to foreigners except Chinese and Dutch traders (who were restricted to Nagasaki) and occasional Korean diplomats, and banned Christianity. For the next 250 years, Japan enjoyed stability and a flowering of indigenous culture, although from the end of the 18th century onward, Japan came under increasing pressure from Western nations to end its isolationist policy.

The arrival of Commodore Matthew C. Perry from the United States in 1853—with his famous “black ships”—started a process that soon ended Japanese feudalism. The following year, Perry obtained a treaty of peace and friendship between the United States and Japan, and similar pacts were signed with Russia, Britain, and the Netherlands based on the principle of extraterritoriality. A decade of turmoil and confusion followed over the question of opening Japan to foreigners. A coalition of southern clans led by ambitious young samurai of the Satsuma and Choshu clans forced the abdication of the Tokugawa shogun and reestablished the emperor as head of the nation. In 1868, Emperor Mutsuhito took over full sovereignty. This Meiji Restoration, as it is known, signaled the entry of Japan into the modern era.

Intensive modernization and industrialization commenced under the leadership of the restoration leaders. A modern navy and army with universal military conscription and a modern civil service based on merit formed the foundation of the new nation-state. The government undertook the establishment of industry, by importing technological assistance. In 1889, a new constitution established a bicameral legislature (Diet) with a civil cabinet headed by a prime minister responsible to the emperor.

By the end of the 19th century, irreconcilable territorial ambitions brought Japan into open conflict with its much larger western neighbors. The Sino-Japanese War (1894–95) was fought over the question of control of Korea, and the Russo-Japanese War (1904–05) over the question of Russian expansion in Manchuria and influence in Korean affairs. Japan emerged victorious in both conflicts, its victory over the Russians marking the first triumph of an Asian country over a Western power in modern times. Japan received the territories of Taiwan and the southern half of Sakhalin Island, as well as certain railway rights and concessions in Manchuria and recognition of paramount influence in Korea. The

latter became a Japanese protectorate in 1905 and was annexed by Japan in 1910.

During the Taisho era (1912–26), Japan participated in a limited way in World War I, in accordance with the Anglo-Japanese Alliance of 1902. Japan was one of the Big Five powers at the Versailles Peace Conference and in 1922 was recognized as the world's third-leading naval power at the Washington Naval Conference. The domestic economy developed rapidly, and Japan was transformed from an agricultural to an industrial nation. Economic power tended to be held by the industrial combines (*zaibatsu*), controlled by descendants of those families that had instituted the modernization of the country decades earlier. In 1925, universal manhood suffrage was enacted, and political leaders found it necessary to take into consideration the growing influence of parties.

In 1926, Emperor Hirohito ascended the throne beginning the Showa era. By the 1930s, democratic institutions atrophied and the military-industrial complex became dominant. With severe social distress caused by the great depression, an ultranationalist ideology emerged, particularly among young army officers. Acting independently of the central government, the military launched an invasion of Manchuria in 1931, eventually establishing the puppet state of Manchukuo. In 1932, a patriotic society assassinated the prime minister, bringing an end to cabinets formed by the majority party in the Diet. Japan withdrew from the League of Nations (which had protested the Manchurian takeover) in 1933, started a full-scale invasion of China (the Second Sino-Japanese War, 1937–45), and signed the Anti-Comintern pact with Germany in 1936 and a triple alliance with Germany and Italy in 1940. The military leadership, viewing the former USSR and the United States as chief barriers to Japanese expansion, negotiated a nonaggression pact with the USSR in April 1941, thus setting the stage for the attack on Pearl Harbor and other Pacific targets on 7 December of that year. Thereafter, Japanese military actions took place in the context of World War II.

With its capture of the Philippines on 2 January 1942, Japan gained control of most of East Asia, including major portions of China, Indochina, and the southwest Pacific. Japanese forces, however, could not resist the continued mobilization of the US military. A series of costly naval campaigns—including battles at Midway, Guadalcanal, and Leyte Gulf—brought an end to Japanese domination in the Pacific. By 1945, the Philippines had been recaptured, and the stage was set for a direct assault on Japan. After the US troops captured Okinawa in a blood battle, US president Harry S. Truman argued that a full invasion of Japan would prove too costly and decided on aerial attacks to force Japan into surrendering. After four months of intense bombardment with conventional weapons, the United States dropped an atomic bomb on Hiroshima on 6 August 1945 and a second bomb on Nagasaki on 9 August. An estimated 340,000 persons died from the two attacks and the subsequent effects of radiation. In addition, all major cities, with the exception of Kyoto, were destroyed during the war and food and supply shortages continued for several years after the surrender.

On 14 August, Japan accepted the Potsdam Declaration for unconditional surrender with formal surrender documents signed aboard the USS *Missouri* on 2 September. After the surrender over 500 Japanese military officials committed suicide and hundreds more faced war crimes prosecution. Emperor Hirohito was not de-

clared a war criminal and although he lost all military and political power he retained his royal title and became a symbol of the state until his death in 1989. The subsequent occupation (1945–52), under the direction of General Douglas MacArthur, Supreme Commander for the Allied Powers, began a series of ambitious reforms. Political reforms included the adoption of a parliamentary system of government based on democratic principles and universal suffrage, a symbolic role for the emperor as titular head of state, the establishment of an independent trade union, and the disarmament of the military. Economic reforms consisted of land reform, the dissolution of the *zaibatsu*, and economic and political rights for women. A new constitution was promulgated on 3 November 1946 and put into force on 3 May 1947.

### The Postwar Period

Heavy economic aid from the United States and a procurement boom produced by the Korean War, coupled with a conservative fiscal and monetary policy allowed the Japanese to rebuild their country. The Japanese economy rapidly recovered, and the standard of living quickly surpassed the prewar level by a substantial margin. The state of war between the Western powers and Japan was formally ended by the San Francisco Peace Treaty, signed in September 1951 by 56 nations. The allied occupation ended officially when the treaty went into effect in April 1952. Japan renounced claims to many of its former overseas territories, including such major areas as Taiwan and Korea. The Amami island group, comprising the northern portion of the Ryukyu Islands, nearest to Kyūshū Island, was returned to direct Japanese control by the United States in December 1953; the remainder of the group, including Okinawa, was returned to full Japanese sovereignty in May 1972. The Ogasawara (Bonin) Islands and Kazan (Volcano) Islands were returned to Japanese sovereignty in June 1968. The former USSR never signed the San Francisco Peace Treaty, and Japan and Russia have continued to dispute sovereignty over the Kurile Islands, to the northeast of Hokkaidō, which the USSR occupied in 1945. In 1956, Japan and the former USSR agreed to establish diplomatic relations.

In 1956 Japan was elected to UN membership. A revision of the 1952 defense treaty with the United States, under which a limited number of troops were to remain in Japan for defense purposes, was signed amid growing controversy in 1960. On 22 June 1965, Japan signed a treaty with South Korea normalizing relations between the two countries. The US-Japanese Security Treaty was renewed in 1970, despite vigorous protest by the opposition parties and militant student organizations. In 1972, Japan moved to establish full diplomatic relations with the People's Republic of China. Formal diplomatic links with the Nationalist Chinese government on Taiwan were terminated by this move, but Japan's economic and cultural links with Taiwan nonetheless have survived virtually intact.

While Japan defined its new role in East Asian affairs, its remarkable economic expansion raised it to the level of a major trading power. Based on strong government support of export industries, political stability under the Liberal-Democratic Party (LDP), and public policy guidance from a powerful bureaucracy, Japan experienced a dramatic rise from the ruins of World War II. From 1955 to 1965, Japan experienced a nominal growth rate of 10–20% annually and real growth rates (adjusted for inflation) of 5–12%.

In 1968, it surpassed the Federal Republic of Germany (FRG) to stand second after the United States among non-Communist nations in total value of GNP. The oil crisis of 1973—a combination of shortages and rising prices—revealed the crack in Japan's economic armor, the lack of domestic petroleum resources. A second oil crisis during the late 1970s was met by a reappraisal of Japan's dependence on foreign fuels and the institution of long-range programs for energy conservation and diversification. These oil crises led to a shift in the economy and to the creation of high-technology industries, most notably electric and electronic appliances.

The yen declined in value in the early 1980s, causing Japanese exports to become cheaper in overseas markets and leading to huge trade surpluses with the United States and other leading trading partners, who began to demand that Japan voluntarily limit certain exports and remove the barriers to Japan's domestic market. During 1985–87, the yen appreciated in value against the dollar and, by 1994, the dollar had hit a post-World War II low, but Japan continued to register substantial trade surpluses.

Political stability, maintained since the 1950s by the majority LDP, began to unravel in the 1970s, following the retirement from politics of Prime Minister Eisaku Sato in 1972. Sato's successor, Kakuei Tanaka, was forced to resign in December 1974 amid charges of using his office for personal gain in the Lockheed Corporation bribery scandal. Takeo Miki succeeded Tanaka and Takeo Fukuda became prime minister when Miki resigned in December 1976. Fukuda was defeated in intraparty elections by Masayoshi Ohira in 1978. When Ohira died in June 1980, he was succeeded by Zenko Suzuki. Suzuki stepped down as prime minister in November 1982 and was replaced by controversial and outspoken Yasuhiro Nakasone. Noboru Takeshita became prime minister in November 1987.

Policy regarding military force has been a major political issue in the postwar years. According to Article Nine of the 1947 constitution, Japan renounced the belligerency of the state but soon developed a Self-Defense Force with US encouragement. In 1986, breaking a long-standing policy, the government increased military spending to over 1% of the GNP. The Diet (parliament) approved a bill allowing the deployment of troops abroad for international peacekeeping in 1992 with troops participating with the United Nations in Cambodia, Israel, Iraq, Sudan, Indonesia, and other states.

Emperor Hirohito died of cancer on 7 January 1989, at the age of 87. He was succeeded by the Crown Prince Akihito, who was enthroned as the Heisei emperor in a formal ceremony in November 1990. The sense of entering a new era brought increased controversy over the assessment of Japan's role in the earlier part of the century, particularly during World War II. Some denied that Japan had committed atrocities during the war and there were attempts to further soften the wording of school textbooks. In March 1989, Prime Minister Takeshita apologized to North Korea (DPRK) for the suffering Japan caused over the 36 years of occupation of Korea (1910–45) and Emperor Akihito expressed similar regrets to President Roh Tae Woo of South Korea (ROK) in May 1990. In the same month, the government removed the requirement for fingerprinting of people of Korean descent living in Japan. In 1992, Prime Minister Kiichi Miyazawa apologized for the forced prostitution of Korean, Chinese, and Japanese women in Japanese military brothels during World War II. However,

many minorities in Japan, Chinese and Koreans included, claimed that they still experienced social and economic discrimination in Japan well after the war.

The 1980s ended with a major scandal involving illegal stock trading and influence peddling by the Recruit Cosmos Company. Between the summer of 1988 and the closing of the case in May 1989, the scandal led to the implication and resignations of prominent business people and politicians in top government positions, among them then-finance minister Kiichi Miyazawa, and the former prime minister, Yasuhiro Nakasone. Scandals continued into the 1990s with stock rebates for politicians in 1991 and then in 1992, contributions to politicians from a trucking company linked to organized crime became public knowledge.

The economy entered a period of major stagnation and distress in the early 1990s. In 1990, the stock market declined more than 25% from January to April. Then, during the spring of 1992, the stock index fell rapidly again, until by the summer, the index was at its lowest point in six years at 62% below the record high of 1989. By the end of 1993, Japan was in the midst of its worst economic downturn in at least 20 years. This also led to a debt crisis that resulted in many banks becoming unsustainable causing a massive consolidation. Although the long-term economic prospects for Japan were good, it was further retarded by the impact of the Asian financial crisis of 1997–98. In 1998, the Japanese economy witnessed its most serious recession with a negative growth rate of 1.9%. As of 2005 there were only four national banks in Japan.

Against the background of scandals and an economic recession, the political landscape began a major change. Taking responsibility for political problems caused by the Recruit scandal, Noboru Takeshita resigned as prime minister in April 1989, to be succeeded in May by Sosuke Uno, who abruptly resigned when a sex scandal became public amidst the LDP loss of its majority in the upper house of the Diet. The next prime minister, Toshiki Kaifu, served his term from August 1989 to October 1991, but the LDP did not support him for a second term. Instead, Kiichi Miyazawa became prime minister in November 1991. When the lower house gave Miyazawa a vote of no confidence in June 1993 for abandoning electoral reform bills, Miyazawa dissolved the lower house and called for elections.

In the election for the 511 seats of the House of Representatives on 18 July 1993, the LDP, for the first time since its own formation in 1955, failed to secure the 256 seats needed for a majority. Without a majority, the LDP was unable to form a government and the new prime minister, Morihiro Hosokawa (JNP), was chosen on 29 July 1993, by a seven-party coalition of LDP defectors, socialists, and conservatives. Hosokawa, too, was tainted by questions regarding personal finances and stepped down as prime minister to be replaced by Tsutomu Hata (Shinseito) in April 1994. Just as Hata took office, the Socialist Party left the governing coalition, leaving the prime minister as the head of a minority government for the first time in four decades. Hata soon resigned and, in a surprise move, the LDP and the Socialist Party, traditionally opponents, allied to form a new coalition, which also included the Sakigake. The coalition selected as prime minister, Tomiichi Murayama, the head of the Socialist Party and the first Socialist prime minister since 1948. Within the coalition the LDP was the dominant factor but the decades of LDP rule appeared to be over and the nature of the LDP itself changed. The dissolution of the House of Repre-

sentatives and the ensuing election on 18 July 1993 marked a major turning point for Japanese politics as the LDP lost its political dominance as new parties formed. One new party, the Japan New Party (JNP), was formed by Morihiro Hosokawa, a former LDP member, in May 1992. On 21 June 1993, 10 more members of the LDP, led by Masayoshi Takemura, left to form the Sakigake (Harbinger Party) and another 44 LDP members quit two days later to create the Shinseito (Renewal Party) with Tsutomu Hata as its head. By 28 June, one-fifth (57 members) of the LDP bloc of the dissolved lower house left the party.

In June 1994, Tomiichi Murayama became prime minister in a coalition consisting of the LDP, the Social Democratic Party of Japan (SDPJ), and Sakigake. In an unprecedented move, Murayama recognized the legal right for the existence of the Japanese Self-Defense force, much to the disapproval of left-leaning party members. The tumultuous reign of Murayama included the Kobe earthquake and political scandals which led to the resignation of the Justice Minister and the director of the Management and Coordination Agency. Elections in October 1996 resulted in a victory for the LDP, but the party still failed to obtain a majority of seats, only capturing 239 of 500. The Sakigake and Democratic Party of Japan agreed to support Prime Minister Ryutaro Hashimoto. In July 1998, Hashimoto resigned after a poor performance of the LDP in the House of Councilors election and was replaced by Keizo Obuchi. During the Obuchi regime, the Japanese economy showed signs of recovering with major fiscal stimuli including a massive public works program.

In April 2000, Obuchi suffered a stroke, entered into a coma, and was replaced by Yoshiro Mori who called summarily for elections. On 25 June parliamentary elections were held for the House of Representatives. Mori was reelected prime minister, with a ruling coalition of the LDP, the Buddhist-backed New Komeito, and the New Conservative Party (NCP). In early 2001, the Nikkei stock average fell to its lowest level since 1985 and unemployment rates reached 4.9%, the highest since the end of World War II. Plagued by scandal and the depressed economy, Mori resigned in April 2001. Junichiro Koizumi won control of the LDP and became prime minister on 26 April, promising to reinvigorate Japanese politics and radically reform the economy. He appointed members of his cabinet without seeking nominations from major factions of the LDP, as had been the practice in the past.

Koizumi immediately raised controversy by making a visit to the Yasukuni Shrine. Dedicated to Japan's war dead, it served as a symbol of nationalism during World War II and has been a lightning rod for anger among Asian nations that suffered under Japan's military aggression. He continued to visit the shrine annually. Japan was also the target of international criticism over its Education Ministry's approval of junior high-school textbooks that allegedly glossed over Japan's aggression in China, particularly the Nanjing Massacre and its annexation of the Korean Peninsula.

Koizumi's coalition dominated the July 2001 elections for the House of Councilors, with the LDP taking 65 of the 121 contested seats, its best performance in the House of Councilors since 1992. The victory was seen as a mandate for Koizumi. However, the economy remained in recession throughout 2002, which reduced his popularity.

In 2002, Japan began a diplomatic initiative to improve relations with North Korea. In September 2002, North Korean President

Kim Jong Il apologized to Koizumi for North Korea's kidnapping of Japanese citizens during the 1970s and 1980s. Japan pledged a generous aid package to North Korea in return. In 2005 relations with South Korea and China soured over Japanese continued use of junior high-school textbooks which downplayed the aggressive nature of Japan's role in WWII. In addition, South Korea objected to the reassertion of the Japanese claim to the Liancourt Rocks, which Korea occupies. China objected to the Japanese proposal for a permanent seat on the United Nations Security Council, while both countries objected to Japan's use of the East China Sea.

Elections in 2003 resulted in large gains for the opposition Democratic Party, but the LDP coalition retained a majority within the parliament. On 27 September 2004, Koizumi carried out a major cabinet reorganization dubbing his new ministerial lineup the "Reform Implementation Cabinet", in order to combat corruption and inefficiency. April 2005 public opinion polls showed Koizumi support ratings in the 40–50% range, which was very high by Japanese standards, and his tenure in office was one of the longest on record.

Koizumi called for early elections in September 2005 after he dissolved the lower House due to the defeat in the upper House of his landmark proposals to reform the country's postal system. The upper House cannot be dissolved in Japan, and so a two-thirds majority was needed in the lower House to be able to pass new legislation without the consent of the upper House. The result was the second-largest landslide in a general election in the LDP's history. In combination with allied parties, the LDP coalition held over two-thirds of the seats, 296 out of 480. The results were a devastating setback for the Democratic Party, the main opposition, whose gains in 2001 and 2003 led some to believe that Japanese Democracy was evolving into a two-party system. Due to LDP term limits, Koizumi was expected to retire in 2006, although the possibility of his remaining in office still existed.

### <sup>13</sup> GOVERNMENT

Japan follows the parliamentary system in accordance with the constitution of 1947. The most significant change from the previous constitution of 1889 was the transfer of sovereign power from the emperor to the people. The emperor is now defined as "the symbol of the state and of the unity of the people." The constitution provides for the supremacy of the National Diet as the legislative branch of the government, upholds the separation of legislative, executive, and judicial powers, and guarantees civil liberties. It is officially termed a constitutional monarchy with a parliamentary government.

The executive branch is headed by a prime minister selected from the Diet by its membership. The cabinet consists of the prime minister and 17 state ministers (as of February 2003) whom are elected by the prime minister, each heading a government ministry or agency. At least half the ministers must be selected from the Diet, to which the cabinet is collectively responsible. Upon a vote of no confidence by the House of Representatives, the cabinet must resign en masse.

The National Diet is bicameral. The 2005 House of Representatives (the lower House) has a membership of 480, with terms of office for four years, except that all terms end upon dissolution of the house (a law promulgated in February 2000 reduced the composition of the House from 500 to 480 members). Of the 480 seats,

180 are elected from 11 multi-member constituencies by proportional representation, and 300 are elected from single-member constituencies. The House of Councilors (the upper House) has 242 members, 144 members in multi-seat constituencies and 98 by proportional representation. The term of office is six years, with one-half elected every three years. This means that of the 121 members subject to election each time, 73 are elected from the 47 prefectural districts and 48 are elected from a nationwide list by proportional representation. The lower house holds primary power. In case of disagreement between the two houses, or if the upper house fails to take action within 60 days of receipt of legislation from the lower house, a bill becomes law if passed again by a two-thirds majority of the lower house.

Suffrage is universal, the voting age being 20 years, with a three-month residence requirement. The 1947 constitution granted suffrage to women. In January 1994, the Diet passed an electoral reform bill. In addition to new laws on campaign financing, the legislation abolished the multiple-member districts and replaced them with 300 single-member districts and 200 multimember districts. The number of multimember districts stood at 180. The 1996 elections resulted in the weakening of minor parties, in particular the SDPJ and Sakigake. Elections for the House of Representatives took place in 2005, two years before the official end of the term taken from the election in 2003 due to Koizumi's decision to dissolve the lower House. The next elections for the House of Councilors were scheduled to take place in 2007.

## 14 POLITICAL PARTIES

Most political parties in Japan are small local or regional parties, with the total number of parties exceeding 10,000. Japan's most popular party, the Liberal-Democratic Party (LDP) represents a wide spectrum of Japanese society, but especially the conservative elements. Formed in 1955 by the merger of the two leading conservative parties, this party held the reins of government since its formation until July 1993. The LDP supports an alliance with the United States and the various security pacts enacted by the two countries.

The Japan Socialist Party (JSP) is Japan's principal opposition party, drawing its support mainly from the working class, but it suffers from personality as well as ideological problems within its ranks. The JSP split into right and left wings over the ratification of the US-Japan Security Treaty of 1952. In October 1955, however, the two factions reunited, preceding the unification of the conservative parties and actually forcing the conservative groups into a unified front, thus creating a formal two-party system in Japan.

Beginning in the late 1960s, a shift took place toward a multiple-party system, with the gradual increase of opposition parties other than the JSP. The Democratic Socialist Party (DSP) represented moderate elements of the working class. The Komeito (Clean Government Party), professing middle-of-the-road politics, was the political wing of the Soka-Gakkai, a Buddhist sect. The Japanese Communist Party, founded as an underground group in 1922 and legalized after World War II, experienced major shifts in platform. The party had traditionally sided with China in the Sino-Soviet ideological dispute, although in recent years the Japanese Communists have focused instead on social conditions at home.

The LDP continued to hold its majority in both houses until 1993. Traditionally, the LDP has functioned as a coalition of sev-

eral factions, each tightly organized and bound by personal loyalty to a factional leader. In the mid-1970s, policy differences among the factions and their leaders became acute, with the resignation under pressure of Prime Minister Tanaka in December 1974.

In the summer of 1993, after five years of scandals involving corruption, sex, organized crime, and in the midst of economic recession, the old political order disintegrated as dozens of younger LDP members defected to form new parties. Chief among these was the Japan New Party (JNP), formed in May 1992, and the Sakigake (Harbinger Party) and the Shinseito (Renewal Party), both formed in June 1993. A watershed election in July 1993 for the House of Representatives, the lower house of the parliament, resulted in the loss by the LDP, for the first time since 1955, of its majority. Of the 511 seats, the LDP won 223 seats (as compared with 275 in the 1990 election), the JSP won 70 seats (a loss of half of its previous seats), the Komeito won 51 seats, the Shinseito took 55 seats, the JNP won 35 seats, and the Sakigake won 13. A seven-party coalition, including new parties of LDP defectors, the JSP, and other conservative parties, formed the new cabinet, which governed for a year until the prime minister (Morihiro Hosokawa, JNP) resigned over a financial scandal. The coalition formed a new government, led by Tsutomu Hata of the Shinseito, in April 1993. However, the JSP, finding itself maneuvered out of any voice in the coalition, broke away and Hata, then with a minority in the House of Representatives, resigned after one month in office.

The next government was formed by a new, unorthodox coalition of the traditional opponents, the LDP and the JSP, as well as the Sakigake. Tomiichi Murayama, head of the JSP, was chosen prime minister in June 1994, the first Socialist to head a government since 1948, although the LDP appeared to be dominant in the coalition. This unusual partnership caused strains, leading to further defections, within the LDP and within the JSP. The Shinseito emerged as a serious focus of opposition, standing for an internationally more active Japan, including use of the military overseas, for a revision of the constitution, and for removing protective regulations to open the domestic economy to competition. The left wing of the JSP, unhappy with the alliance with the LDP, held that the Self-Defense Forces were unconstitutional, and that the North Korean government (DPRK) was the legitimate government of all of Korea, and advocated abolition of the security treaty with the United States.

The parliamentary election that took place on 20 October 1996 combined the 300 single seat constituencies with the proportional representation for the remaining 200 seats. After the dissolution of Shinshintō, a highly fractionalized party system emerged. Going into the 2000 election, the LDP had 266 seats, with the largest opponents being the Democratic Party of Japan (DPJ) with 94 seats, the Komeito with 52, the Liberal Party with 39, and the Communists with 23. The LDP worked closely with the Komei party and the Liberal Party, effectively making the DPJ the only significant opposition.

The 2000 House of Representatives election produced the following distribution of seats: LDP, 233; DPJ, 127; Komeito, 31; Liberal Party, 22; Japan Communist Party (JCP), 20; Social Democratic Party (SDP), 19; New Conservative Party (formed in 2000), 7; and 21 other seats. In the 2001 House of Councilors vote, the seats fell as follows: LDP, 110; DPJ, 59; Komeito, 23; JCP, 20; SDP, 8; Liberal Party, 8; New Conservative Party, 5; and independents

took 14 seats. A new party emerged in Japanese politics, the New Conservative Party, formed in March 2000 by members who split off from the Liberal Party.

In November 2003, an election for the House of Representatives was held, and Prime Minister Junichiro Koizumi, leading the LDP, emerged victorious, although with a reduced majority. The election was seen as a victory for the DPJ, which won 180 seats, its largest share ever. In 2005 the six largest parties represented in the national Diet were the Liberal Democratic Party (LDP), the Democratic Party of Japan (DPJ), the New Clean Party Government (Komeito), the Japan Communist Party (JCP), the Socialist Democratic Party (SDP), and the Conservative New Party (CNP). The early election called by Koizumi in September of 2005, however, resulted in a firm majority for the LDP.

## <sup>15</sup>LOCAL GOVERNMENT

Local government throughout Japan was strengthened by the Local Autonomy Law of 1947. Administratively, Japan is divided into 47 prefectures. Within these prefectures there are 670 cities and 2,562 towns and villages. The local chief executives, mayors, and village heads, together with prefectural assembly members, are directly elected. Governors and assembly members are elected by popular vote every four years. The 47 prefectures are divided as follows: 1 metropolitan district (*to*—Tokyo), 2 urban prefectures (*fu*—Kyoto and Osaka), 43 rural prefectures (*ken*), and 1 district (*d*—Hokkaidō). Large cities are subdivided into wards (*ku*), and further split into towns, or precincts (*machi* or *cho*), or subdistricts (*shicho*) and counties (*gun*). The city of Tokyo has 23 wards.

Local public bodies have the right to administer their own affairs as well as to enact their own regulations within the law. The National Diet cannot enact legislation for a specific public entity without the consent of the voters of that district. Local governments control school affairs, levy taxes, and carry out administrative functions in the fields of land preservation and development, pollution control, disaster prevention, public health, and social welfare. However, the Ministry of Home Affairs has had enormous control over the designs the systems of local administration, local finance and taxation, and co-ordinates between the central government and local governments although its purpose is to support and develop local and regional autonomy. The result of this power is a high level of organizational and policy standardization among the different local governments. Because Japan does not have a federal system, and its 47 prefectures are not sovereign entities in the sense that the United States are, most depend on the central government for subsidies. Mainly through the actions of the Ministry of Home Affairs, the Japanese government was seeking to decentralize power, through a process termed “controlled decentralization,” away from Tokyo by allowing prefectures to exercise greater fiscal and budgetary autonomy.

## <sup>16</sup>JUDICIAL SYSTEM

The 1947 constitution provides for the complete independence of the judiciary. All judicial power is vested in the courts. There are five types of courts in Japan: the Supreme Court, High Courts (8 regional courts), District Courts (in each of the prefectures), Family Courts, and 438 Summary Courts. Family Courts, on the same level as the District Courts, adjudicate family conflicts and com-

plaints such as partitions of estates, marriage annulments, and juvenile protection cases.

The Summary Courts handle, in principle, civil cases involving claims which do not exceed 900,000 yen; and criminal cases relating to offenses punishable by fines or lighter penalties; and civil conciliations. They are situated in 438 locations nationwide. The cases are handled by a single summary court judge. The District Courts handle the first instance of most types of civil and criminal cases. They are situated in 50 locations nationwide (one in each of the 47 prefectures and one in the 3 cities of Hakodate, Asahikawa, and Kushiro) with branch offices in 203 locations. Most cases are disposed by a single judge, aside from those cases in which it has been decided that hearing and judgment shall be made by a collegiate court or cases where the crimes are punishable by imprisonment with or without labor for a minimum period of not less than one year. The High Courts handle appeals filed against judgments rendered by the district courts, family courts or summary courts. The cases are handled by a collegiate body consisting of three judges.

The Supreme Court is the highest and final court that handles appeals filed against judgments rendered by the High Courts. It is composed of the Chief Justice and 14 Justices with a Grand Bench made up of all 15 Justices. The Supreme Court is divided into three Petty Benches each made up of 5 Justices to which cases are first assigned. Those cases that involve constitutional questions are transferred to the Grand Bench for its inquiry and adjudication. The chief justice is appointed by the emperor on designation by the cabinet; the other justices, by cabinet appointment. Judges of the lesser courts also are appointed by the cabinet from lists of persons nominated by the Supreme Court. Their term of office is limited to 10 years, with the privilege of reappointment.

The Supreme Court is the court of last resort for determining the constitutionality of any law, order, regulation, or official act that is challenged during the regular hearing of a lawsuit. Abstract questioning of a law is prohibited and thus there is no judicial review. The constitution affords criminal defendants a right to a speedy and public trial by an impartial tribunal. There is no right to a trial by jury. The constitution requires a judicial warrant issued by a judge for each search or seizure. Japan accepts compulsory jurisdiction of the International Court of Justice with reservation.

Japan has the death penalty and it can be enforced for the crimes of murder, arson, or crimes against humanity, although only 2–3 prisoners are executed a year. Japan has been widely criticized for giving lenient punishments for certain crimes, especially rape which carries a typical sentence of 2–5 years in prison. On 18 May 2005, the Diet enacted a new law to improve the treatment of inmates and to help prevent recidivism.

## <sup>17</sup>ARMED FORCES

The reestablishment of Japanese defense forces has been a subject of heated debate in the period since World War II. Article 9 of the constitution renounces war as a sovereign right and the maintenance of “land, sea, and air forces, as well as other war potential.” During the Korean War, General MacArthur recommended the establishment of a national police reserve. Following the signing of the San Francisco Peace Treaty, the reserve force was reorganized into a National Safety Agency (1 August 1952). Laws estab-

lishing a Defense Agency and a Self-Defense Force became effective on 1 July 1954, both under firm civilian control.

The strength of Japan's armed forces in 2005 was 239,900 active personnel, supported by a reserve force of 44,395. The Japan Ground Self-Defense Force (JGSDF) had 148,200 personnel, organized into one armored and nine infantry divisions. The JGSDF's weaponry included 980 main battle tanks, 100 reconnaissance vehicles, 70 armored infantry fighting vehicles, 730 armored personnel carriers, 1,980 artillery pieces, and 90 attack helicopters. The Japan Maritime Self-Defense Force (JMSDF) had an estimated 44,400 personnel, with 16 tactical submarines, 44 destroyers, 9 frigates, 31 mine warfare vessels, and 9 patrol/coastal craft. The JMSDF's naval aviation arm had an estimated 9,800 members with 80 combat capable aircraft that was made up of 80 fixed-wing maritime patrol aircraft. The service also had 10 mine countermeasures and 88 antisubmarine warfare helicopters. Japan Air Self-Defense Force (JASDF) personnel numbered up to 45,600, with 300 combat capable aircraft, including 150 fighters, and 130 fighter ground attack aircraft. Japan has a paramilitary coast guard of 12,250 operating 419 patrol vessels.

Although Japan's defense budgets rank high by world standards, they are modest in relation to gross domestic product (about 1%). In 2005, Japan's defense budget totaled \$44.7 billion. The United States maintains extensive military facilities and several thousand troops in Japan. Japan participated in peacekeeping missions in the Middle East.

## 18 INTERNATIONAL COOPERATION

Japan was admitted to the United Nations on 18 December 1956, and it holds membership in ESCAP and all the nonregional specialized agencies. It is a member of the WTO, participates in the Colombo Plan, and has permanent observer status with the OAS. In 1963, Japan became a member of IMF and the OECD. It is also a charter member of the Asian Development Bank, which came into operation in 1966; Japan furnished \$200 million, a share equal to that of the United States. Japan is also a member of APEC, G-5, G-7, G-8, the Paris Club (G-10), the Inter-American Development Bank, and the Latin American Integration Association (LAIA). Japan is a dialogue partner in ASEAN, and observe to the Council of Europe, and a partner in the OSCE.

Japan has been actively developing peaceful uses for nuclear energy, and in 1970 it signed the Geneva Protocol, which prohibits the use of poisonous and bacteriological weapons. In June 1976, Japan—the only nation to have suffered a nuclear attack—became the 96th signatory to the international Nuclear Nonproliferation Treaty. Japan also participates in the Australia Group, the Zangger Committee, the Nuclear Energy Agency, the Nuclear Suppliers Group (London Group), the Organization for the Prohibition of Chemical Weapons, and as an observer in the European Organization for Nuclear Research (CERN).

Japan has been extending technical and financial aid to many countries, and in 1974 it established the Japan International Cooperation Agency to provide technical assistance to developing nations. Japan also was instrumental in establishing the Asian Productivity Organization, the objective of which is to organize national productivity movements in various Asian countries into a more effective movement on a regional scale. Japan has entered into cultural agreements with many European and Asian nations

and maintains an educational exchange program with the United States. Through the Japan Overseas Cooperation Volunteers, Japan sends youths to work in developing countries.

In environmental cooperation, Japan is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Japan's economy is the most technologically-advanced in Asia and the second most technologically-advanced in the world, behind the United States. Total GDP at market exchange rates in 2005, estimated at \$4.617 trillion, was second only to the United States, but in purchasing power parity (PPP) terms, given the high price level in Japan and the low price level in China, Japan's estimated GDP of \$4.008 trillion (PPP) put it third behind the United States and China. In per capita GDP at market exchange rates, Japan was among the leading nations of the world, at an estimated \$36,236 in 2005. GDP per capita in PPP terms was \$31,457 that year. Japan was the first Asian country to develop a large urban middle-class industrial society. It was also the first Asian country where a sharp reduction in the birthrate set the stage for notable further increases in per capita income.

Since 1952, the number of farmers has fallen sharply, while expansion has been concentrated in industry and trade. The agriculture sector in 2004 accounted for only 1.3% of the GDP, although it remained highly subsidized, employing a relatively high 5% of the labor force. Domestic raw materials are far too limited to provide for the nation's many needs, and imports must be relied on for such basics as raw cotton, raw wool, bauxite, and crude rubber, with fuels and foodstuffs heading the list of materials. The primary engine of Japan's modern growth has been the need to pay for these basic imports with manufactured exports. The exchange of high value-added finished products for low value-added commodities and raw materials has been the basis for both its high level of industrialization and its persistently high trade surpluses. Up until the mid-1980s, economic development depended on continued expansion in exports. With the steady appreciation of the yen in real terms after 1985, however, the country's economic structure underwent some adjustment. Business investment became the second major engine of growth. Facilitated by growing wage rates, favorable credit conditions, cuts in personal and corporate income tax rates and other stimulus measures by the government, domestic demand as well as direct foreign investment have played an increasingly important role as a source of growth in recent years.

After a period of recovery following World War II (from 1947 to 1960), Japan entered into about 15 years of rapid growth (1961 to 1975) that was arrested by the world oil crisis, signaled by the first oil shock in 1973. In 1974, for the first time since World War II, the GNP fell (by 1.8%). The recession was cushioned, however, by the nation's ability to improve its trade balance (by \$11 billion) by increasing exports while reducing imports. The recovery of the mid-1970s was slowed by the second oil shock, in 1978–79, and although the Japanese economy continued to outperform those

of most other industrial countries, growth in GNP slowed to an estimated 4.1% yearly in real terms for 1979–82, compared with 8.9% for 1969–72.

Meanwhile, the continued stimulation of exports, especially of automobiles and video equipment, combined with Japan's restrictive tariffs and other barriers against imports, led to increasingly strident criticism of the nation's trade practices in the United States and Western Europe. As early as 1971, Japan agreed to limit textile exports to the United States, and in the 1980s it also imposed limits on exports of steel, automobiles, and television sets. Similar limits were adopted for exports to Canada, France (where criticism focused on videocassette recorders), and West Germany. Nevertheless, Japan's trade surpluses with the United States and other countries continued to swell through the mid-1980s, helped by a number of factors, most notably the misalignment of major currencies, particularly between the dollar and the yen.

During the late 1980s, a 70% appreciation of the yen's value against the US dollar helped narrow Japan's trade surplus by 19% for two consecutive years in 1988/89 and 1989/90. This was accompanied by low rates of unemployment as well as strong growth in consumer spending and private investment, in turn contributing to a healthy 5% annual growth rate in the GNP between 1987 and 1990. The end of the period of high growth, 1975 to 1990, coincided with the collapse of the Cold War confrontation. The period that followed, after 1991 and until about 2003, had been characterized by very low to stagnant growth, and three dips into recession. The investment boom of the late 1980s, known retrospectively as the bubble economy, had its corresponding bust from 1991 to 1994, leaving mountains of debts that still constitute a drag on the economy. GDP growth rates fell to 1.0%, 0.3%, 0.6%, and 1.5% in the period 1992 to 1995. A spurt of recovery to 5% in 1996 was cut short by the Asian financial crisis of 1997, and Japan saw its first recession year since 1974 when GDP declined 1% in 1998.

Recovery from the Asian financial crisis was itself cut short in 2001, with the onset of a global slowdown and the aftershocks of the 11 September 2001 terrorist attacks on the United States: real GDP growth dropped from 2.2% in 2000 to -0.5% in 2001. The depth of recessions have been minimized by massive stimulus packages and tax cuts across the period of stagnant growth. Recently, major tax cuts were made in 1999 and 2003, and in 2001, the government implemented its ninth massive stimulus package since 1992, this one for ¥11 trillion (about \$960 billion). Total national debt, at 164.3% of GDP in 2004, is proportionately the highest among developed countries.

As of 2006, however—despite a currency that rose more than 20% from 2002–05—Japan's economy was beginning to show signs of improvement. GDP was forecast to grow by 2.3% in 2005 and by 2% in 2006. Japan remained set to end persistent deflation in 2006, although fiscal tightening could slow GDP growth. Consumer prices were forecast to fall by 0.1% in 2005 and to rise by 0.3% in 2006. The unemployment rate was forecast to fall from 3.9% in 2006, to 3.8% in 2007, to just 3.5% in 2008.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Japan's gross domestic product (GDP) was estimated at \$3.9 trillion. The CIA defines GDP as the value of all final goods and services

produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$30,400. The annual growth rate of GDP was estimated at 2.1%. The average inflation rate in 2005 was -0.2%. It was estimated that agriculture accounted for 1.3% of GDP, industry 25.3%, and services 73.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.078 billion.

The World Bank reports that in 2003 household consumption in Japan totaled \$2.448 trillion or about \$19,123 per capita based on a GDP of \$4.3 trillion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 1.4%. In 2001 it was estimated that approximately 12% of household consumption was spent on food, 7% on fuel, 2% on health care, and 22% on education.

## 21 LABOR

Japan's labor force in 2005 numbered an estimated 66.4 million persons. The distribution of employed workers in 2004 was as follows: services, 67.7%; industry, 27.8%; and agriculture, 4.6%. The unemployment rate in 2005 was estimated at 4.3%. Employers tend toward traditional, paternalistic, often authoritarian, control over their workers, but in turn, most regular workers have traditionally enjoyed permanent status.

Union membership in 2005 was about 10.3 million or 19.2% of the workforce. Union strength is greatest in local government employees, automobile workers, and electrical machinery workers. Most members are organized in units called enterprise unions, which comprise the employees of a single firm. Virtually all organized workers are affiliated with national organizations, of which the largest is the Japanese Trade Union Confederation (Shin-Rengo), established in 1987 following the dissolution of the Japanese Confederation of Labor (Domei), and incorporating the General Council of Trade Unions (Soyho) as of 1989. Collective bargaining is widely utilized, and the right to strike is available to most workers.

Strict enforcement of child labor laws as well as societal values protects children from exploitation in the workplace. Children under age 15 are not permitted to work, and those under 18 are restricted. As of 2005, the minimum wage ranged from \$5.77 to \$6.76 per hour, depending on region. Labor legislation mandated a standard workweek of 40 hours, with premium pay rates for overtime.

## 22 AGRICULTURE

Crop production is vital to Japan despite limited arable land (13% of the total area) and the highest degree of industrialization in Asia. Steep land (more than 20°) has been terraced for rice and other crops, carrying cultivation in tiny patches far up mountainsides. With the aid of a temperate climate, adequate rainfall, soil fertility built up and maintained over centuries, and such a large farm population that the average farm has an area of only 1.2 hectares (3 acres), Japan has been able to develop intensive cultivation. Agriculture exists in every part of Japan, but is especially impor-

tant on the northern island of Hokkaidō, which accounts for 10% of national production. Since World War II (1939–45), modern methods, including commercial fertilizers, insecticides, hybrid seeds, and machinery, have been used so effectively that harvests increased substantially through the 1970s. Japan is the third-largest agricultural product importer in the world (after the United States and Germany), with total agricultural product imports of \$41.5 billion in 2004. At \$39.6 billion, Japan had the largest agricultural trade deficit in the world that year.

Almost all soybeans, feedstuffs, and most of the nation's wheat are imported. In 2004, Japan produced 10.9 million tons of rice, the chief crop. In that year, rice accounted for about 90% of all cereal production. About 39% of all arable land is devoted to rice cultivation. Overproduction of rice, as a result of overplanting and a shift to other foods by the Japanese people, led the government in 1987 to adopt a policy of decreasing rice planting and increasing the acreage of other farm products. For many years the government restricted imports of cheaper foreign rice, but in 1995 the rice market was opened to imports, as the government implemented the Uruguay Round agreement on agriculture. Other important crops and their annual production in 2004 (in thousands of tons) included potatoes, 2,839; sugar beets, 4,656; mandarin oranges, 1,200; cabbage, 2,400; wheat, 860; barley, 240; soybeans, 163; tobacco, 53; and tea, 95. In 2003, the government estimated that Japan's self-sufficiency rate for cereals was 60%; for fruits, 44%; and for vegetables, 82%.

As a result of the US-occupation land reform, which began in late 1946, nearly two-thirds of all farmland was purchased by the Japanese government at low prewar prices and resold to cultivators on easy terms. By the 1980s, nearly all farms were owner-operated, as compared with 23% before reform. A more telling trend in recent years has been the sharp growth in part-time farm households. Farmers are aging, and 84% of farm income is derived from other sources, such as industrial jobs. Although agriculture accounts for only 1% of GDP, about 10% of the population lives on farms. Despite increasing urbanization, 59% of all farms still cultivated less than one hectare (2.7 acres) in 2004. As a result, Japanese agriculture intensively utilizes both labor and machinery for production. In 2003, Japan had 2,028,000 tractors and 1,042,000 combines.

### 23 ANIMAL HUSBANDRY

Livestock production has been the fastest-growing sector in Japanese agriculture, with meat production increasing from 1.7 million tons in 1970 to 3 million tons in 2005. In 2004, Japan imported \$8.8 billion in beef, pork, and poultry meat. In 2005 there were 9,600,000 hogs, 4,401,000 head of beef cattle, and 283,000,000 chickens. That year, pork production reached 1,250,000 tons (up from 147,318 tons in 1960); beef, 500,000 tons (142,450 tons in 1960); milk, 8,255,000 tons (1,886,997 tons in 1960); and eggs, 2,465,000 tons. Japan is the single largest recipient of US agricultural exports; over a third of Japan's meat imports come from the United States. In 2003, the government estimated that Japan's self-

sufficiency rate for meat was 45%; for eggs, 96%; and for dairy products, 69%.

### 24 FISHING

Japan is one of the world's foremost fishing nations, accounting on average for about 8% of the world's catch. In 2004, the total catch was 5.73 million tons, with marine fishing accounting for 78%. The waters off Japan include cold and warm currents in which fish abound. In 2003, there were 335,938 registered fishing boats which sailed both on nearby waters and in other fishing grounds in the Pacific Ocean, the South China Sea, and the Indian and Atlantic Oceans, with a total capacity of 320,010 gross tons. Annual per capita fish and shellfish consumption from 1999 to 2001 averaged 66 kg (145 lb). In 2003, despite domestic fish production, about \$12.4 billion in fish and shellfish was imported in order to satisfy domestic demand.

Whales have been prized in Japan as a source of both food and a variety of by-products, and Japanese whalers caught 2,769 whales in 1986. Japan ended commercial whaling in 1987, following the imposition of a worldwide ban on the hunting of endangered species of whales by the International Whaling Commission, but announced that it would catch 875 whales for "research" purposes. The 2003 Japanese whale catch of 820 blue and fin whales represented about 42% of the world's whale catch.

Competition for overseas fishing privileges has at various times brought Japan into conflict with Canada over salmon, with Russia over fishing in the Sea of Okhotsk (between 1905 and 1945 Japan had special treaty privileges in these waters), with the ROK and China over their limitations on Japanese fishing operations, with Australia over pearl fishing in the Arafura Sea, with Indonesia over fishing in what Indonesia regards as inland waters, and with the United States, especially over fishing in north Pacific and Alaskan waters. Japan has been adversely affected by the adoption of the 200 mi fishing zone by the United States and more than 80 other world nations. Fishing in waters claimed by the United States (where about 70% of the Japanese catch originates) or by many other nations now requires payment of fees and special intergovernmental or private agreements.

Fish culture in freshwater pools, as well as in rice paddies, has long been practiced in Japan. Aquaculture provides an additional 1.2 million tons of fish annually. The leading species cultivated are laver (*nori*), yesso scallops, Pacific cupped oysters, and Japanese amberjack. Seaweed culture provides winter season activity for many fishermen. Pearl culture has for more than half a century been the foundation of a valuable export industry.

### 25 FORESTRY

Forests cover nearly 64% of the total land area of Japan and in 2000 supplied about half the domestic demand for lumber and wood pulp. Of 24 million hectares (59.5 million acres) of forest, the Japanese government owns 30%, which it maintains under strict regulations limiting overcutting. On private forest lands, cutting is less controlled. About 6.6 million hectares (16.3 million acres) are reforested with trees less than 20 years old. Forest management and erosion control are urgent necessities in a land where gradients are very steep and flooding is frequent. Japan was the

world's third leading producer of paper and paperboard in 2004 (after the United States and China), at over 30.5 million tons.

About 45% of the forest area consists of plantations. The Japanese cedar (*sugi*), which grows in most of Japan, is the most exploited species, followed by Japanese cypress (*hinoki*), and Japanese red pine (*akamatsu*). These three species grow on 10 million hectares (24.7 million acres) of plantation forest and were first planted in the 1950s and 1960s. In 2004, roundwood production totaled 15.2 million cu m (537 million cu ft), as compared with 49.1 million cu m (1.7 billion cu ft) in 1965. Domestic roundwood production met 51% of Japan's total wood fiber demand that year (up from 48% in 2003); the rest was supplied by imports. In 2004, Japan's 9,420 sawmills processed 13.6 million tons of logs.

During the 1980s and 1990s, Japan became more reliant on imported wood to satisfy domestic demand. In 2004, Japan imported \$11.1 billion in forest products, second only to the United States. Japan is the world's dominant importer of softwood and tropical hardwood logs, and has become one of the largest importers of softwood lumber, which is mainly used for housing construction.

In the early 1960s, 42 public corporations were formed to help private landowners with harvesting and replanting Japan's forests. Since timber prices have fallen 75% since the 1980s, many of these public corporations are now unable to pay back loans and are accruing large debts. As of 2004, the failure of these corporations left several prefectures with a great deal of unpaid loans.

## 26 MINING

The mining sector was the smallest of Japan's industrial-based economy, accounting for 0.2% of GDP in 2003. The mineral-processing industry, however, was among the world's largest and most technologically advanced, accounting for 6.3% of Japan's GDP, in 2003 and it played a key role in supplying steel, nonferrous metals, and chemicals for the country's world-class manufacturing sector, as well as to those of the region. Japan is among the largest producers and consumers of cadmium, and a leading producer of selenium metal, electrolytic manganese dioxide, titanium sponge metal iodine, pig iron, nickel metal, crude steel, copper metal, diatomite, zinc metal, and cement. Japan also produced and had considerable resources of limestone, carbonate rocks (construction aggregates and dolomite), clays (bentonite and fire clay), pyrophyllite, and silica. Since the beginning of the 20th century, most mineral production has undergone a steady decline, and Japan has become a net importer of minerals, relying heavily on imports for petroleum, iron ore, chromium, cobalt, copper concentrate copper metal, primary aluminum, ilmenite, rutile, natural gas, gallium, uranium, manganese (for all its requirements), indium, nickel and coal, although coal accounted for slightly more than half of all mineral production by value. With the exception of gold and zinc, Japan's ore reserves for other minerals, especially oil, gas, and metallic minerals, were very small.

Of Japan's \$470.7 billion in total exports in 2003, minerals, mineral-related chemicals, and processed minerals products were valued at \$38.5 billion; iron and steel products, and nonferrous, rare, and other base metals totaled \$27.3 billion; processed mineral products of asbestos, cement, ceramics, glass, mica, and stone, \$4.7 billion; mineral-related chemicals and fertilizer, \$2.4 billion; precious and semiprecious stones, and precious metals, \$2.1 bil-

lion; salt, sulfur, earths, stone, plastering materials, lime, and cement, \$2.0 billion.

Among metal minerals, preliminary data for 2003 shows that Japan produced 8,143 kg of mine gold (metal content), and 78,862 kg of mine silver. In addition, Japan produced the metal minerals alumina, antimony oxide, high-purity arsenic, bismuth, mine copper, germanium oxide, iron ore, iron sand concentrate, mine lead, manganese oxide, rare-earth oxide (including oxide of cerium, europium, gadolinium, lanthanum, neodymium, praseodymium, samarium, terbium, and yttrium), elemental selenium, high-purity silicon, elemental tellurium, titanium dioxide, mine zinc, and zirconium oxide. Gold ore reserves totaled 178,762 kg (metal content); and zinc ore (metal content), 3.25 million tons.

Among industrial minerals, preliminary output totals for 2003 were: hydraulic cement, 68.766 million tons; iodine, 6,524 metric tons; diatomite, 1850,000 metric tons; limestone (crushed), 163.565 million tons; dolomite (crushed), 3.579 million tons; bentonite, 425,945 tons (estimated); crude fire clay, 460,000 metric tons (estimated); pyrophyllite (from Nagasaki, Okayama, and Hiroshima prefectures), 600,000 metric tons (estimated); silica sand, 4.699 million tons; and silica stone (quartzite), 12.838 million tons. In addition, Japan produced asbestos, elemental bromine, kaolin clay, feldspar, aplite, gypsum, quicklime, nitrogen, perlite, salt, sodium compounds (soda ash and sulfate), sulfur, talc, and vermiculite. Reserves of iodine totaled 4.9 million tons; limestone, 57.9 billion tons; dolomite, 1.19 billion tons; pyrophyllite, 160.4 million tons; silica sand, 200.95 million tons; white silica stone, 880.7 million tons; and kaolin, 36.03 million tons.

Japan's mineral industry consisted of a small mining sector of coal and nonferrous metals, a large mining sector of industrial minerals, and a large minerals-processing sector of ferrous and nonferrous metals and industrial minerals. Mining and mineral-processing businesses were owned and operated by private companies. There were two major nonferrous metal mines and around 40 major industrial mineral mines in 2003. About 50,000 people were employed by Japan's mining sector in 2003. The mineral-processing industry produced, among other things, inorganic chemicals and compounds, ferrous metals, industrial minerals, nonferrous metals, petrochemicals, and refined petroleum products—for domestic consumption and for exports.

The government, through its Metal Mining Agency of Japan (MMAJ), collaborating with the Japan International Cooperation Agency, continued to promote overseas mineral exploration by providing loans and technical assistance, and by carrying out basic exploration. In line with its mineral policy to secure and diversify its long-term supply of raw materials, Japan was expected to continue its active search for direct investment in joint exploration and development of minerals in developed and developing countries. The targeted minerals were antimony, chromium, coal, columbium (niobium), copper, gold, iron ore, lead, lithium, manganese, molybdenum, natural gas, nickel, crude petroleum, rare earths, silver, strontium, tantalum, titanium, tungsten, vanadium, and zinc.

## 27 ENERGY AND POWER

As of August 2004, Japan was the fourth-largest energy consumer in the world, and the second-biggest importer of energy topped only by the United States. Japan's primary energy needs in 2002

were supplied by oil (49.7%), coal (18.9%), nuclear power (13.7%), natural gas (12.7%), hydropower (3.7%), and other renewable sources (1.1%).

Japan's proven oil reserves are miniscule. As of 1 January 2004, these reserves were estimated at 59 million barrels. In 2003, oil production averaged an estimated 120,000 barrels per day, of which 5,000 barrels per day consisted of crude oil. However, oil demand by Japan in 2003 was estimated at 5.57 million barrels per day. Thus imports for that year made up the difference, at an estimated average of 5.45 million barrels per day. However, Japan has been involved in exploration for petroleum and its production overseas. However, in 2000, Japan lost its drilling rights in Saudi Arabia. To make up for this loss, Japan began making investments in Iran, and has sought equity stakes in the Caspian Sea region. Japan is also looking at the Russian Far East.

As of 1 January 2004, Japan's crude oil refining capacity was estimated at 4.7 million barrels per day, spread among 32 refineries.

As of 1 January 2004, Japan's proven natural gas reserves were estimated at 1.4 trillion cu ft. However, additional deposits may lie under the seabed around Japan. Domestic natural gas output is small. In 2002, Japan's production of natural gas came to an estimated 0.10 trillion cu ft. As a result, Japan must import the vast majority of the natural gas it consumes. Demand for natural gas in 2002 was estimated at 2.67 trillion cu ft, with imports for that same year estimated at 2.57 trillion cu ft. Almost all of Japan's natural gas imports are in the form of liquefied natural gas (LNG).

Although Japan has coal reserves estimated in 2002 at 852 million short tons, Japan ceased all coal production in January 2002, when it closed its last operating mine at Kushiro, on the island of Hokkaidō. With demand for coal at an estimated 179.1 million short tons in 2002, Imports of coal that year came to an estimated 175.8 million short tons. In 2002, the last year of domestic production, output came to 3.3 million short tons.

In 2002, Japan's electric power generating capacity stood at 236.995 million kW, of which conventional thermal plants accounted for 168.728 million kW, nuclear generating plants 45.907 million kW, hydropower facilities 45.907 million kW, and geothermal/other 0.709 million kW. Electric power output in 2002 came to 1036.208 billion kWh, of which 646.457 billion kWh came from conventional thermal plants, 280.339 billion kWh from nuclear plants, 81.554 billion kWh from hydropower facilities and 27.858 from geothermal/other sources. Electricity is provided by several private companies, with the public Electric Power Development Co. and the Japan Atomic Power Co. playing supplementary roles in distribution.

To reduce its reliance on oil and its carbon dioxide emissions, Japan has aggressively pursued the development of nuclear power since the 1980s. In 2002, nuclear generated electric power accounted for 27% of all power produced. According to Japan's 10-year energy plan, which was approved in March 2002, nuclear generation is to be increased by about 30% by 2011. It is anticipated that between 9 and 12 new nuclear plants would be needed. As of 2002, Japan had 51 reactors in operation, with a total capacity of 45 GW. These included the world's first Advanced Boiling Water Reactor, which came online in 1997.

## 28 INDUSTRY

Manufacturing has been a key element in Japan's economic expansion during three periods of phenomenal growth. First, during the 50-year rise of Japan from a feudal society in 1868 to a major world power in 1918, output in manufacturing rose more rapidly than that of other sectors. Second, during the 1930s, when Japan recovered from the world depression earlier and faster than any other country and embarked on an aggressive course in Asia, manufacturing, especially heavy industries, again had the highest rate of growth. Third, in the remarkable recovery since World War II, manufacturing, which had suffered severely during the latter stages of the war, was again a leader, although commerce and finance expanded even more rapidly.

Japanese industry is characterized by a complex system of exclusive buyer-supplier networks and alliances, commonly maintained by companies belonging to the same business grouping, or *keiretsu*. Such a system utilizes a web of vertical, horizontal, and even diagonal integration within the framework of a few large conglomerations. Keiretsu firms inhibit the foreign acquisition of Japanese firms through nontransparent accounting and financial practices, cross-holding of shares among keiretsu member firms (even between competitors), and by keeping a low proportion of publicly traded stock relative to total capital.

During the 1970s and early 1980s, the rate of Japan's industrial growth surpassed that of any other non-Communist industrialized country. Of the 26 largest industrial companies in the world in the mid-1980s—those with sales of \$20 billion or more—four were Japanese: Toyota Motor, Matsushita Electric, Hitachi, and Nissan Motor. In addition to spectacular expansion in the volume of output, Japanese industry has also achieved impressive diversity, with maximal application of efficiency standards and technological input. In 1997, industry accounted for about 38% of GDP and 33% of the total labor force. However, the Asian financial crisis that beset the region impacted Japan's industrial production growth, which went from 9.6% in 1997 to -6.9% in 1998. Growth was still negative in 1999, but only by -0.1%, and in 2000 positive growth had returned as industrial production rose 5.3%. The recovery was short lived. The global slowdown of 2001 compounded by the economic aftershocks of the 11 September 2001 terrorist attacks on the United States contributed to a massive 8.3% decline in industrial production in Japan in 2001. The percentage of Japan's labor force in industry had dropped from 40% in 1997 to 30% in 2001. However, by 2003, industrial production had improved, and by 2004 was growing by 6.6%, even though the percentage of Japan's labor force in industry had dropped further, to 25%.

A brief recession forced production cutbacks in 1965; a deeper recession in 1974, related to rising world oil costs and diminished supplies, slowed Japan's economy in 1973–75 and again in 1978–80. At the same time, wage rates rose substantially, thereby reducing Japan's competitive advantage vis-à-vis other industrialized nations and prompting a major government effort to promote high-technology industries capable of making the most efficient use of the high educational level and technical competence of the Japanese labor force. Japan's industrial strategy, which involves close cooperation between business, government, and labor, was coordinated by the Ministry of International Trade and Industry (MITI). Particular emphasis was given by MITI and other govern-

ment agencies to encouraging and assisting research and development of new products and technologies.

Facing increasingly stiff competition from overseas trading partners in the 1980s, Japanese firms responded with several strategies, including product diversification, increased investment in overseas plants, as well as a greater focus on production for the domestic market. Despite declining profits with the economic downturn of the early 1990s, Japanese companies continued to make large investments in new plants and equipment; in 1992, these outlays amounted to over 20% of the GDP, well outstripping the level of private investment in the United States. Since 1992, the government has implemented nine massive stimulus packages, including large investments in public projects like roads, bridges, and airports, in its efforts to spark renewed growth, or, at least, prevent a deeper recession.

Manufacture of electrical machinery ranks first in value added. Nonelectrical machinery ranks second, followed by transportation equipment and chemicals. The electronics industry grew with extraordinary rapidity in the 1980s and now leads the world. Radio and television sets and household appliances have been exported in large quantities since World War II; in addition to generators, motors, transformers, and other heavy equipment, the industry now produces automatic devices, electronic computers, videocassette recorders, tape recorders, calculators, and communications and broadcasting equipment. Japan plays an increasingly important role in the computer industry. By 1987, Japan was fiercely competing with the United States in developing high-tech products, such as superconducting materials.

Japan is the world's leading shipbuilder; more than half the ships built are exported, including some of the world's largest oil tankers. Rapid increases in shipbuilding capacity by Brazil and South Korea reduced demand for Japanese-built ships from a peak of 38 million gross tons of new orders in 1973 to 7.0 million gross tons in 1991. The decline prompted direct government intervention in the ailing industry and the closing of close to 37% of dockyard facilities in 1980. As of 2001, Japan had 33% market share in new orders of ships, followed by South Korea with 30%, and China with 11%.

Passenger car production expanded rapidly in the 1970s, as Japan moved to fill rising demand for fuel-efficient cars in the United States and Europe. In the early 1980s, Japan emerged as the world's leading automobile producer, topping the United States for the first time in the history of the industry. Dominant industry giants are Nissan and Toyota, which together produced about three-fifths of all passenger cars in the mid-1980s. Restrictions imposed on Japanese automobile exports have promoted a marked increase in Japanese investment in automobile manufacturing facilities (engine manufacture, assembly as well as research and development) in the United States, Western Europe, and other overseas markets. Japanese manufactures have also sustained growth through greater focus on producing for the booming domestic motor vehicle market. Japan's superior technology in the design of bicycles, motorcycles, buses, and high-speed trains has been another major factor in the growth of the transport industry. In 2004, Japan produced 10,511,518 cars, trucks, and buses, of which 4,957,663 were exported. Leading car makers included Daihatsu, Fuji, Hino, Mitsubishi, Nissan, Honda, Isuzu, Mazda, Suzuki, and Toyota.

The chemical and petrochemicals industry has been another of the economy's key growth sectors since the late 1960s, in part due to rising domestic demand. Products include industrial chemicals such as sulfuric acid, caustic soda and fertilizers, as well as plastics, dyestuffs, paints, and other items for domestic use. Japan must import much of the iron ore and coking coal used in its steel industry, which ranked second only to the former USSR's in the mid-1980s. Output of crude steel peaked at 119.32 million tons in 1973 but declined to 101.6 million tons in 1995. In 2004, crude steel production totaled 112.72 million tons.

Textiles and apparel, Japan's main exports during the years immediately following World War II, have steadily declined in importance. Output of cotton and woolen fabrics, yarns, and rayon and acetate remains substantially below 1965 levels. The Japanese textile industry has been especially hard hit by rising wage rates and competition from developing nations, especially the other industrializing countries of East Asia.

Japan's semiconductor business has grown in size and profit due to the trade pact between Japan and the United States. While some argue that this pact had a negative effect on Japan's domestic chip market, it now appears, that these chip companies have become more efficient and therefore more profitable. Both the United States and Japan have become so intertwined in the semiconductor area that neither could afford to terminate the relationship.

## 29 SCIENCE AND TECHNOLOGY

The Japanese rank second only to the United States in spending on scientific research and technology development. However, in Japan, 80% of all research and development (R&D) is carried out by industry, in contrast to the United States, where industry undertakes about half of all R&D (the US government supports the rest). This is important because industry is more likely to support the type of research that will result in new technologies and products. For many people, this breakdown of R&D funding explains why Japan has become such an economic powerhouse. Much more of the total R&D budget is focused on near-term and commercial science and technology. Some of the more successful applications of the fruits of Japanese R&D include high-speed trains, robotics, semiconductor chips, telecommunications, cancer research, and environmental technologies.

In 1987–97, science and engineering students accounted for 21% of college and university enrollments. In 2002, of all bachelor's degrees awarded, 18.6% were in the sciences (natural, mathematics and computers, and engineering). In that same year, there were 5,085 scientists and engineers per million population actively engaged in R&D. In 2000 (the latest year for which the following data was available) R&D spending in Japan totaled \$98,242.931 million, or 2.98% of GDP, for which business accounted for 72.4%, and government 19.6%. Higher education, that same year, accounted for 7.6%, while foreign sources provided 0.4%. Despite Japan's economic downturn in the 1990s, it was likely that investments in both equipment and personnel would grow. In 2002, high-tech exports were valued at \$94.730 billion and accounted for 24% of manufactured exports.

In terms of the Japanese government's role in national science and technology, three ministries are important. The Ministry of Education, or Monbusho, provides most of the support and funding for scientific education and training at the university level in

Japan. In the 1990s, Monbusho led a national effort to improve science and technology education at universities, particularly in “basic” research (areas where research does not necessarily have to pay off in commercial products). Another organization, the Science and Technology Agency (STA) promotes science and technology policies, and acts as the prime minister’s leading policy and budgetary agency. It performs this function through annual “white papers” which describe the current state—and future goals—of Japanese science and technology. The Ministry of International Trade and Industry (MITI) is probably the ministry best known by Americans. MITI promotes and protects Japanese industry by sending them signals and giving guidance to those firms which undertake research and development. MITI has been instrumental in providing close government-industry cooperation in many high technology fields, including computers, electronics, and biotechnology.

Regional research institutions such as Tskuba Science City and Kansai Science Park also play a role in fostering Japanese research and development. Their growth since the 1970s has begun to shift some of the focus and power of the national government and industry in Tokyo to the regional prefectures. International cooperation with the United States in areas like global warming and space launches may create new opportunities for greater scientific research at local, regional, and national levels in Japan.

Japan has numerous universities and colleges that offer courses in basic and applied sciences. The country’s National Science Museum, founded in 1877, is located in Tokyo. The University of Tokyo has botanical gardens that were established in 1684.

### 3<sup>0</sup> DOMESTIC TRADE

At least half of all consumer goods are purchased through small, privately owned and operated shops. Street hawkers and peddlers provide certain foods and small consumer items; street stalls offer food, clothing, and household and other goods. Specialty shops exist in great profusion, and about 100 associations of such shops represent common interests. There are chain stores owned and operated by a single management and there are voluntary chains of independent stores operating in association. Japan also has numerous cooperatives, principally consumer, agricultural, and fishing. Recent revisions in the large-scale retail store law have loosened government regulation of the distribution system, allowing the establishment of large foreign discounters and mega-stores, which are likely to offer growing competition to smaller retailers in the future. As of 2005, Japan’s franchise industry was the second-largest in the world in total sales with over 1,000 chains. The number of outlets in Japan exceeds 218,000.

A key characteristic of the country’s distribution system has been the long term and carefully cultivated nature of the supplier and wholesaler or retail store relationship, necessitating considerable commitment of time and outreach effort by foreign companies wishing to enter the Japanese market.

In retail trade, cash transactions have been traditional, but various forms of installment selling are increasingly being used, especially in the sale of durable goods. The use of charge accounts is growing rapidly. Promotion by displays, advertising, and other methods used in Western countries is increasing rapidly in Japan. Advertising appears in the daily press, in the numerous weekly and monthly magazines, and in special publications of many

kinds. Radio and television also carry extensive advertising, excepting those channels run by the government’s Japan Broadcasting Corporation.

Normal shop hours are 10 AM to 8 PM, seven days a week, although department stores shut their doors at 7:30 PM and are closed two or three weekdays a month; government offices are open 9 AM to 5 PM, Monday through Friday. Banks are open from 9 AM to 3 PM Monday through Friday, and are closed on Saturdays and Sundays.

### 3<sup>1</sup> FOREIGN TRADE

Despite the fact that Japan’s currency rose more than 20% from 2002–05, and 13% in 2005 alone, it remained the world’s second-largest exporting nation, behind Germany. However, Japan exhibits a low degree of openness to foreign trade, and therefore maintains a significant trade surplus. For example, as a percentage of current-price GDP, the value of Japan’s two-way foreign trade in 2003 was just above 18%, compared with 54% for Germany. The closed nature of Japan’s economy is also comparable to other countries in Asia, such as China, which in 2003 saw foreign trade reach nearly 60% of current-price GDP. This phenomenon is due to official and unofficial restrictions on merchandise imports, which remain in place—despite pressure from the United States and other important trading partners—to protect the less efficient sectors of Japanese industry, such as textiles, food, and pulp and paper. This lack of openness to foreign trade has been named as one of the reasons for the poor productivity of companies in the nontradable sectors of the economy, for example, and for other structural economic problems.

Imports consist mostly of fuel, foodstuffs, industrial raw materials, and industrial machinery. Exports are varied, but manufactures now account for nearly all of the total. Cars represent a leading export product, with the United States, Canada, Australia, Germany, and the United Kingdom as the main markets. The export of office machinery, scientific and optical equipment is also important. South Korea, China, and Taiwan are among the main buyers of Japan’s iron and steel, while plastic materials and fertilizers are shipped primarily to South Korea and the Southeast Asian countries, and woven fabrics are supplied to China, the United

#### Principal Trading Partners – Japan (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	471,996.0	383,452.0	88,544.0
United States	117,539.5	59,994.8	57,544.7
China	57,415.5	75,469.3	-18,053.8
Korea, Republic of	34,805.6	17,902.7	16,902.9
Other Asia nes	31,235.7	14,311.4	16,924.3
China, Hong Kong SAR	29,896.9	...	29,896.9
Germany	16,422.2	14,207.5	2,214.7
Thailand	16,040.1	11,892.9	4,147.2
Singapore	14,846.6	5,435.1	9,411.5
United Kingdom	13,226.2	5,846.3	7,379.9
Netherlands	11,772.3	...	11,772.3

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

States, and Saudi Arabia. Only a small fraction of Japan's total exports consists of food items, mainly fish.

In light of growing overseas concern about Japan's continuing large trade surplus, the US and Japanese governments collaborated on the Structural Impediments Initiative of 1989. Steps taken in the wake of the initial report included a variety of import and direct foreign investment promotion measures, including deregulation, accelerated government spending on public infrastructure, and support services for foreign businesses. The Initiative as a framework for US-Japanese relations was ended in 1993.

Manufactured products make up most of Japan's commodity exports. Japan is the world's largest maker of machine tools, and is one of the world's most important iron and steel makers. The automobile is the country's most important industry, along with computers and electronic equipment. Japan makes more than 25% of the world's exported ships.

In percentage terms, Japan's main exports in 2004 were: electrical machinery (23.5% of all exports); transportation equipment (23.1%); nonelectrical machinery (20.6%); chemicals (8.5%); and metals (6.6%). Japan's main imports in 2004 were: machinery and equipment (31.3% of all imports); mineral fuels (21.7%); food (10.8%); chemicals (7.8%); and raw materials (6.2%). Japan's leading markets that year were: the United States (22.4% of total exports); China (13.1%); South Korea (7.8%); Taiwan (7.4%); and Hong Kong (6.3%). Leading suppliers in 2004 were: China (20.7% of all imports); the United States (13.7%); South Korea (4.8%); Indonesia (4.1%); and Taiwan (3.7%). Bilateral trade between China and Japan now exceeds trade between Japan and the United States.

### <sup>32</sup>BALANCE OF PAYMENTS

Beginning in 1981, surpluses in Japan's current accounts increased rapidly, reaching \$49 billion in 1985 and \$86 billion in 1986, the latter being 18 times the level of 1981. These huge surpluses re-

sulted largely from the high value of the dollar relative to the yen; price declines of primary goods, such as petroleum, also enhanced Japan's favorable trade position. Japan's mounting surpluses and the rising deficits of the United States forced the United States and other leading industrial nations to attempt to realign their currencies, especially the dollar and the yen, in September 1985. Within two years the yen rose 70% against the dollar. The yen's appreciation increased the competitiveness of American products and contributed to the reduction of Japan's external imbalances through 1990, when the current account surplus fell by 37.4%, due to higher expenses for imported oil and rising expenditures by Japanese traveling abroad. Whereas long-term capital outflows exceeded Japan's current account surplus from 1984 through 1990, by 1991 the outflow shifted predominantly to short-term capital, and overseas direct investment slowed.

In 2004, Japan's merchandise trade surplus, on a balance-of-payments basis, stood at \$132.1 billion, with exports totaling \$539 billion and imports totaling \$406.9 billion. The current account recorded a surplus of \$172.1 billion, or 3.7% of GDP in 2004. Japan's current account balance averaged 3% of GDP over the period 2001–05. Japan had the highest trade and current account surpluses in the world in the early 2000s; however, Japan is less open to trade than other highly developed economies. As a percentage of current-price GDP, the value of Japan's two-way foreign trade in 2003 was just 18%, compared with Germany's 54% and China's nearly 60%. This was due in part to restrictions on merchandise imports to protect the country's less efficient industry sectors. Due to this lack of openness to trade, companies in the nontradable sectors have not been productive.

### <sup>33</sup>BANKING AND SECURITIES

Japan's highly sophisticated banking system continued to play a dominant role in financing the country's and the world's economic development, despite Japan's decade long recession. In the mid-1980s, while the United States was becoming a debtor nation, Japan became the world's largest creditor. Banks provide not only short-term but also long-term credit, which often in effect becomes fixed capital in industry. In terms of sheer size, Japanese banks occupy some of the top spots in worldwide bank ratings.

The controlling national monetary institutions are the Bank of Japan (founded in 1882) and the Ministry of Finance. The Bank of Japan, as central bank, has power over note issue and audits financial institutions to provide guidance for improving banking and management practices. Ceilings for interest rates are set by the bank, while actual rates, commissions, and discounts are arranged by unofficial agreements among bankers and other financial institutions, including the National Bankers' Association. A new banking law, replacing the National Banking Law of 1928, was adopted in 1982. Its objectives were to increase competition in the financial world by enabling banks to sell bonds and by authorizing both banks and securities firms to sell commercial paper and certificates of deposit.

Eleven important city banks, with branches throughout the country, account for about two-thirds of all commercial bank assets, the rest accruing to 131 regional banks, 7 trust banks, and 83 foreign banks. In addition, 112 foreign banks have representative offices in Japan. Of special interest are the postal savings facili-

#### Balance of Payments – Japan (2003)

(In billions of US dollars)

<b>Current Account</b>		<b>136.2</b>
Balance on goods	106.4	
Imports	-342.7	
Exports	449.1	
Balance on services	-33.9	
Balance on income	71.2	
Current transfers	-7.5	
<b>Capital Account</b>		<b>-4.0</b>
<b>Financial Account</b>		<b>71.9</b>
Direct investment abroad	-28.8	
Direct investment in Japan	6.2	
Portfolio investment assets	-176.3	
Portfolio investment liabilities	81.2	
Financial derivatives	5.6	
Other investment assets	149.9	
Other investment liabilities	34.1	
<b>Net Errors and Omissions</b>		<b>-17.0</b>
<b>Reserves and Related Items</b>		<b>-187.2</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ties, which are used by many Japanese families and have assumed many of the aspects of a huge state-owned banking business.

The Foreign Exchange Law was changed to totally liberalize cross-border transactions in 1998. Important foreign exchange banks include the city banks, long-term credit banks, trust banks, major local banks, major mutual loan and savings banks, and the Japanese branches of foreign banks. Such governmental financial institutions as the Japan Export-Import Bank, the Central Bank for Commercial and Industrial Associations, and the Central Bank for Agriculture and Forestry also participate in foreign exchange markets.

The rapid expansion of bank lending and the importance of land and stocks as assets in Japan's financial sector have exposed its financial institutions to the risks stemming from falling asset prices. Thus one of the root problems of Japan's difficulty in returning to a trend rate of GDP growth lies in the fragility of the financial sector. Banks and other financial institutions have been rocked by the huge sums of nonperforming debt, stemming from an earlier lending spree based on inflated land values as collateral. In the aftermath of the collapse of the "bubble economy," many of the generous loans extended, especially to land and property developers, cannot be repaid or even serviced. Japan's 21 major banks, including the 11 city banks, wrote off about ¥11 trillion (\$102 billion) of bad debts at the end of March 1996.

The bad debt held by the seven failed *jusen* (housing loan companies established by banks and agricultural financiers), which were liquidated partly at public expense, led to huge secondary losses in other areas of the financial sector. The liquidated *jusen* moved their assets to the newly established Housing Loan Administration Corp., which had the responsibility, from the beginning of its operations in October 1996, of recovering loans from the seven companies. This was unlikely, however, since not only would many property companies go bankrupt, but also much of the bad debt was extended illegally or to companies associated with *yakuza* (gangsters). Consequently, several *jusen* executives were arrested in 1996 on charges of alleged aggravated breach of trust.

The most dramatic merger was that between the Bank of Tokyo and Mitsubishi Bank in April 1996. This "mega-merger" created the world's largest bank, which became highly competitive in global financial markets. In 1999, three Japanese banks: Dai-ichi Kangyo Bank, Fuji Bank, and IBI, announced a merger worth more than \$1.3 trillion, surpassing all other large financial institutions. The other premier Japanese banks in 1999 were Sumitomo Bank, Sanwa Bank, and Sakura Bank. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2,318.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$5,293.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 0.06%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 0.1%.

Major securities exchanges are in Tokyo, Hiroshima, Fukuoka, Nagoya, and Osaka. Small regional exchanges are in Kyoto, Niigata, and Sapporo. Although prior to World War II most stocks were held by large business firms (*zaibatsu*), stocks are now available for public subscription. The Tokyo Stock Exchange, the largest in the world, is the most important in Japan.

In the late 1980s, there were three categories of securities companies in Japan, the first consisting of the "Big Four" securities houses (among the six largest such firms in the world): Nomura, Daiwa, Nikko, and Yamaichi. The Big Four played a key role in international financial transactions and were members of the New York Stock Exchange. Nomura was the world's largest single securities firm; its net capital, in excess of us\$10 billion in 1986, exceeded that of Merrill Lynch, Salomon Brothers, and Shearson Lehman combined. In 1986 Nomura became the first Japanese member of the London Stock Exchange. Nomura and Daiwa were primary dealers in the US Treasury bond market. The second tier of securities firms were affiliates of the Big Four, while some were affiliated with banks. In 1986, 83 of the smaller firms were members of the Tokyo Securities and Stock Exchange. Japan's securities firms derived most of their incomes from brokerage fees, equity and bond trading, underwriting, and dealing. Other services included the administration of trusts. In the late 1980s a number of foreign securities firms, including Salomon Brothers and Merrill Lynch, became players in Japan's financial world.

The Tokyo Securities and Stock Exchange became the largest in the world in 1988, in terms of combined market value of outstanding shares and capitalization, while the Osaka Stock Exchange ranked third after Tokyo and New York. As of 2004, there was a combined total of 3,220 companies listed on the Tokyo Stock Exchange and the JASDAQ, which had a combined market capitalization of \$3,678.262 billion. In 2004, the TOPIX index rose 10.2% from the previous year to 1,149.6.

### 34 INSURANCE

After 56 years, the Japanese Insurance Business Law was revised in 1997. The purpose of the newly revised law is competition, to protect policy holders, and to promote greater management efficiency. The law allowed, for the first time, cross entries of life and nonlife companies into each other's sector through the establishment of subsidiary companies. In response to this development, 6 life and 11 nonlife insurance companies set up subsidiaries. Firms may not engage in life and nonlife insurance at the same time. In 2003, leading Japanese nonlife insurance firms included Tokio, Mitsui Sumitomo, Aioi, and Nippon Koa. Leading life insurance companies included Nippon, Dai-ichi, Sumitomo, Meiji Yasuda, and ALICO Japan. Direct premiums written in 2003 totaled us\$478.865 billion.

Life insurance is by far the most extensive of all classes of insurance. Premium income is more than three times that of all nonlife premium income. In 2003, direct life insurance premiums written totaled us\$381.335 billion, while nonlife insurance premiums totaled us\$97.530 billion. Japan is the world's largest holder of life and health insurance. More than 90% of the population owns life insurance, and the amount held per person is at least 50% greater than in the United States. Nippon Life Insurance Co., the world's largest insurance firm, had us\$44,356.7 million in gross premiums written in 2003.

In the nonlife field, automobile insurance is the largest sector. (Automobile liability insurance is compulsory.) Personal accident insurance was next in importance, followed by fire, marine cargo, and marine hull insurance. Worker's compensation, nuclear liability and health insurance are also compulsory. In 2003, Tokio was the nation's leading nonlife insurer, with direct premium income

(net cancellations and returns, but including savings in maturity funded policies) of \$14,861.1 million.

In the mid-1990s the combined Japanese life and nonlife insurance market had the world's largest share with 30.8% of the world total premium. The life insurance market was 42.6% of the world market, and the nonlife market with 15.2%, the second-largest in the world after the United States. The Japanese nonlife insurance market consisted of 29 domestic companies and the life insurance market consisted of 36 domestic companies in 1997.

### **3<sup>5</sup>PUBLIC FINANCE**

Plans for the national budget usually begin in August, when various agencies submit their budget requests to the Ministry of Finance. On the basis of such requests, the ministry, other government agencies, and the ruling party start negotiations. The government budget plan usually is approved by the Diet without difficulty, and the budget goes into effect in April. Deficits, financed by public bond sales, have steadily increased in size since the 1973 oil crisis. As a result, the ratio of gross debt to GNP has risen from 8% in 1970 to 60% by 1987. By 1990, debt servicing was absorbing over 20% of budgeted expenditures. Since 1982, Japan has pursued tight fiscal policies and has attempted to constrain government debt. In June 1987, however, as a response to appeals from other nations to reduce international imbalances, Japan initiated a \$35 billion public works spending package, followed up by \$10 billion in tax cuts. In recent years, however, fiscal stimulus policies have contributed to an increasing budget deficit. Japan's government deficit was 3% of GDP in 1994 and reached 4.3% of GDP in 1995, due to ongoing high levels of public sector borrowing. The government's focus on fiscal policy to compensate for a tight monetary policy has restricted spending on infrastructure, yet by 2002, the deficit had reached 7.8% of GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Japan's central government took in revenues of approximately \$1.4 trillion and had expenditures of \$1.7 trillion. Revenues minus expenditures totaled approximately -\$346 billion. Public debt in 2005 amounted to 170% of GDP. Total external debt was \$1.545 trillion.

### **3<sup>6</sup>TAXATION**

After World War II, Japan adopted a tax system relying mainly on direct taxes, like those in the United States and the United Kingdom. The most important of these are the income tax and corporation tax.

Japan's standard corporate tax rate is 30%, but local enterprise and inhabitant taxes can push that rate to 41%. Corporations capitalized at ¥100 million or less are taxed at a 22% rate that is applied to the first ¥8 million of taxable income. Capital gains received by companies are taxed as income at normal tax rates. In the past, capital gains received from the sale of land had been subject to a special surplus tax. As of 2005, that tax was suspended until 31 December 2008. Dividends are generally subject to a withholding tax of 20%. However, dividends paid on listed shares from 1 April 2003 through 31 March 2008 are taxed at a lower 10% rate. Interest paid to residents and nonresidents is also subject to a 20% withholding rate, although interest received by nonresidents from debentures, bank deposits, and bonds are subject to a lower rate of 15%.

Japan has a progressive individual income tax that has a top rate of 37%. However, local taxes can push the effective rate to 50%. Local taxes can include municipal and prefectural inhabitant and per capita taxes. There is also a 5% consumption tax that is applied to most services and goods. However, a number of items are zero-rated. These include: exports; foreign cargo handling, carriage, and storage; certain services to nonresidents; and patent, trademark and copyright loans or transfers to nonresidents. Exemptions include land transfers, medical services, residential rents, and financial services.

Additional national taxes include customs duties; a stamp tax; inheritance and gift taxes; a monopoly profits tax; a sugar excise tax; taxes on liquor, gasoline, and other commodities; and travel, admissions, and local road taxes.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

The Japanese tariff system is administered by the Customs Bureau of the Ministry of Finance. As of 1997, Japan imposed a general tariff rate of 2%. However, import duties remained relatively high for certain agricultural and manufactured goods. In addition, quantity quotas and tariff quotas are still applied to some goods. There is also a 5% consumption tax on imports based on cost, insurance, freight plus the duty. In August 2005, Japan imposed a 15% retaliatory duty on 15 products manufactured in the United States. These included ball bearings, steel products, navigational instruments, machinery accessories, printing machines, forklift trucks and industrial belts. There is a free trade zone at Naha, on Okinawa; no free trade zones function on the main islands.

### **3<sup>8</sup>FOREIGN INVESTMENT**

Japanese investments abroad have expanded steadily since the 1970s, the result both of liberalization on the outflow of capital and of the prosperity of the Japanese economy. It has also been due in part to increased investment in the United States and European Union (EU) as a conciliatory move to lessen the trade gap between Japan and the two industrial regions. Net annual direct investment outflows remained near \$5 billion in the late 1970s but climbed steadily between 1985 and 1991 when they reached \$48 billion, declining somewhat to \$30.7 billion in 1992. Overseas direct investments made by Japan totaled \$41 billion in 1993/94 and \$51.4 billion in 1994/95. In 1996, Japan reportedly invested \$50 billion overseas and attracted only about \$7 billion in inward direct investment. In 2003, inward FDI was \$6.3 billion, and outward FDI amounted to \$28.8 billion.

Foreign investment in Japan has historically been less than in other G-7 countries. One reason for this is that in the past, the Japanese government discouraged foreign investment. A second but perhaps more significant reason is the high cost of doing business in Japan, which, in turn, reduces profits. Some of the barriers became less significant with the signing of the US-Japan Investment Accord signed in 1995. As of 2005, Japan's government imposed few formal restrictions on FDI in Japan, and had removed or liberalized most legal restrictions that applied to specific economic sectors. In 2005, President Koizumi promised to double the amount of FDI in Japan by 2010.

During the early 1990s, there was a significant imbalance in Japan's investment in other countries compared to other countries investing in Japan—the former was far greater than the latter. As

an example, Japan invested \$17,331 million in the United States in 1994 and \$22,649 million in 1995. During those same two years, the United States invested \$1,915 million and \$1,837 million, respectively, in Japan. Since the mid-1990s, however, investment in Japan soared. FDI stock in Japan had more than tripled (on a yen basis) from 1998–2003. Reforms in the financial, communications, and distribution sectors have encouraged foreign investment in these sectors.

In 2003, inward FDI to Japan slowed to \$6.3 billion, from \$9.2 billion in 2002, but this followed continued strong increases in FDI in the preceding several years. In 2003, Japan's overseas investments also shrank, to \$28.8 billion, from \$32.3 billion in 2002. In 2003, China attracted 90% of Japan's FDI in the Asia region alone. The primary foreign investors in Japan in 2003 were (in order): the United States, the Netherlands, France, Germany, and the Cayman Islands. Japanese direct investment abroad went to (in order): the United States, the Netherlands, the United Kingdom, China, and the Cayman Islands.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Japan's phenomenal economic growth since the 1950s has been based on an efficient blend of two economic tendencies. First is government activism in national planning and implementation, with guidance of the largely free economy via sophisticated and powerful monetary and fiscal policies. Second is the distinctively Japanese way of coupling largely private ownership of assets with conservative, public-spirited management. Especially significant was the role of the Ministry of International Trade and Industry (MITI), which coordinated national industrial policies consistent with economic and social growth. In a unique government-industry collaboration sometimes referred to overseas as "Japan, Inc.," MITI selected and nurtured industries targeted as important to Japan's future economic growth. Industries so targeted have included chemicals, iron and steel, shipbuilding, and transistor radios in the 1960s; automobiles and electronics in the 1970s; and computers, computer chips, and other high-technology industries for the 1980s. In addition to stimulating new industries, MITI also smoothed the way for plant closings and worker retraining in industries targeted for de-emphasis, such as textiles in the 1970s and the ailing coal-mining and shipbuilding industries in the 1980s. MITI also assumed an active role in lessening Japan's positive trade imbalances through a variety of import promotion measures, in collaboration with both domestic companies and foreign firms. Close ties between government and industry are illustrated by the ministries' issuance of informal "administrative guidance" to Japanese companies, the frequent placement of retired bureaucrats in Japanese companies and trade associations, and the delegation of quasi-regulatory authority to trade associations (which are often allowed to devise and regulate their own insider rules). In 2001, MITI was reorganized as the Ministry of Economy, Trade, and Industry (METI).

The objectives of maintaining rapid GNP growth, controlling inflation, and developing Japan's social and industrial infrastructure have been the concern of the Economic Planning Agency, which produced the successful Ikeda plan (to double the national income between 1961 and 1970) and released projections of key indicators at frequent intervals. (In 2001, the offices and functions of the Economic Planning Agency were reassigned to the newly-

formed Cabinet Office, where they function as a secretariat to the Council on Economic and Fiscal Policy.) In the main, the Ikeda plan consisted of a series of projections of growth in a free market economy, with the basic assumption—the continued growth of Japan's overseas trade—largely outside of government control. During the plan's 10-year span, an annual growth of 11% in GNP was realized, as against the forecast rate of 7.2%. An economic and social development plan (1967–75) accomplished a GNP growth rate of 10.6%, as against 8.2% projected.

A second economic and social plan (1970–75) projected a continued annual growth rate of 10.6%. The 1973 world oil crisis and its aftermath severely shook Japan's trade-dependent economy, however; in 1974, the GNP actually shrank by 1.8%, the first such negative growth in three decades. In 1975, the cabinet approved a new economic and social plan for 1979–85 calling for an average annual growth rate of 5.7%. However, the impact of the second oil crisis in 1978 necessitated downward revisions of projected growth targets. Plans to stimulate the economy by increasing public-works spending and cutting taxes were approved in October 1983 and in May 1987. Also enacted in 1989 was a value-added tax to strengthen the government's revenue base while allowing reductions in personal and corporate income tax.

In 1988, a five-year plan was adopted to sustain real GNP growth at 3.8% per year, maintain low unemployment (2.5% per year), contain inflation, reduce the country's trade surplus, and improve the quality of life through a shorter work week and stabilized property prices. Many of these objectives were achieved or surpassed in the closing years of the decade. After 1992, however, the economy's downturn was likened by some analysts to the 1974 recession in its severity and length. Economic indicators included steep declines and sluggish recovery in the stock market index after 1989, falling real estate prices, as well as a shrunken rate of GNP growth, despite surging exports. To prompt a recovery, the Ministry of Finance approved large stimulus packages for 1992 and 1993, totaling \$85.6 billion and \$119 billion in expenditures, respectively. Under the Structural Impediments Initiative, the government sought to sustain growth while also reducing the country's external trade imbalances. Among the main steps taken under the Initiative was a 10-year program targeting the expenditure of up to \$8 trillion for the construction or renovation of airports, bridges, roads, ports, telecommunications systems, resorts, retirement communities, medical facilities, and other forms of public infrastructure development. Real growth during the 1990s hovered around 1% a year, however. The Asian Tigers, such as Singapore, Taiwan, and Hong Kong, saw their economies grow at a much higher rate than Japan's, and China's economic growth rate of 10% a year during the 1990s. In 1999, Japan began a tentative recovery from its longest and most severe recession since the end of World War II. By 2005, the economy was growing by a rate of approximately 2.3%.

Japan's financial assistance to developing countries and international agencies has grown significantly, making it one of the world's leading donor countries. The government has committed itself to large increases in official development assistance to developing countries and multilateral agencies since the late 1980s. Among the top recipients of bilateral ODA from Japan have been Indonesia, China, the Philippines, Thailand, Bangladesh, and Malaysia. Japan's increasing financial assistance to developing coun-

tries like China and Indonesia is an indication that the Japanese government is willing to sacrifice short term gain for longer term prosperity and stability. In essence, Japan is helping to create viable trading partners; and since Japan is a trading state, this strategy will enhance Japan's economic development over the long term. From 1992–2001, Japan was the largest donor of ODA, in terms of raw dollars. That was until 2001, when the United States reclaimed that position, and Japan's amount of aid dropped by nearly \$4 billion. A key factor accounting for this was the 12.7% depreciation of the yen. In 2004, Japan donated \$8.859 billion in ODA, or 0.19% of GNP, down from \$9.678 billion in 2001 (0.23% of GNP).

#### **40 SOCIAL DEVELOPMENT**

Living standards reflect Japan's rapid economic development since the mid-1960s. Greatly contributing to the social stability of the nation is the strong sense of family solidarity among the Japanese; virtually every home has its *butsudan*, or altar of the ancestors, and most elderly people are cared for in the homes of their grown children. A further source of social stability has been Japan's employment system, noted for its "lifetime employment" of workers from the time they enter the company after completing their education to the time they retire. Traditionally, layoffs and dismissals of employees were rare, even during times of recession.

The present social insurance system includes national health insurance, welfare annuity insurance, maternity coverage, unemployment insurance, workers' accident compensation insurance, seamen's insurance, a national government employees' mutual aid association, and day workers' health insurance. It also provides pension plans designed to maintain living standards for the elderly, based on years of employment, and for families of deceased workers. Per capita expenditure on social security programs remained low, however, in relation to expenditure in many other industrial nations. There is a family allowance for low income residents with children under the age of nine.

Nearly the entire population receives benefits in one form or another from the health insurance system. Health insurance is compulsory for those employed at enterprises with five or more workers and premiums are shared equally by the insured and their employers. Those not covered at work are insured through the National Health Insurance program. Other sickness and health insurance is in force among farmers, fishermen, and their dependents. Unemployment coverage is obligatory for all enterprises regardless of size; workers' compensation must also be provided by employers.

The Daily Life Security Law laid the groundwork for an ever-growing livelihood assistance program. Out of this have come laws pertaining to child welfare, physically handicapped persons' welfare, social welfare service, welfare fund loans to mothers and children, aid to the war-wounded and ill, and aid to families of deceased soldiers. The system provides direct aid for livelihood, education, housing, medical, maternity, occupational disability, and funerals. More than a thousand welfare offices throughout the nation are staffed by full-time, salaried welfare secretaries and assisted by voluntary help. Institutions have been established to care for the aged, those on relief, and those needing rehabilitation. Numerous private organizations assist government agencies. There are special pension programs for public employees, private school

teachers and employees, and employees of agricultural, forestry, and fishery cooperatives.

Women make up over 40% of the labor force. Although the law prohibits wage discrimination, there remained a significant gap between earnings for men and women in 2004. Women also retain the responsibility of child care and household chores. Domestic abuse and other violence against women are often unreported due to societal concerns about shame in the family. The government is taking some action in providing shelter facilities and passing laws to protect victims. There is also an increase in the molestation of women on the railways while commuting. Sexual harassment in the workplace is prevalent.

Discrimination against ethnic Koreans and other non-Japanese minorities also continued. Human rights are generally respected by the government, but there have been some reports of abuse of detainees and prisoners.

#### **41 HEALTH**

The Ministry of Health and Welfare has become the central administrative agency responsible for maintaining and promoting public health, welfare, and sanitation. All hospitals and clinics are subject to government control with respect to their standards and spheres of responsibility. In 2004, there were 201 physicians, 820 nurses, 72 dentists, and 171 pharmacists per 100,000 people. Every practitioner in the field of medicine or dentistry must receive a license from the Ministry of Health and Welfare. In addition, the ministry recognizes and authorizes certain quasi-medical practices, including massage, acupuncture, moxa-cautery, and judo-orthopedics, all based upon traditional Japanese health professions.

Expanded examination and treatment have brought about a dramatic decrease in the death rate from tuberculosis, the major cause of death in the 1940s. Death rates from cancer and heart disease have risen considerably and now rank among the leading causes of death, trailing cerebrovascular diseases. Japanese medical researchers have been working on research for a new cure for breast cancer.

Infant mortality dropped to 3.26 per 1,000 live births in 2005, one of the lowest in the world. Only 3% of children under age five were malnourished. The total fertility rate was 1.4 as of 2000. Immunization rates for children up to one year old are nearly 100%. Average life expectancy was 81.15 years in 2005, among the highest rates in the world. In the mid-1990s there were nearly 300,000 deaths per year strictly from cardiovascular diseases. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 12,000 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

#### **42 HOUSING**

A severe housing shortage plagued Japan after World War II. It was estimated that in 1947, two years after the war's end, the housing deficit amounted to more than four million units. A construction program resulted in 9.7 million new units by the end of 1965. The following year, the government undertook a five-year plan for the construction of 7.6 million houses by mid-1971; the plan was designed to fulfill the goal of "one house for each family."

Housing construction peaked at 1.9 million units in 1973; despite efforts to promote construction as a means of stimulating the domestic economy, construction lagged in later years, falling

to between 1.1 million and 1.5 million units in the 1980s. The decline reflected not so much a saturation of demand—many Japanese regard their housing as inadequate—as a rapid rise in land and construction costs, especially in the Tokyo, Nagoya, and Osaka metropolitan areas, which put new housing out of the reach of potential buyers.

In the mid-1990s, the average salaried worker in Tokyo could only afford a house 40 km outside the Tokyo metropolitan area. Condominiums and prefabricated homes provided much of the nation's new housing in the 1980s. In fiscal 1987, low interest rates pushed new housing starts to 1.729 million units; they declined in 1988 to 1.6 million, and fell to 1.343 million in 1991 with the start of the recession. However, in 1998, there was a total of 50.25 million dwellings, representing 13% more than the number of households. In 2000, about 58.5% of all households were living in detached houses. About 61% of all households lived in owner-occupied dwellings.

### 43 EDUCATION

Japan's entire educational system was reorganized along US lines after World War II, adhering to a six-three-three-four plan (six years of primary school, three years of lower secondary school, three years of upper secondary school—full-time, part-time or correspondence—and four years of college). Education is compulsory and provided free of charge for the first nine years, from age 6 through 14. Entrance into high schools, the stage following the compulsory level, is by examination only, and most of these schools charge tuition. Coeducation has become an accepted principle.

In 2001, about 84% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was also estimated at about 100% of age-eligible students. The student-to-teacher ratio for primary school was at about 20:1 in 2003.

Would-be national and local public university students must pass entrance examinations in Japanese, English, mathematics, science, and social studies. There are three types of institutions for higher education—universities, junior colleges and technical colleges, all of which receive prefectural and national support or annual subsidies. There are 95 national universities, with each prefectural capital having one school; the remainder are in the principal cities. The largest religious bodies, both Christian and Buddhist, maintain important universities and other educational institutions. There are many special schools for the handicapped. In 2003, about 51% of the tertiary age population were enrolled in some type of higher education program; with 54% for men and 47% for women. The adult literacy rate for 2002 was estimated at about 99%.

Educational activities for adults and youths are organized both by government and private bodies. There is a board of education in each of the 47 prefectures and 3,000 municipalities and these serve as the local education authority. The central education authority is the Ministry of Education, which provides guidance and financial assistance to the local bodies. As of 2003, public expenditure on education was estimated at 3.6% of GDP, or 10.5% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

In 1948, the National Diet Library Law established the National Diet Library to provide reference service to the Diet, other libraries, and the general public. In 1949, this library absorbed the Ueno Library (the former national library) as one of its branches. The National Diet Library acts as a legal depository for Japanese publications and is also a depository library for the United Nations. There are over 7.3 million volumes in the library's collection. The University of Tokyo (Tokyo Daigaku) has 7.6 million volumes, and Keio University, also in Tokyo has libraries with holdings of over 1 million volumes.

Public libraries are beginning to find their place in Japanese life. Prior to the enactment of the Library Law of 1950, 70% of those who utilized libraries were students and scholars. Today, libraries are information centers, and increasing numbers of citizens are patronizing them. The Tokyo Metropolitan Library consists of three main branches with ties to about 360 town and village libraries throughout the metropolitan region.

Except in large cities, typical Japanese museums take the form of the treasure halls of shrines or temples, botanical gardens, and aquariums. Important museums include the National Science Museum, Museum of Contemporary Art, Calligraphy Museum, and the Tokyo Metropolitan Art Museum, all located in Tokyo. Also in Tokyo are the Baseball Hall of Fame and Museum, a criminal museum, and a clock museum. In 2002 the Hyogo Prefectural Museum of Art opened in Kobe. Osaka houses a museum of natural history and the National Museum of Ethnography, and Kyoto, the former capital, has many historical sights and monuments. Yokohama is home to an equine museum and Kanazawa Bunko, a general museum dating back to 1275 and featuring Zen Buddhist documents. There is a Peace Memorial and Museum in Hiroshima.

### 45 MEDIA

Telephone and telegraph services are offered by Nippon Telephone and Telegraph, which was privatized in 1986, and by Japan Telecom and other companies that entered the market after Nippon Telegraph and Telephone's monopoly ended in 1985. Telex, fax, and international telegram services are provided by Kokusai Den-shin-Denwa (KDD). In 2003, there were an estimated 472 main-line telephones for every 1,000 people. The same year, there were approximately 679 mobile phones in use for every 1,000 people.

A semigovernmental enterprise, the Japan Broadcasting Corp. (Nihon Hoso Kyokai—NHK), plays a large role in Japan's radio and television communications. Started in 1935, Radio Japan is also beamed by NHK throughout the world. There are four other national commercial networks. Some commercial stations are connected with large newspaper companies. Color television broadcasting began in 1960; multiplex broadcasting, for stereophonic or multiple-language programming, was made available in Tokyo and other metropolitan areas in 1978. As of 2001 there were 215 AM and 89 FM radio stations. In 2003, there were an estimated 956 radios and 785 television sets for every 1,000 people. About 193.4 of every 1,000 people were cable subscribers. Also in 2003, there were 382.2 personal computers for every 1,000 people and 483 of every 1,000 people had access to the Internet.

The Japanese press is among the world's largest in terms of newspaper circulation and is also a leader in ratio of copies to population. The leading Japanese dailies, with their 2002 morning (and evening) circulations, are: *Yomiuri Shimbun*, 10,224,70 (4,183,130 evening); *Asahi Shimbun*, 8,322,050 (4,070,610); *Mainichi Shimbun*, 3,976,360 (1,708,910); *Nihon Keizai Shimbun*, 1,796,310 (959,730); *Sankei Shimbun*, 1,997,700 (907,370); *Tokyo Shimbun*, 653,120 (348,750); *Hochi Shimbun*, 438,420; *Osaka Nichi-Nichi Shimbun*, 225,000; *Chunichi Shimbun* (in Nagoya), 3,075,320 (1,247,820); *Nishi-Nippon Shimbun* (in Fukuoka), 841,460 (187,530); *Hokkaidō Shimbun* (in Sapporo), 677,550 (387,520); *Kyoto Shimbun* (in Kyoto), 504,600 (319,730); *Kobe Shimbun* (in Kobe), 546,080 (269,640); and *Chugoku Shimbun* (in Hiroshima), 732,730 (89,310).

There are two domestic news agencies: the Kyodo News Service, with 50 domestic bureaus and with foreign bureaus in every major overseas news center; and the Jiji Press, serving commercial and government circles.

The constitution of Japan provides for free speech and a free press and the government is said to respect these rights in practice. The Japanese press enjoys the reputation of having the most vigorous and outspoken in the world. It operates under the constitutional provision of absolute prohibition of censorship.

#### 46 ORGANIZATIONS

The Japan Chamber of Commerce includes several regional and local branches. Workers and employers are represented by a number of trade organizations, including the umbrella organizations of the General Council of Trade Unions, the Congress of Labor Unions, and Federation of Employers Associations. Specialized business and industry organizations include the Japan Silk Association, the Japan Whaling Association, and the Japan Pearl Exporters' Association.

The Japan Industrial Safety and Health Association serves an important role in regulating workplace safety standards. The Japan Medical Association promotes research and education on health issues and works to establish common policies and standards in healthcare. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions. There are numerous professional associations representing a wide variety of careers.

There are numerous youth organizations, including the Scout Association of Japan, Girl Guides, YMCA/YWCA, and the Japan Youth Association. Numerous sports associations and clubs promote amateur competition in such pastimes as taekwondo, horse racing, squash, table tennis, track and field, and cricket.

The Institute of Art Research and the National Institute of Japanese Literature are important in the cultural field. The Society for International Cultural Relations, established in 1934, is active in the publishing field and in cultural exchange. The Motion Picture Association of Japan is a prominent entertainment organization. There are many associations and clubs available for hobbyists.

There are national chapters of the Red Cross Society, CARE, Greenpeace, Habitat for Humanity, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism in Japan is regarded as a major industry, since many foreign visitors as well as the Japanese themselves tour the country

extensively. In 2003, Japan had about 5.2 million visitors. There were 1,562,867 hotel rooms with an occupancy rate of 70%. Tourism expenditure receipts totaled \$11.4 billion. A valid passport along with an onward/return ticket is required. A visa is not necessary for stays of up to 90 days.

Japan's chief sightseeing attractions are in the ancient former capital of Kyoto: Nijo Castle, Heian Jingu Shrine, the 13th-century Sanjusangendo temple, and the Kinkaku-ji (Temple of the Golden Pavilion); the Ryoan-ji (Temple of the Peaceful Dragon), famed for its garden of stones and raked sand, and numerous other ancient Buddhist temples and Shinto shrines. Nearby sights in the vicinity of Nara include the Great Buddha, a huge bronze statue originally cast in the eighth century; the Kofuku-ji pagoda; and Horyu-ji, the seventh century temple from which Buddhism spread throughout Japan. There are few historic sites in the capital—Tokyo was devastated by an earthquake in 1923 and virtually destroyed in World War II—but nearby attractions include Mt. Fuji and the hot springs of Fuji-Hakone-Izu National Park; Nikko National Park, site of the Toshogu Shrine, where the first Tokugawa shogun is entombed; and the summer and winter sports facilities in the mountains of central Japan—the so-called Japan Alps. The Hiroshima Peace Park and Peace Memorial Museum commemorate the destruction of the city by an atomic bomb in 1945.

Baseball is Japan's national pastime; there are two professional leagues, each with six teams. Sumo, a Japanese form of wrestling, is also popular, with tournaments held six times a year. Golf, an expensive sport because of the lack of open space, is used mainly as a means of entertaining business clients. Other pastimes include judo, karate, table tennis, fishing, and volleyball. Gardening is the most popular hobby among men and women alike. Nagano hosted the 1998 Olympic Winter Games.

The costs of traveling in Japan, among the highest in the world, were reduced slightly when a 3% tourism tax, in effect since 1960, was abolished on 1 April 2000.

In 2005, the US Department of State estimated daily expenses for staying in Tokyo at \$257. Okinawa was estimated at \$354 from May through September and \$238 the rest of the year. To stay in Osaka-Kobe the daily expenses were \$260 and in Kanazawa, \$195.

#### 48 FAMOUS JAPANESE

Murasaki Shikibu (late 10th–early 11th cent.) was the author of *The Tale of Genji*, probably the best-known Japanese literary classic in English since it was first translated in the 1920s. Zeami (Motokiyo, 1363–1443) was an actor who established Noh theater and wrote a number of plays that have been part of the Noh repertoire ever since. Monzaemon Chikamatsu (1653–1724) wrote plays for the Bunraku theater, many of which later became part of the repertoire of Kabuki. Basho (Matsuo Munefusa, 1644–94) perfected the writing of the poetic form now known as haiku. In this genre, three other poets are also known: Buson Yosa (1716–83), Issa Kobayashi (1763–1827), and the modern reformer Shiki Masaoka (1867–1902). Ryunosuke Akutagawa (1892–1927) is best known for his story "Rashomon." Prominent modern novelists include Jun'ichiro Tanizaki (1886–1965); Yasunari Kawabata (1899–1972), winner of the 1968 Nobel Prize for literature; Kobo Abe (1924–93); Yukio Mishima (1925–70); Shusako Endo (1923–96); Haruki Murakami (b.1949); and Kenzaburo Oe (b.1935) who won

the 1994 Nobel Prize in literature. A leading modern writer and Zen Buddhist scholar was Daisetz Teitaro Suzuki (1870–1966).

In art, Sesshu (1420–1506) was the most famous landscape artist of his day. Ogata Korin (1658–1716) was a master painter of plants, animals, and people. The leader of the naturalist school was Maruyama Okyo (1733–95). The best-known painters and wood-block artists of the “*ukiyo-e*” style were Kitagawa Utamaro (1754–1806), Katsushika Hokusai (1760–1849), Saito Sharaku (fl.1794–95), and Ando Hiroshige (1797–1858). Four 20th-century Japanese architects whose work has had a marked influence on international style are Mayekawa Kunio (1905–86), Hideo Kosaka (1912–2000), Kenzo Tange (1913–2005), and Yoshinobu Ashihara (1918–2003).

Noted Japanese film directors include Kenji Mizoguchi (1898–1956), Yasujiro Ozu (1903–63), and Akira Kurosawa (1910–92). Toshiro Mifune (1920–97) was the best-known film star abroad. Important composers include Toshiro Mayuzumi (1929–97) and Toru Takemitsu (1930–96). Seiji Ozawa (b.1935) is a conductor of world renown. The leading home-run hitter in baseball history is Sadaharu Oh (b.1940), manager of the Yomiuri Giants, who retired as a player for the same team in 1980 after hitting 868 home runs.

Hideyo Noguchi (1876–1928), noted bacteriologist, is credited with the discovery of the cause of yellow fever and is famed for his studies on viruses, snake poisons, and toxins. Hideki Yukawa (1907–81), Japan's most noted physicist, received the 1949 Nobel Prize for research on the meson. In 1965, Shinichiro Tomonaga (1906–79), a professor at Tokyo University of Education, became one of the year's three recipients of the Nobel Prize for physics for work in the field of quantum electrodynamics. Leo Esaki (b.1925) won the Nobel Prize for physics in 1973; Kenichi Fukui (1918–1998) shared the 1981 chemistry award; and Susumu Tonegawa (b.1939) won the 1987 medicine award. Hideki Shirakawa (b.1936) shared the 2000 Nobel Prize in chemistry; Ryoji Noyori (b.1938) shared the chemistry prize in 2001; and Koichi Tanaka (b.1959) shared the 2002 chemistry prize. Masatoshi Koshiba (b.1926) shared the Nobel Prize in physics in 2002.

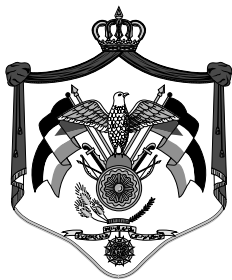
Hirohito (1901–89) became emperor of Japan in 1926. His eldest son, Akihito (b.1933), succeeded him in 1990. The leading statesman after World War II was Eisaku Sato (1901–75), prime minister from 1964 to 1972 and winner of the Nobel Peace Prize in 1974.

## 49 DEPENDENCIES

Japan has no territories or colonies.

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# JORDAN

The Hashemite Kingdom of Jordan  
*Al-Mamlaka al-Urdunniyya al-Hashimiyya*



**CAPITAL:** 'Ammān

**FLAG:** The national flag is a tricolor of black, white, and green horizontal stripes with a seven-pointed white star on a red triangle at the hoist.

**ANTHEM:** *As-Salam al-Maliki (Long Live the King).*

**MONETARY UNIT:** The Jordanian dinar (JD) is a paper currency of 1,000 fils. There are coins of 1, 5, 10, 20, 25, 50, 100, and 250 fils and notes of ½, 1, 5, 10, and 20 dinars. JD1 = \$1.40845 (or \$1 = JD0.71) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local and Syrian units are still widely used, especially in the villages.

**HOLIDAYS:** Arbor Day, 15 January; Independence Day, 25 May; Accession of King Hussein, 11 August; King Hussein's Birthday, 14 November. Muslim religious holidays include the 1st of Muharram (Islamic New Year), 'Id al-Fitr, 'Id al-'Adha, and Milad an-Nabi. Christmas and Easter are observed by sizable Christian minorities.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southwest Asia, Jordan has an area of 92,300 sq km (35,637 sq mi). Jordan extends 562 km (349 mi) NE–SW and 349 km (217 mi) SE–NW. Comparatively, the area occupied by Jordan is slightly smaller than the state of Indiana. It is bounded on the N by Syria, on the NE by Iraq, on the E and S by Saudi Arabia, on the SW by the Gulf of Aqaba, and on the W by Israel, with a total land boundary length of 1,635 km (1,016 mi) and a coastline of 26 km (16 mi).

Jordan's capital city, 'Ammān, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The Jordan Valley has a maximum depression of 392 m (1,286 ft) below sea level at the Dead Sea; south of the Dead Sea the depression, called Wadi'Araba, slowly rises to reach sea level about halfway to the Gulf of Aqaba. To the east of the Jordan River, the Transjordanian plateaus have an average altitude of 910 m (3,000 ft), with hills rising to more than 1,650 m (5,400 ft) in the south. Farther eastward, the highlands slope down gently toward the desert, which constitutes 88% of the East Bank. The Jordan River enters the country from Israel to the north and flows into the Dead Sea; its main tributary is the Yarmuk, which near its juncture forms the border between Jordan and Syria. The Dead Sea is the lowest point on the earth's surface, at 408 m (1,339 ft) below the level of the Mediterranean. The Dead Sea has a mineral content of about 30%.

## <sup>3</sup>CLIMATE

The Jordan Valley has little rainfall, intense summer heat, and mild, pleasant winters. The hill country of the East Bank—ancient Moab, Edom, and Gilead—has a modified Mediterranean climate,

with less rainfall and hot, dry summers. The desert regions are subject to great extremes of temperature and receive rainfall of less than 20 cm (8 in) annually, while the rest of the country has an average rainfall of up to 58 cm (23 in) a year. Temperatures at 'Ammān range from about 4°C (39°F) in winter to more than 32°C (90°F) in summer.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those common to the eastern Mediterranean and the Syrian Desert. The vegetation ranges from semi-tropical flora in the Jordan Valley and other regions to shrubs and drought-resistant bushes in the desert. About 1% of the land is forested. The wild fauna includes the jackal, hyena, fox, wildcat, gazelle, ibex, antelope, and rabbit; the vulture, sand grouse, skylark, partridge, quail, woodcock, and goldfinch; and the viper, dived water snake, and Syrian black snake. As of 2002, there were at least 71 species of mammals, 117 species of birds, and over 2,100 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Jordan's principal environmental problems are insufficient water resources, soil erosion caused by overgrazing of goats and sheep, and deforestation. Water pollution is an important issue in Jordan. Jordan has 1 cu km of renewable water resources with 75% used for farming activity and 3% used for industrial purposes. About 91% of the total population have access to pure water. It is expected that the rate of population growth will place more demands on an already inadequate water supply. Current sources of pollution are sewage, herbicides, and pesticides.

Jordan's wildlife was reduced drastically by livestock overgrazing and uncontrolled hunting between 1930 and 1960; larger wild animals, such as the Arabian oryx, onager, and Asiatic lion, have

completely disappeared. Under a law of 1973, the government has prohibited unlicensed hunting of birds or wild animals and unlicensed sport fishing, as well as the cutting of trees, shrubs, and plants. As of 2003, 3.4% of Jordan's total land area is protected.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 7 types of mammals, 14 species of birds, 1 type of reptile, 5 species of fish, and 3 species of invertebrates. Endangered species in Jordan include the South Arabian leopard, the sand cat, the cheetah, and the goitered gazelle.

## 6 POPULATION

The population of Jordan in 2005 was estimated by the United Nations (UN) at 5,795,000, which placed it at number 104 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 37% of the population under 15 years of age. There were 108 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.4%, a rate the government viewed as too high. The government has allocated funds to improve education about reproductive health. The projected population for the year 2025 was 8,265,000. The population density was 65 per sq km (168 per sq mi), with the highest density in the northern Jordan River Valley. A portion of the population is nomadic.

The UN estimated that 79% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.30%. The capital city, 'Ammān, had a population of 1,237,000 in that year.

## 7 MIGRATION

In 2000 there were 1,945,000 migrants living in Jordan, accounting for approximately 40% of the total population. Of those migrants, 83%, or about 1,610,100 were refugees. In 2004 Jordan hosted 1,740,170 refugees and 12,453 asylum seekers. Also, in 2004, 243 Jordanians sought asylum in Canada and Sweden. The net migration rate estimated for 2005 was 6.42 migrants per thousand population. The government views the immigration level as too high, and the emigration level as too low.

There were 350,000 Jordanians in Kuwait before the 1990 Iraqi attack on Kuwait. Jordan sided with Iraq in the Gulf War, as a result most Jordanians were expelled from Kuwait. However, by 2001, there were 30,000 Jordanians in Kuwait, counting 9,000 as employed. In 2003, there were an estimated 400,000 Jordanian expatriates working outside the country, most in oil-rich Arab Gulf countries. Worker remittances in 2003 amounted to \$2.2 billion, up 2.2% from 2002.

## 8 ETHNIC GROUPS

Ethnically, the Jordanians represent a mixed stock. Most of the population is Arab (approximately 98%), but, except for the Bedouin nomads and seminomads of the desert and steppe areas, this element is overlain by the numerous peoples that have been present in Jordan for millennia, including Greek, Egyptian, Persian, European, and Negroid strains. The Palestinian Arabs now resident in Jordan tend to be sedentary and urban. Perhaps 1% of the

population is Armenian, and another 1% is Circassian. There are also small Kurd, Druze, and Chechen minorities.

## 9 LANGUAGES

Arabic is the official language of the country and is spoken even by the ethnic minorities who maintain their own languages in their everyday lives. The spoken Arabic of the country is essentially a vernacular of literary Arabic; it is common to neighboring countries as well but is quite different from the spoken language in Egypt. There also are differences between the languages of the towns and of the countryside, and between those of the East and West banks. English is widely understood by the upper and middle classes. About 1.7 million people are registered as Palestinian refugees and displaced persons; most of these are citizens.

## 10 RELIGIONS

Islam is the state religion, although all are guaranteed religious freedom. Most Jordanians (about 95%) are Sunni Muslims. Of the racial minorities, the Turkomans and Circassians are Sunni Muslims, but the Druzes are a heterodox Muslim sect. Christians constitute about 4% of the population and live mainly in 'Ammān or the Jordan Valley; most are Greek Orthodox or Roman Catholic. Other officially recognized denominations include Melkite, Armenian Orthodox, Maronite, Assyrian, Anglican, Lutheran, Seventh-Day Adventist, United Pentecostal, and Presbyterian. Groups registered as religious societies by the government include Baptists, Free Evangelicals, Nazarenes, the Christian Missionary Alliance, and Assemblies of God. There are some members of the Coptic church; these are primarily Egyptian immigrants. The Baha'is are mainly of Persian stock. Chaldean and Syriac Christians are also represented. A tiny community of Samaritans maintains the faith of its ancestors, a heterodox form of the ancient Jewish religion. There are numerous missionary groups within the country.

The constitution provides for religious freedom with the stipulation the all religious practices are within the semblance of "public order and morality." Non-Muslims are not permitted to proselytize to Muslims. Conversion from Islam to other faiths is not expressly prohibited, but converts face a great deal of legal and social discrimination. Certain Muslim and Christian holidays are celebrated as national holidays. The Royal Institute for Interfaith Studies and the Royal Academy for Islamic Civilization research are government-sponsored organizations that promote tolerance and understanding between Muslims and Christians.

## 11 TRANSPORTATION

Jordan's transportation facilities are underdeveloped, but improvements have been made in recent years. The third development plan (1986–90) allotted JD445 million for transportation. A good road network links the principal towns and connects with Syria, Iraq, and Saudi Arabia. In 2003 Jordan's road system totaled 7,364 km (4,580 mi), all of which were paved. In 2003, there were 315,250 passenger cars and 107,920 commercial vehicles.

The rail system, as of 2004, consisted of some 505 km (314 mi) of narrow-gauge single track, and is a section of the old Hijaz railway (Damascus to Medina) for Muslim pilgrims. It runs from the Syrian border through 'Ammān to Ma'an, where it connects with a spur line to the port of Al-'Aqabah. Reconstruction of the section from Ma'an to Medina in Saudi Arabia, which had been destroyed



LOCATION: (1949): 29°17' to 33°20' N; 34°53' to 39°12' E. BOUNDARY LENGTHS: Syria, 375 kilometers (233 miles); Iraq, 181 kilometers (112 miles); Saudi Arabia, 728 kilometers (452 miles); Gulf of Aqaba, 26 kilometers (16 miles); Israel, 238 kilometers (148 miles); West Bank, 97 kilometers (60 miles). TERRITORIAL SEA LIMIT: 3 miles.

in World War I, was undertaken in the early 1970s as a joint venture by Jordan, Saudi Arabia, and Syria.

Al-'Aqabah, Jordan's only outlet to the sea, is situated at the head of the Gulf of Aqaba, an arm of the Red Sea. The port was initially developed after the 1948 Arab-Israeli war, which cut off Arab Palestine and Transjordan from Mediterranean ports; substantial development did not begin until the 1960s. The port has been enlarged for general use, including terminals for loading potash and fertilizers. In 2005 Jordan had 20 merchant ships of 1,000 GRT or more, totaling 78,814 GRT.

Jordan had an estimated 17 airports in 2004. As of 2005 a total of 15 were paved, and there was also one heliport. The major airport is the Queen Alia International Airport, about 30 km (19 mi)

south of 'Ammān, which was opened in the early 1980s. Aqaba Airport is the other international airport. The government-owned Alia-Royal Jordanian Airline operates domestic and international flights. In 2003, about 1.313 million passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

As part of the Fertile Crescent connecting Africa and Asia, the area now known as Jordan has long been a major transit zone and often an object of contention among rival powers. It has a relatively well known prehistory and history. Neolithic remains from about 7000 BC have been found in Jericho, the oldest known city in the world. City-states were well developed in the Bronze Age

(c.3200–2100 BC). In the 16th century BC, the Egyptians first conquered Palestine, and in the 13th century BC, Semitic-speaking peoples established kingdoms on both banks of the Jordan. In the 10th century BC, the western part of the area of Jordan (on both banks of the Jordan River) formed part of the domain of the Hebrew kings David and Solomon, while subsequently the West Bank became part of the Kingdom of Judah. A succession of outside conquerors held sway in the area until, in the 4th century BC, Palestine and Syria were conquered by Alexander the Great, beginning about 1,000 years of intermittent European rule. After the death of Alexander, the whole area was disputed among the Seleucids of Syria, the Ptolemies of Egypt, and native dynasties, such as the Hasmoneans (Maccabees); in the 1st century BC, it came under the domination of Rome. In Hellenistic and Roman times, a flourishing civilization developed on the East Bank; meanwhile, in southern Jordan, the Nabataean kingdom, a native Arab state in alliance with Rome, developed a distinctive culture, blending Arab and Greco-Roman elements, and built its capital at Petra, a city whose structures hewn from red sandstone cliffs survive today. With the annexation of Nabataea by Trajan in the 2nd century AD, Palestine and areas east of the Jordan came under direct Roman rule. Christianity spread rapidly in Jordan and for 300 years was the dominant religion.

The Byzantine phase of Jordan's history, from the establishment of Constantinople as the capital of the empire to the Arab conquest, was one of gradual decline. When the Muslim invaders appeared, little resistance was offered, and in 636, Arab rule was firmly established. Soon thereafter, the area became thoroughly Arabized and Islamized, remaining so to this day despite a century-long domination by the Crusaders (12th century). Under the Ottoman Turks (1517–1917), the lands east of the Jordan were part of the Damascus vilayet (an administrative division of the empire), while the West Bank formed part of the sanjak (a further subdivision) of Jerusalem within the vilayet of Beirut.

During World War I, Sharif Hussein ibn-'Ali (Husayn bin 'Ali), the Hashemite (or Hashimite) ruler of Mecca and the Hijaz, aided and incited by the United Kingdom (which somewhat hazily promised him an independent Arab state), touched off an Arab revolt against the Turks. After the defeat of the Turks, Palestine and Transjordan were placed under British mandate; in 1921, Hussein's son 'Abdallah was installed by the British as emir of Transjordan. In 1923, the independence of Transjordan was proclaimed under British supervision, which was partially relaxed by a 1928 treaty, and in 1939, a local cabinet government (Council of Ministers) was formed. In 1946, Transjordan attained full independence, and on 25 May, 'Abdallah was proclaimed king of the Hashemite Kingdom of Transjordan. After the Arab-Israeli War of 1948, King 'Abdallah annexed a butterfly shaped area of Palestine bordering the Jordan (thereafter called the West Bank), which was controlled by his army and which he contended was included in the area that had been promised to Sharif Hussein. On 24 April 1950, after general elections had been held in the East and West banks, an act of union joined Jordanian-occupied Palestine and the Kingdom of Transjordan to form the Hashemite Kingdom of Jordan. This action was condemned by some Arab states as evidence of inordinate Hashemite ambitions. Meanwhile, Jordan, since the 1948 war, had absorbed about 500,000 of some 1,000,000 Palestinian Arab refugees, mostly sheltered in UN-administered camps, and

another 500,000 nonrefugee Palestinians. Despite what was now a Palestinian majority, power remained with the Jordanian elite loyal to the throne. On 20 July 1951, 'Abdallah was assassinated in Jerusalem by a Palestinian Arab, and his eldest son, Talal, was proclaimed king. Because of mental illness, however, King Talal was declared unfit to rule, and succession passed to his son Hussein I (Husayn ibn-Talal), who, after a brief period of regency until he reached 18 years of age, was formally enthroned on 2 May 1953.

Between the accession of King Hussein and the war with Israel in 1967, Jordan was beset not only with problems of economic development, internal security, and Arab-Israeli tensions but also with difficulties stemming from its relations with the Western powers and the Arab world. Following the overthrow of Egypt's King Faruk in July 1952, the Arab countries were strongly influenced by "Arab socialism" and aspirations to Arab unity (both for its own sake and as a precondition for defeating Israel). Early in Hussein's reign, extreme nationalists stepped up their attempts to weaken the regime and its ties with the United Kingdom. Notwithstanding the opposition of most Arabs, including many Jordanians, Jordan maintained a close association with the United Kingdom in an effort to preserve the kingdom as a separate, sovereign entity. However, the invasion of Egypt by Israel in October 1956, and the subsequent Anglo-French intervention at Suez, made it politically impossible to maintain cordial relations with the United Kingdom. Negotiations were begun to end the treaty with Britain, and thus the large military subsidies for which it provided; the end of the treaty also meant the end of British bases and of British troops in Jordan. The Jordanian army remained loyal, and the king's position was bolstered when the United States and Saudi Arabia indicated their intention to preserve Jordan against any attempt by Syria to occupy the country. After the formation of the United Arab Republic by Egypt and Syria and the assassination of his cousin, King Faisal II (Faysal) of Iraq, in a July 1958 coup, Hussein turned again to the West for support, and British troops were flown to Jordan from Cyprus.

When the crisis was over, a period of relative calm ensued. Hussein, while retaining Jordan's Western ties, gradually steadied his relations with other Arab states (except Syria), established relations with the USSR, and initiated several important economic development measures. But even in years of comparative peace, relations with Israel remained the focus of Jordanian and Arab attention. Terrorist raids launched from within Jordan drew strong Israeli reprisals, and the activities of the Palestine Liberation Organization (PLO) often impinged on Jordanian sovereignty, leading Hussein in July 1966, and again in early 1967, to suspend support for the PLO, thus drawing Arab enmity upon himself. On 5 June 1967, an outbreak of hostilities occurred between Israel and the combined forces of Jordan, Syria, and Egypt. These hostilities lasted only six days, during which Israel occupied the Golan Heights in Syria, Egypt's Sinai Peninsula, and the Jordanian West Bank, including all of Jerusalem. Jordan suffered heavy casualties, and a large-scale exodus of Palestinians (over 300,000) across the Jordan River to the East Bank swelled Jordan's refugee population (700,000 in 1966), adding to the war's severe economic disruption.

After Hussein's acceptance of a cease-fire with Israel in August 1970, he tried to suppress various Palestinian guerrilla organizations whose operations had brought retaliation upon Jordan. The

imposition of military rule in September led to a 10-day civil war between the army and the Palestinian forces (supported briefly by Syria which was blocked by Israel), ended by the mediation of other Arab governments. Subsequently, however, Hussein launched an offensive against Palestinian guerrillas in Jordan, driving them out in July 1971. In the following September, Premier Wasfi al-Tal was assassinated by guerrilla commandos, and coup attempts, in which Libya was said to have been involved, were thwarted in November 1972 and February 1973.

Jordan did not open a third front against Israel in the October 1973 war but sent an armored brigade of about 2,500 men to assist Syria. After the war, relations between Jordan and Syria improved. Hussein reluctantly endorsed the resolution passed by Arab nations on 28 October 1974 in Rabat, Morocco, recognizing the PLO as "sole legitimate representative of the Palestinian people on any liberated Palestinian territory," including, implicitly, the Israeli-held West Bank. After the Egyptian-Israeli Peace Treaty of 1979, Jordan joined other Arab states in trying to isolate Egypt diplomatically, and Hussein refused to join further Egyptian-Israeli talks on the future of the West Bank.

After the Israeli invasion of Lebanon in 1982 and the resulting expulsion of Palestinian guerrillas, Jordan began to coordinate peace initiatives with the PLO. These efforts culminated in a February 1985 accord between Jordan and the PLO, in which both parties agreed to work together toward "a peaceful and just settlement to the Palestinian question." In February 1986, however, Hussein announced that Jordan was unable to continue to coordinate politically with the PLO, which scrapped the agreement in April 1987. The following year the King renounced Jordan's claim to the West Bank and subsequently patched up relations with the PLO, Syria, and Egypt. In 1990, owing largely to popular support for Saddam Hussein, Jordan was critical of coalition efforts to use force to expel Iraqi forces from Kuwait. Relations with the United States and the Gulf states were impaired; Jordan lost its subsidies from the latter while having to support hundreds of thousands of refugees from the war and the aftermath. Jordan's willingness to participate in peace talks with Israel in late 1991 helped repair relations with Western countries. In June 1994, Jordan and Israel began meetings to work out practical steps on water, borders, and energy which would lead to normal relations. And, later that year, Jordan and Israel signed a peace treaty, ending the state of war that had existed between the two neighbors for decades. Relations with the major players in the Gulf War also improved in the years after the war. In 1996, Jordan and Saudi Arabia, the UAE and Kuwait were well on the way toward establishing normal relations.

Internally in the 1980s, Hussein followed policies of gradual political liberalization which were given new impetus by serious rioting over high prices in 1989. In that year, for the first time since 1956, Jordan held relatively free parliamentary elections in which Islamists gained more than one-third of the 80 seats. Martial law was ended in 1991 and new parliamentary elections were held in 1993. The King's supporters won 54 seats with the Muslim Brotherhood and its allies taking 18 places, the largest bloc of any party. However, the 1997 elections were boycotted by a number of opposition groups, who complained of unfair election laws, and the new upper house of parliament appointed by King Hussein did not include any members of Islamist groups.

In 1998 Hussein underwent treatment for cancer in the United States and delegated some of his powers to his brother, crown prince Hassan, who was next in the line of succession to the throne. The following winter, however, Hussein named his son Abdallah heir apparent. On 8 February 1999 King Hussein died, ending a 46-year reign; his funeral was attended by dignitaries from countries throughout the world. King Abdallah II pledged his support for the Middle East peace process, a more open government, and economic reforms requested by the IMF. However, there was widespread uncertainty about how the untested 37-year-old heir would meet the challenges thrust upon him.

His first year in power reassured many observers, both at home and abroad. Domestically, he pushed through a series of trade bills that helped pave the way of the country's admission to the WTO, which came in April 2000, and declared his intention of implementing wide-ranging administrative and educational reforms. On the international front, Abdallah played a role in the resumption of talks between Israel and Syria and also took a firm stance against the presence of Islamic extremists in his own country, driving the radical Hamas organization out of Jordan.

Abdallah dissolved parliament in June 2001, elections were postponed twice, and were held in June 2003. Independent candidates loyal to the king won two-thirds of the seats. In October 2003, a new cabinet was appointed following the resignation of Prime Minister Ali Abu al-Ragheb. Faisal al-Fayez was appointed prime minister. The king also appointed three female ministers. In April 2005, a new cabinet was sworn in, led by Prime Minister Adnan Badran, after the previous government resigned amid reports of the king's unhappiness over the pace of reforms.

Following the 11 September 2001 terrorist attacks on the United States, Jordan enacted a series of temporary laws imposing sharp restrictions on the right to public assembly and protest. A law broadened the definition of "terrorism," and allowed for the freezing of suspects' bank accounts. The number of offenses carrying the death penalty was increased, and journalists who publish articles which the government deems harmful to national unity or to be incitement to protests were subject to three years' imprisonment.

In October 2002, senior US diplomat Laurence Foley was assassinated outside his home in 'Ammān. In April 2004, eight Islamic militants were sentenced to death for their role in the assassination.

In March 2005, Jordan returned its ambassador to Israel after a four-year absence. Jordan had recalled its envoy after the start of the al-Aqsa intifada in 2000.

### 13 GOVERNMENT

Jordan is a constitutional monarchy based on the constitution of 8 January 1952. The king has wide powers over all branches of government. The constitution vests legislative power in the bicameral national assembly, composed of a 55-member senate and a 110-member lower house of representatives (chamber of deputies). Senators are appointed by the king for renewable four-year terms; the chamber of deputies is elected by secret ballot for a four-year term, but the king may dissolve the chamber and order new elections. Six seats in the chamber of deputies are reserved for women. There is universal suffrage at age 18, women having received the right to vote in April 1973; general elections were held

in 1989, 1993, 1997, and 2003. In February 1999, King Abdallah II succeeded to the throne following the death of his father, King Hussein.

The national assembly is convened and may be prorogued by the king, who also has veto power over legislation. The executive power of the king is administered by a cabinet, or council of ministers. The king appoints the prime minister, who then selects the other ministers, subject to royal approval. The ministers need not be members of the chamber of deputies. In the prolonged emergency created by the wars with Israel and by internal disorders, especially after 1968, King Hussein exercised nearly absolute power. The national assembly, adjourned by the king in 1974, met briefly in 1976 to amend the constitution; parliamentary elections were postponed indefinitely because of the West Bank situation, and the Assembly was then dissolved. In 1978, King Hussein established a national consultative council of 60 appointed members. The national assembly was reconvened in 1984, as King Hussein sought to strengthen his hand in future maneuvering on the Palestinian problem. Political parties were legalized in 1992. The freely elected parliaments of 1989 and 1993 played an increasingly active and independent role in governance, with open debate and criticism of government personalities and policies. However, new press restrictions were imposed by 1997, and a majority of opposition groups boycotted the elections that year. King Abdallah dissolved parliament in June 2001 and postponed elections until summer 2002; they were once again postponed and finally held in June 2003.

#### **14 POLITICAL PARTIES**

Political parties were abolished on 25 April 1957, following an alleged attempted coup by pan-Arab militants. In the elections of 1962, 1963, and 1967, candidates qualified in a screening procedure by the Interior Ministry ran for office, in effect, as independents. The Jordanian National Union, formed in September 1971 as the official political organization of Jordan and renamed the Arab National Union in March 1972, became inactive by the mid-1970s. In 1990, the election law was amended to ban bloc voting or by party lists, substituting instead a "one person, one vote" system. In 1992, political parties were again permitted and 22 were authorized to take part in elections. The principal opposition group has been the Islamic Action Front, the political arm of the Muslim Brotherhood.

In the parliamentary elections of 8 November 1993, 22 political parties fielded candidates, representing a wide range of political views. Seats were widely dispersed among a range of largely centrist parties supportive of King Hussein's IMF-modeled reforms and his pro-Western stance. The largest bloc of seats, however, was won by the Islamic Action Front, an arm of the Muslim Brotherhood. In 1997, nine pro-government parties, hoping to gain leverage against the large Islamist bloc in upcoming elections, banded together to form the National Constitutional Party. However, the grouping won only a total of three seats, and the Islamic opposition boycotted the elections altogether. Only six parties fielded candidates. Independent pro-government candidates representing local tribal interests won 62 out of the 80 contested seats; 10 seats were won by nationalist and leftist candidates; and 8 by independent Islamists.

In the 2003 elections for the chamber of deputies, independents won 89.6% of the vote, or 92 seats; the Islamic Action Front won 10.4% of the vote or 18 seats. One of the six seats reserved for women was awarded to an IAF candidate. The turnout was 57%.

#### **15 LOCAL GOVERNMENT**

Eastern Jordan is divided into 12 governorates—Ajlun, Al' Aqabah, 'Ammān, Irbid, Balga, Jarash, Al Karak, Ma'an, Ma'dabā, Az Zarqā, Al Mafrāq, and Aṭ Tafilah—each under a governor appointed by the king on the recommendation of the interior minister. The towns and larger villages are administered by municipal councils. A new municipal elections law provides for the election of half the council members, while the other half are government appointees. Mayors and council presidents are appointed by the council of ministers. Smaller villages are headed by a headman (*mukhtar*), who in most cases is elected informally.

#### **16 JUDICIAL SYSTEM**

There are six jurisdictions in the judiciary: four levels of civil and criminal jurisdiction, religious jurisdiction, and tribal courts. The civil code of 1977 regulates civil legal procedures. The Supreme Court, acting as a court of cassation, deals with appeals from lower courts. In some instances, as in actions against the government, it sits as a high court of justice. The courts of appeal hear appeals from all lower courts. Courts of first instance hear major civil and criminal cases. Magistrates' courts deal with cases not coming within the jurisdiction of courts of first instance. Religious courts have jurisdiction in matters concerning personal status (marriage, divorce, wills and testaments, orphans, etc.), where the laws of the different religious sects vary. The Shariah courts deal with the Muslim community, following the procedure laid down by the Ottoman Law of 1913. The Council of Religious Communities has jurisdiction over analogous cases among non-Muslims. Tribal courts, which have jurisdiction in most matters concerning tribe members, are losing their importance as more people take their cases to the government courts instead.

In 1991, the state security court, which hears security cases in panels of at least three judges, replaced the martial law court. Under 1993 amendments to the state security court law, all security court decisions may be appealed to the court of cassation on issues of law and weight of evidence. Prior to 1993, the court of cassation reviewed only cases involving death or imprisonment for over 10 years, and review was limited to errors of law.

Although the judiciary is independent, it is subject to political pressure and interference by the executive branch. The constitution prohibits arbitrary interference with privacy, family, and home. Police must obtain a judicial warrant before conducting searches.

Jordan drew up a comprehensive plan to modernize its judicial system. The 11-point 2002–06 judicial reform plan sought to enhance the efficiency of the court system and to strengthen judicial independence, among other initiatives.

#### **17 ARMED FORCES**

In 2005, the Jordanian armed forces had 100,500 active personnel with 35,000 reservists. The Army numbered 85,000 personnel and was equipped with 1,120 main battle tanks, 19 light tanks, more than 226 armored infantry fighting vehicles, 1,350 armored

personnel carriers, and 1,233 artillery pieces. The Air Force had 15,000 active personnel, including 3,400 air defense personnel. Equipment included 100 combat capable aircraft, including 85 fighters and another 15 used for training. The Air Force also had over 40 attack helicopters. The Jordanian Navy had an estimated 500 active members. The service's major naval units consisted of 20 patrol/coastal vessels. Paramilitary forces consisted of the Public Security Directorate with an estimated 10,000 members. The Jordanian defense budget in 2005 totaled \$956 million. Jordan had peacekeepers stationed in 11 regions or countries around the world.

## 18 INTERNATIONAL COOPERATION

Jordan became a member of the United Nations on 14 December 1955 and belongs to ESCWA and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, WHO, IFC, IMF, and the World Bank. Jordan became a member of the WTO in 2000. It is one of the founding members of the Arab League and also participates in the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the Council of Arab Economic Unity, the Organization of the Islamic Conference (OIC), and G-77. It is a partner in the OSCE.

Jordan has greatly benefited from the work of UNICEF and of UNRWA, which helps the Palestinian refugees. Jordan and Israel signed a peace treaty in 1994 and exchanged ambassadors the following year. The country has supported UN missions and operations in Kosovo (est. 1999), Ethiopia and Eritrea (est. 2000), Liberia (est. 2003), Sierra Leone (est. 1999), East Timor (est. 2002), Georgia (est. 1993), and Haiti (est. 2004), among others. Jordan is a member of the Nonaligned Movement.

In environmental cooperation, Jordan is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Jordan's economy has been profoundly affected by the Arab-Israeli conflict. The incorporation of the West Bank after the war of 1948 and the first exodus of Palestinians from the territory that became Israel tripled the population, causing grave economic and social problems. The loss of the West Bank in 1967 resulted not only in a second exodus of Palestinians but also in the loss of most of Jordan's richest agricultural land and a decline in the growing tourist industry. The 1970–71 civil war and the October 1973 war also brought setbacks to development plans. The steady influence has been foreign funds. An estimated 80% of annual national income in the early 1980s came from direct grants from and exports to oil-rich Arab countries and from remittances by Jordanians working there. Also important to the economy has been Western economic aid, notably from the United States, the United Kingdom, and Germany. The economy expanded rapidly during 1975–80, growing in real terms by an average of 9% a year, but the growth rate slowed to 5% in 1985, primarily from reductions in aid from other Arab states because of their declining oil receipts. The onset of the recession in Jordan in the mid-1980s followed by the economic collapse of 1988–89 and the Gulf conflict in 1990

left the country with an unemployment rate of approximately 30–35%, high inflation, and about 25–30% of the population living below the poverty line.

When in 1989 Jordan was unable to service its external debt due to 100 repayment commitments, the Jordanian government concluded an agreement with the IMF to pursue a series of economic reforms across a five year period (that is, by 1993) in exchange for bridge finance: the budget deficit was to be reduced from 24% of GDP to 10% of GDP; the current account balance was to improve from a deficit equivalent to 6% of GDP to a balanced position; export earnings were to grow from \$1.1 billion in 1989 to \$1.7 in 1993; and the rate of inflation was to drop from 14% in 1989 to 7% in 1993. The Gulf War interrupted this program, as the Jordanian government came out on the side of Iraq, and presumably in favor of a completely different way of solving its economic vulnerability; that is, through association with an enlarged and empowered Arab state. The international economic embargo against Iraq during the Gulf War meant that Jordan lost a lucrative export and re-export market. The loss of Iraq's oil supplies resulted in Jordan having to pay the market price for oil imports from Syria and Yemen. The balance of annual aid transfers, some \$200 billion, promised by the Arab oil states in 1990, failed to take into consideration the influx of some 230,000 Jordanian nationals from Kuwait that resulted from the Iraqi invasion. They imposed a strain on government services and added to the pool of unemployment.

In 1994 Jordan entered into another three-year structural adjustment program financed by IMF's Extended Fund Facility (EFF). On 26 October 1994 Jordan signed a peace treaty with Israel that contained protocols for economic reform and regional integration. The fiscal year 1994/95 saw real GDP growth of about 6% and inflation of only about 3–3.5%. In order to build on these gains, and to incorporate the opportunities offered by the peace accord, a new three-year program was negotiated under the EFF, which ran officially from 6 February 1996 to 8 February 1999. In this case, the program fell well short of its targets, as real GDP growth slowed to an annual average of 1%, and budget deficits as a percent of GDP increased to 10% instead of decreasing as envisioned.

In April 1999 another three-year structural adjustment program was embarked upon, this time with finance from both the EFF and the Compensatory and Contingency Financing Facility (CCFF) of the IMF. The program called for privatization, tax reform, trade liberalization, and increased foreign investment. Advances were made in all these areas. The government divested itself of shares in over 50 corporations, among the most important being the sale of a 10.5% share in the Jordan Telecommunications (JT) in an initial public offering (IPO) on the 'Ammān Stock Exchange (ASE) in October 1999, and a further sale of 40% to a France Telecom/Arab Bank Consortium in January 2001. All or portions of the subsidiaries of the national airline, the Royal Jordanian, were privatized, including the sale of 80% of Aircraft Catering Center to the Alpha British Company. By November 2002, the ASE had attained a capitalization of over \$7 billion. Tax reforms included the lowering of top rates on personal and business income taxes, the elimination or reduction of a number of subsidies and exemptions, phased introduction of a value-added tax (VAT) regime, and, in connection with trade liberalization reforms, the reduction of many customs and tariffs.

In 2000, Jordan acceded to the WTO, a condition of which was the elimination of most laws limiting foreign investment. On 28 September 2001 the US Congress passed a separate Free Trade Agreement (FTA) with Jordan. In the period 1999 to 2002, the biggest single stimulus to the Jordanian economy came from the Qualifying Industrial Zones (QIZs), a type of industrial estate authorized in a 1998 agreement among Jordan, Israel, and the United States, whereby manufactured exports from a QIZ could enter the US market duty free provided it contained at least 35% local content. QIZs particularly have nurtured a fast growing textile export industry. The targets set by the IMF-monitored program for 1999–2002—including annual growth of 3–4%, inflation held to 2–3%, a budget deficit reduced to 4% of GDP by 2001, and a strengthening of the country's foreign reserve position—were all substantially met despite the eruption of the second Palestinian *intifada* in late 2000 and the global economic slowdown from 2001 forward. Real GDP growth rose steadily from 3.1% to 4% to a projected 5.2% from 1999 to 2002.

Inflation, as measured by consumer prices, was negligible, falling from 3.1% in 1998 to 0.6%, 0.7%, and 1.8% for the period 1999–2001. An increase in inflation in 2002 to 3.5% is attributable mainly to administered price increases, particularly for electricity and petroleum products, as subsidies were removed. The government's annual deficit as a percent of GDP was at 3.7% in 2001, better than the program's 4% target, but in this case progress was not uninterrupted: the deficit rose to 4.7% of GDP in 2000 and was projected at 4.1% for 2002. There was, however, uninterrupted progress in terms of net public debt as a percent of GDP, which fell from 105.1% of GDP in 1999 to a projected 88.2% in 2002. Part of this improvement stemmed from some debt forgiveness by the United States and the European Union. As of the end of 2002, five Paris Club reschedulings of Jordan's sovereign debt—from February 1992, June 1994, May 1997, May 1999, and July 2002, respectively—were being paid down. On its foreign reserve position, according to the IMF, Jordan's net usable international reserves in the period 1999 to 2002 were on average sufficient to cover a little over seven months of imports, up from only a four-month coverage in 1998. In May 2002, Jordan's international reserves were close to \$3 billion.

In November 2001, the government introduced its Plan for Social and Economic Transformation (PSET), a program of health and education spending and transfer payments to the poor amounting to 4% of GDP and to be financed in such a way from grants and revenues so as not to add to the country's debt. PSET particularly aims at dealing with Jordan's chronic unemployment problem, which due in part to Malthusian population growth dynamics, worsened slightly—from 12.7% in 1998 to 14.7% in 2001—during the latest period of economic growth. Population growth is such that the 8.6% growth in nominal GDP between 1999 and 2001 produced only a 2.4% increase in per capita income. In July 2002 the IMF announced a two-year standby agreement with Jordan for SDR85.28 million (about \$113 million) to support both the PSET and the continuing program of economic reforms. The Jordanian economy has managed to continue to improve in 2002, with the second Palestinian *intifada* unfolding next door.

The economy expanded by 6.2% in 2004, up from 3.6% in 2003; in 2005, the GDP growth rate was estimated at 6.5%. The inflation rate was fairly stable, and at 3.4% in 2004 it did not pose a major

problem to the economy. The unemployment rate was tagged at 15%, although unofficial numbers show it to be as high as 30%. The war in Iraq, started in 2003, has significantly influenced the economy of Jordan—the former was an important trade partner and the main provider of oil.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Jordan's gross domestic product (GDP) was estimated at \$27.7 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$4,800. The annual growth rate of GDP was estimated at 5.5%. The average inflation rate in 2005 was 3.9%. It was estimated that agriculture accounted for 3.5% of GDP, industry 29.9%, and services 66.7%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.201 billion or about \$415 per capita and accounted for approximately 22.1% of GDP. Foreign aid receipts amounted to \$1,234 million or about \$233 per capita and accounted for approximately 12.6% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Jordan totaled \$7.65 billion or about \$1,441 per capita based on a GDP of \$9.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.1%. In 2001 it was estimated that approximately 32% of household consumption was spent on food, 17% on fuel, 5% on health care, and 8% on education. It was estimated that in 2001 about 30% of the population had incomes below the poverty line.

## 21 LABOR

The Jordanian labor force numbered an estimated 1.46 million people in 2005, with an additional 300,000 workers employed abroad. As of 2001 (the latest year for which data was available), the service industry accounted for an estimated 82.5% of the nation's workforce, with industry at 12.5%, and agriculture at 5%. The official unemployment rate was reported at 15% in 2004. However, it is estimated that the unofficial rate may be as high as 30%.

Workers have the right to form unions and must register to be legal. The General Federation of Jordanian Trade Unions, formed in 1954, was comprised of 17 trade unions in 2002. Approximately 30% of the labor force is unionized. Unions are allowed to collectively bargain but they are not allowed to strike or demonstrate without a permit. Labor disputes are mediated by the Ministry of Labor. The government does not adequately protect employees from antiunion discrimination.

The national minimum wage was \$114 per month in 2002 for all sectors except agriculture and domestic labor. This amount does not provide the average family with a living wage. The minimum working age is 16 and this is effectively enforced by the Ministry of Labor except for children working in family businesses or on fam-

ily farms. The standard workweek is 48 hours, with up to 54 hours per week for hotel, restaurant, and cinema employees.

## 22 AGRICULTURE

Agriculture still plays a role in the economy, although 40% of the usable land consists of the West Bank, lost to Jordan since 1967. As of 2003, only 4.5% of all land in Jordan was utilized for crop sown feed production. Rain-fed lands make up 75% of the arable land, while the remaining 25% is partially or entirely irrigated and lies mostly in the Jordan Valley and highlands. While the system of small owner-operated farms, peculiar to Jordan among the Arab countries and originating in the Land Settlement Law of 1933, limits the number of large landowners and shared tenancy, the minuscule holdings have inhibited development. Agriculture accounted for 2% of GDP in 2003.

Production of principal field crops in 2004 included wheat, 50,000 tons; barley, 30,000 tons; and tobacco, 2,000 tons. Prominent vegetables and fruits produced in 2004 included tomatoes, 415,000 tons; eggplant, 52,000 tons; cucumbers, 100,000 tons; and cabbages, 28,000 tons. Over 16 million fruit trees that year produced 147,000 tons of citrus, 160,700 tons of olives, 51,000 tons of bananas, and 28,000 tons of grapes. The output of fruits and vegetables has been encouraging, in part because of increased use of fertilizers, herbicides, and plastic greenhouses by the nation's farmers in the Jordan Valley.

Irrigation schemes and soil and water conservation programs have received emphasis in Jordan's economic development. The 77-km (48-mi) East Ghor Canal, substantially completed in 1966 and reconstructed in the early 1970s after heavy war damage, siphons water from the Yarmuk River and provides irrigation for about 13,000 hectares (32,000 acres). Water conservation in other areas has been undertaken with the rehabilitation of old water systems and the digging of wells. As of 2003, an estimated 75,000 hectares (185,000 acres) were irrigated.

The cooperative movement has made progress in the agricultural sector; the Central Cooperative Union, established in 1959, provides seasonal loans and advice to local cooperatives. The Agricultural Credit Corporation, founded in 1960, provides low-cost loans to finance agricultural investments.

## 23 ANIMAL HUSBANDRY

Raising livestock for both meat and dairy products is an important part of Jordanian agriculture. Animal husbandry is usually on a small scale and is often of the nomadic or seminomadic type indigenous to the area. The large nomadic tribes take their camels into the desert every winter, returning nearer to the cultivated area in summer. The camels provide transportation, food (milk and meat), shelter, and clothing (hair); the sale of surplus camels is a source of cash. Sheep and goat nomads make similar use of their animals. Imported milk and meat are sold at subsidized prices.

Animal products account for about one-third of agricultural output. Sheep and goats account for 90% of the livestock and are raised for both meat and milk. The Awasi is the major breed of sheep used, and the goat is the Baladi. In 2005, the number of sheep was estimated at 1,671,000, goats at 444,000, and cattle at 69,000 head. Jordan had an estimated 25 million chickens in 2005; poultry meat production was 121,000 tons that year. Meat production from cattle and sheep reached 8,700 tons in 2005. Produc-

tion of fresh milk from cattle, sheep, and goats was 252,700 tons in 2005. Jordan produces about 30% of its needs in red meat and 50% of milk.

## 24 FISHING

Fishing is unimportant as a source of food. The rivers are relatively poor in fish; there are no fish in the Dead Sea, and the short Gulf of Aqaba shoreline has only recently been developed for fishing. The total fish catch was only 1,131 tons in 2003.

## 25 FORESTRY

Jordan formerly supported fairly widespread forests of oak and Aleppo pine in the uplands of southern Jordan, both west and east of the Jordan River, but forestland now covers less than 1% of the total area. Scrub forests and maquis growths are the most common; the olive, characteristic of the Mediterranean basin, is widely cultivated. The important forests are around Ajlun in the north and near Ma'an. By 1976, some 3,800 hectares (9,400 acres) had been newly planted as part of a government afforestation program. From 1976 to 1991, an additional 10,000 hectares (24,700 acres) also was reforested. Roundwood production was 257,000 tons in 2004. Imports of forestry products totaled \$167 million in 2004.

## 26 MINING

Jordan in 2004 was the world's fifth-largest producer of phosphate, and ranked sixth in the world in the output of potash. Jordanian exports in 2004 totaled \$3.26 billion, of which minerals and associated products accounted for 21%. Among Jordan's exports in 2004, potash accounted for \$231 million, followed by: fertilizers (made from phosphate rock and potash), \$175 million; phosphate rock at \$166 million; phosphoric acid at \$90.5 million; and cement at \$30 million. Jordan also produced common clay, feldspar, natural gas and petroleum (for domestic consumption), gravel, gypsum, kaolin, lime, limestone, marble, crushed rock, salt, silica sand, steel, dimension stone, sulfuric acid, and zeolite tuff. In 2004, Jordan mined no metals, although it had deposits of copper, gold, iron, sulfur, titanium, and, in the Dead Sea, bromine and manganese.

Phosphate mine output (gross weight) in 2004 was 6.223 million metric tons. Phosphate reserves totaled 1 billion tons.

Production of potash crude salts—from Dead Sea potassium—was a record 1.929 million metric tons in 2004, down from 1.961 million metric tons in 2003. The World Bank has estimated that of the dissolved solids contained in the Dead Sea, 33 billion tons were sodium chloride and magnesium chloride and about 2 billion tons were potassium chloride.

Copper deposits between the Dead Sea and the Gulf of Aqaba remained undeveloped. Other potential for progress lay in the availability of bromine, dolomite, glass sands, iron, lead, oil shale, tin, travertine, and tripoli.

## 27 ENERGY AND POWER

Jordan, with miniscule deposits of petroleum, and natural gas, must rely upon imports to meet its petroleum and natural gas needs.

Jordan had proven oil reserves of only 445,000 barrels as of 1 January 2002. Production in 2004 averaged 40 barrels per day,

while consumption in that same year averaged 103,000 barrels per day. As a result, oil imports in that year came to an estimated 100,000 barrels per day. Refinery output in 2002 averaged 80,780 barrels per day.

Jordan has proven natural gas reserves of 3.256 billion cu m as of 1 January 2002. Production and consumption in 2002 each came to 10.95 billion cu ft. All output was marketed.

Almost all of Jordan's electrical power generating capacity is based on the use of fossil fuels. In that year, generating capacity totaled 1.661 million kW, with conventional thermal capacity accounting for 1.650 million kW. Hydropower accounted for 0.010 million kW of capacity, and geothermal/other capacity accounted for 0.001 million kW. Electric power production in 2002 totaled 7.642 billion kWh, with conventional thermal sources producing 7.587 billion kWh. Hydropower sources produced 0.052 billion kWh and geothermal/other produced 0.003 billion kWh.

## 28 INDUSTRY

With government encouragement, industry plays an increasingly important part in Jordan's economy. In 1990, the manufacturing sector contributed 15% to GDP at factor cost. Manufacturing output fell by 2.9% in 1991 due to the adverse impact of the Gulf War. In 1992, the sector grew by 6.2%. In 2001, industry as a whole accounted for 26% of GDP, while manufacturing contributed 17%. The sector grew at an annual rate averaging 6.7% between 1988 and 1998. Most industrial income comes from four industries: cement, oil refining, phosphates, and potash. Cement production has been rising since the 1980s.

In 1998, the government sold 33% of the Jordan Cement Factories Company (JCFC) to La Farge of France as part of its program of privatization begun in 1996. The 60-year old Jordan Phosphates Mine Company (JPMC) has a monopoly on phosphate mining in Jordan. In 2002 the government negotiated the sale of a 40% stake in JPMC to the Potash Company of Saskatchewan. The Arab Potash Company, a pan-Arab company, was granted a 100-year monopoly for potash mining in Jordan when it was founded in 1956. As of 2003, the government holds 52% and is seeking to sell 26%.

Jordan's one oil refinery is in Az-Zarqa, which has a capacity of 90,400 barrels per day. Oil is supplied to it from Iraq by a fleet of 1,500 trucks traveling across 600 miles of desert highway. Iraq sells oil to Jordan on terms of one-half free and one-half with a 40% discount of the price above \$20/barrel. Since 1998 Jordan and Iraq have been agreed in principle to replace the oil trucks with a pipeline, estimated to cost \$350 million. In 2002, Jordan was formally receiving bids for the first stage of the projects. The government holds 52% in a 100-year monopoly. The trade between Jordan and Iraq suffered once the US offensive against Iraq started in 2003.

In 2005, industry accounted for 29.9% of the GDP, and it employed 12.5% of the workforce; agriculture had only a 3.5% share in the economy, and it employed 5% of the workforce; services came in first, with a 66.7% share in the economy, and a 82.5% share in the labor force. The industrial production growth rate was 7.5%, higher than the GDP growth rate in the same year.

## 29 SCIENCE AND TECHNOLOGY

Expenditures for research and development (R&D) for the period 1996-2002 (the latest period for which data was available) to-

taled 6.33% of GDP. High technology exports in 2002, totaled \$48 million, or 3% of manufactured exports. A dozen institutes offer scientific training. The Islamic Academy of Sciences, founded in 1986, is an international organization that promotes science, technology, and development in the Islamic and developing worlds. The Jordan Research Council, founded in 1964, coordinates scientific research in the country. The Royal Scientific Society, founded in 1970, is an independent industrial research and development center. All three institutions are in 'Ammān. In 1996 Jordan had 13 universities and colleges offering courses in basic and applied science. In 1987-97, science and engineering students accounted for 26% of college and university enrollments. In 1998, Jordan had 1,977 researchers actively engaged in R&D per million people.

## 30 DOMESTIC TRADE

Lack of proper storage facilities, inadequate transportation service, and a lack of quality controls and product grading have been chronic handicaps to Jordanian trade. However, these deficiencies have been alleviated, directly and indirectly, under progressive development plans. Traditional Arab forms of trade remain in evidence, particularly in villages, and farm products generally pass through a long chain of middlemen before reaching the consumer. In 'Ammān, however, Westernized modes of distribution have developed and there are supermarkets and department stores as well as small shops. Some local investors are beginning to take an interest in the potential for foreign franchises.

Business hours are from 8 AM to 1 PM and from 3:30 to 6:30 PM, six days a week. Shops close either on Friday for Muslims or on Sunday for Christians. Banks stay open from 8:30 AM to 12:30 PM and from 3:30 to 5:30 PM, Saturday through Thursday.

## 31 FOREIGN TRADE

Jordan has traditionally run a trade deficit with imports at least doubling exports. During the 1990s, fertilizers accounted for about a quarter of Jordan's commodity exports and amounted to almost a quarter of the world's total exports of crude fertilizers (23%). However, in 2000, Jordan's fertilizer exports plummeted, accounting for a mere 7.6% of exports. No particular commodity now dominates Jordan's export market, but key exports include

### Principal Trading Partners – Jordan (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	3,081.6	5,653.2	-2,571.6
United States	663.0	361.0	302.0
Iraq	542.5	374.6	167.9
Free zones	279.4	...	279.4
Switzerland-Liechtenstein	201.4	75.0	126.4
India	199.0	85.0	114.0
Saudi Arabia	161.7	647.9	-486.2
United Arab Emirates	117.3	144.0	-26.7
Israel	108.0	133.9	-25.9
Syria	97.1	153.2	-56.1
Algeria	57.5	...	57.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

apparel (8.9%), medical and pharmaceutical products (8.6%), and paper products (4.7%). Other important exports are industrial machinery (4.8%) and vegetables (6.4%).

In 2004, exports reached \$4.2 billion (FOB—Free on Board), while imports grew to \$8.7 billion (FOB). The bulk of exports went to the United States (28.9%), Iraq (17.6%), India (7.1%), and Saudi Arabia (5.6%). Imports included manufactured goods, machinery and transport equipment, crude oil and petroleum products, food and live animals, and mainly came from Saudi Arabia (19.8%), China (8.4%), Germany (6.8%), and the United States (6.8%).

### <sup>32</sup>BALANCE OF PAYMENTS

Jordan's chronically adverse trade balance has long been offset by payments from foreign governments and agencies, especially from Jordan's oil-rich Arab allies, and by remittances from Jordanians working abroad, chiefly in Saudi Arabia. During the Gulf War, expatriate remittances and aid from Arab countries dropped sharply, causing the improvement of the trade deficit to halt. This trend continued into the mid-1990s despite an increasing surplus in the services sector. Although Jordan enjoyed a balance of payments surplus in 2000 of around 11% of GDP, the country suffers from a chronic trade deficit, largely due to its reliance on foreign oil. Annual imports usually amount to more than double the exports.

The US Central Intelligence Agency (CIA) reported that in 2002 the purchasing power parity of Jordan's exports was \$2.5 billion while imports totaled \$4.4 billion, resulting in a trade deficit of \$1.9 billion.

The International Monetary Fund (IMF) reported that in 2001 Jordan had exports of goods totaling \$2.3 billion and imports totaling \$4.3 billion. The services credit totaled \$1.48 billion and debit \$1.73 billion.

Exports of goods and services reached \$4.7 billion in 2004, up from \$4.4 billion in 2003. Imports increased from \$6.9 billion in 2003 to \$7.2 billion in 2004. The resource balance was consequent-

ly negative in both years, slightly improving from -\$2.515 billion in 2003, to -\$2.482 billion in 2004. The current account balance was positive, decreasing from \$429 million in 2003 to \$182 million in 2004. Foreign exchange reserves (including gold) decreased to \$3.9 billion, covering more than six month of imports.

### <sup>33</sup>BANKING AND SECURITIES

The Central Bank of Jordan, founded in 1964 with a capital of JD2 million and reorganized in 1971, is in charge of note issue, foreign exchange control, and supervision of commercial banks, in cooperation with the Economic Security Council. In 1995, the Central Bank established the dinar as a fully convertible currency for non-capital remittances. In November of that year the bank announced a fixed dollar-dinar rate for current payments. Because of Jordan's IMF-led structural adjustments and trade and investment liberalizations, it became the first Arab country to receive credit ratings from both Standard and Poor and Moody's.

The banking system includes, besides the Central Bank, thirteen commercial banks (five of which are branches of foreign banks), five investment banks, two Islamic banks, one Industrial Development Bank, and several other institutions. Commercial banks have a tradition of being both small, with a low capital base, and highly conservative. The Arab Bank, by far the largest "high street" bank, and the Housing Bank are the largest banks in Jordan. Jordanian banks have acted rapidly to fill the banking void in the Occupied Territories, since the agreement between the PLO and Israel transferred administrative authority to the Palestinians. State banks include the Arab Bank, The Bank of Jordan, Cairo 'Ammān Bank, Jordan-Kuwait Bank, and the Jordan National Bank. Commercial banks included those of Jordan, other Arab countries, the United Kingdom, and the United States. Foreign commercial banks in Jordan include the British Bank of the Middle East, Citibank (US), the Arab Land Bank, and the Arab Banking Corporation (Jordan). The late 1970s and 1980s saw an expansion of niche institutions, such as four investment banks, six specialized credit institutions (three of which are under public ownership), four nonbanking financial institutions, and one Islamic bank. Unfortunately, many of these have been either too small to have had a strong impact on the provision of credit, or have replicated the approach of the commercial banks. Since 1992, moneychangers have been able to operate legally, having been closed down in February 1989, but their area of operation has been heavily circumscribed.

Loans are extended by the Jordan Industrial Bank, Agricultural Credit Corp., Jordan Co-operative Organization, and other credit institutions.

The 'Ammān Financial Market (AFM) has been in existence since the late 1970s. Like most of the equity markets in the Middle East, the AFM is small and lacking in the dynamism that has seen markets in Latin America and Asia take off over the past ten years. A total of 115 companies were listed in 1997, making the AFM second in the Arab world only to Egypt, which quoted some 700 stocks. The capitalization of the AFM stood at around \$5 billion, putting it level with Bahrain, but ahead of Oman and Tunisia. In 1996, the government instituted a law allowing foreigners to invest in the AFM. In 1999, the 'Ammān Stock Exchange (ASE) was established as a privately managed institution. There were 149 listed public-shareholding companies at that time, with a market capitalization of approximately \$6 billion. As of 2004, a total of

#### Balance of Payments – Jordan (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>962.9</b>
Balance on goods	-1,996.3	
Imports	-5,077.9	
Exports	3,081.6	
Balance on services	-270.0	
Balance on income	122.5	
Current transfers	3,106.7	
<b>Capital Account</b>		<b>93.5</b>
<b>Financial Account</b>		<b>-247.4</b>
Direct investment abroad	...	
Direct investment in Jordan	376.2	
Portfolio investment assets	-118.9	
Portfolio investment liabilities	-349.1	
Financial derivatives	...	
Other investment assets	283.1	
Other investment liabilities	-438.6	
<b>Net Errors and Omissions</b>		<b>539.2</b>
<b>Reserves and Related Items</b>		<b>-1,348.2</b>

(...) data not available or not significant.

SOURCE: Balance of Payment Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

192 companies were listed on the ASE, which had a market capitalization of \$18.383 billion that year. In 2004, the ASE General Index rose 62.4% from the previous year to 4,245.6.

### 3<sup>4</sup> INSURANCE

The Al Ahlia Insurance Co. and the Jordan Insurance Co. offer commercial insurance. Several US and British insurance companies have branches or agents in Jordan. A new insurance law in 1998 brought about stricter regulation of the industry. In 1999, there were 26 national insurance companies operating in Jordan and one foreign insurance company. In 2003, the value of all direct premiums written totaled \$220 million, of which nonlife premiums accounted for \$192 million. In that same year, Middle East was Jordan's top nonlife insurer with gross written nonlife premiums of \$15.2 million. The country's top life insurer that same year was American Life Insurance (Alico), with gross written life premiums of \$18.4 million.

### 3<sup>5</sup> PUBLIC FINANCE

Jordan has had to rely on foreign assistance for support of its budget, which has increased rapidly since the 1967 war. During the late 1980s, Jordan incurred large fiscal deficits, which led to a heavy burden of external debt. Efforts at cutting public expenditures reduced the budget deficit from 21% of GDP in 1989 to 18% in 1991. The Persian Gulf War, however, forced Jordan to delay the IMF deficit reduction program begun in 1989.

The US Central Intelligence Agency (CIA) estimated that in 2005 Jordan's central government took in revenues of approximately \$3.6 billion and had expenditures of \$4.6 billion. Revenues minus expenditures totaled approximately -\$1 billion. Public debt in 2005 amounted to 77.7% of GDP. Total external debt was \$8.459 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues were JD2,364.2 million and expenditures were

JD2,387.6 million. The value of revenues were us\$16,763 million and expenditures us\$16,310 million, based on a official exchange rate for 2003 of us\$1 = JD.14104 as reported by the IMF. Government outlays by function were as follows: general public services, 30.6%; defense, 21.7%; public order and safety, 8.9%; economic affairs, 3.2%; environmental protection, 3.7%; housing and community amenities, 2.5%; health, 10.3%; recreation, culture, and religion, 1.9%; education, 14.9%; and social protection, 2.4%.

### 3<sup>6</sup> TAXATION

A new income tax law went into effect in 2002 that reduced the top income tax rate to 25% from 30%. The new law also equalized the level of tax exempt income for men and women, at JD1,000 for both sexes. Income tax rates range from 5–25%, with the average tax payer paying a marginal rate of 5%.

As of 2005, Jordan's corporate tax structure was divided into three tax rates, each targeted to the type of business operated. Hospitals, hotels, industrial, mining, construction, and transportation companies are subject to a 15% rate. Banks and financial institutions are subject to a 35% rate, while foreign exchange dealers, insurance, telecommunications, trade, and other companies are subject to a 25% rate. Capital gains on shares and depreciable assets are subject to a tax rate of 35%. For financial companies and banks, 75% of capital gains stemming from the sale of shares are subject to the tax, while other companies are exempt. In January 2001 Jordan entered the second phase of its transformation to a value-added tax (VAT) regime, a reform begun in 1996. The VAT rate is 13%, and in 2001 about 25 new commodities were added to its coverage, including some food products, tobacco, coffee, soft drinks, new cars, heavy-duty vehicles, and paper products. Businesses with sales less than JD250,000 a year are exempt from registering for the VAT. There are no capital gains or net worth taxes on individuals and social security taxes are paid jointly by employers and employees.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Customs and excise duties used to provide a large portion of all tax revenues, but following accession to the World Trade Organization, they are no longer so high. All imports and exports are subject to licenses. Import duties are levied by CIF (cost, insurance, and freight) value, with a 0–30% rate. There is also a 13% value-added tax (VAT) that is applied to both imported and domestically produced goods. Jordan grants preferential treatment to imports from Arab League countries, under bilateral trade agreements that exempt certain items from duty and under multilateral trade and transit agreements with Arab League countries. Jordan also signed a bilateral free trade agreement (FTA) with the United States in October 2000.

### 3<sup>8</sup> FOREIGN INVESTMENT

In the past there was little foreign investment in Jordan apart from the oil pipelines, but in the early 1970s, the government began offering liberal tax inducements, including a six-year corporate tax holiday for firms established in 'Ammān and a tax holiday of up to 10 years for those outside the capital. 100% foreign ownership of local enterprises is permitted in some cases. In 1980, the government formed the Jordanian Industrial Estates Corp. near 'Ammān to attract new industries to planned industrial complexes; inves-

#### Public Finance – Jordan (2003)

(In millions of dinar, budgetary central government figures)

<b>Revenue and Grants</b>	<b>2,364.2</b>	<b>100.0%</b>
Tax revenue	1,316.9	55.7%
Social contributions	19	0.8%
Grants	683.9	28.9%
Other revenue	344.4	14.6%
<b>Expenditures</b>	<b>2,387.6</b>	<b>100.0%</b>
General public services	730.6	30.6%
Defense	517.6	21.7%
Public order and safety	211.6	8.9%
Economic affairs	77	3.2%
Environmental protection	87.2	3.7%
Housing and community amenities	58.9	2.5%
Health	246.3	10.3%
Recreational, culture, and religion	45.8	1.9%
Education	355.4	14.9%
Social protection	57.2	2.4%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tors were granted two-year income tax exemptions. Jordan also has established four free-trade zones, at Al-'Aqabah, Az-Zarqa', the Queen Alia International Airport, and along the Syrian frontier, near the Jordan-Syria rail link.

In 1995, Jordan hosted an international conference on investment in the kingdom as part of its recent opening to international investment. It also announced intentions to begin selling off government shares in major enterprises, including telecommunications and the Royal Jordanian Airlines. In 1997, the country had \$1.2 billion in foreign exchange reserves.

In 1999, with the succession of King Abdullah II to the throne, significant steps have been taken towards encouraging further foreign investments in the country. Official FDI numbers are not available, but UNCTAD estimates show that total FDI inflows rose to \$787 million in 2003. In 2004, the Jordan Investment Board approved investment projects for around \$134 million, while the total FDI stock was estimated at around \$11 billion.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Before the upheavals caused by the war of 1967, the government had begun to design its first comprehensive development plans. The Jordan Development Board, established in 1952, adopted a five-year program for 1961–65 and a seven-year program for 1964–70, which was interrupted by war. In 1971, a newly created National Planning Council, with wide responsibility for national planning, prepared the 1973–75 plan for the East Bank, with a planned total outlay of JD179 million. The main objectives were to reduce the trade deficit, increase the GNP, expand employment, and reduce dependence on foreign aid. At least 60% of the planned projects were completed, and a new five-year plan was instituted on 1 January 1976.

The 1976–80 plan entailed outlays of JD844 million (at 1975 constant prices) and achieved an annual GDP growth rate of 9.6%, below the goal of 11.9%. Notable development projects included port expansion at Al 'Aqabah and construction of Queen Alia International Airport. The 1981–85 development plan allocated funds totaling JD3,300 million and projected an economic growth rate of 10.4% annually (17% for industry and mining, 7% for agriculture). The plan envisaged completion of large potash and fertilizer installations, as well as the first stage of construction of the 150 m (492 ft) Maqarin Dam project on the Yarmuk River, which would store water for irrigation. This project also was to extend the East Ghor Canal 14 km (9 mi) from Karama to the Dead Sea. The Maqarin Dam project was shelved indefinitely, however.

The 1986–90 development plan allocated JD3,115.5 million, to be shared between the public sector (52%) and the private and mixed sector (48%). The goals of the plan were the following: realization of a 5.1% annual growth rate in the GDP; creation of 97,000 new employment opportunities; a decrease in imports and an increase in exports to achieve a more favorable balance of trade; expansion of investment opportunities to attract more Arab and foreign capital; development of technological expertise and qualified personnel; attainment of a balanced distribution of economic gains nationally through regional development; and expansion and upgrading of health, education, housing, and other social services.

Between 1953 and 1986, Jordan received development assistance from the IBRD and other international agencies, other Arab

countries, the United Kingdom, Germany, and the United States. The United States provided nearly \$1.7 billion in nonmilitary assistance and more than \$1.4 billion in military aid. Aid from Arab oil-producing countries totaled \$322 million in 1984. The April 1989 riots in Jordan led to a new surge of aid transfers. Arab grants to Jordan in 1989 fell between \$360 million and \$430 million. Political dissatisfaction in Kuwait and Saudi Arabia at Jordan's policy during the Gulf crisis resulted, however, in the Gulf states denying further direct grant assistance.

In 1988, Jordan began working with the IMF on restructuring its economy. These plans were thrown into considerable disarray by political events in the Gulf (most notably Jordan's ill-conceived support of Iraq in the face of global opposition to that country's 1990 invasion of Kuwait), but new agreements were concluded in 1991, as Jordan began to institute democratic reforms. Foremost in the IMF plan are reductions in government spending, taming of inflation, increasing foreign exchange, and decreasing government ownership of economic enterprises. In the economic plan of 1996–98, Jordan was expected to decrease its ownership of enterprises from 1994's level of 64% to 55% by 1998.

The economy expanded by 6.5% in 2005, and was expected to continue to grow in subsequent years at an average rate of about 5%. Private consumption, helped by remittances from abroad, will be the main growth engines. Other sectors that will push the economy upward are construction and real estate, power generation, and telecommunications.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

The social insurance system provides old-age, disability, and survivor benefits, as well as workers' compensation. Public employees and workers over the age of 16 working in private companies with five or more employees are covered. Workers contribute 5.5% of their wages, employers pay 9% of payroll, and the government covers any deficit. The retirement age is 60 for men and 55 for women if coverage requirements are met. A funeral grant of 150 dinars is also provided.

Women's rights are often dictated by Islam. Under Shariah law, men may obtain a divorce more easily than women, a female heir's inheritance is half that of a male, and in court, a woman's testimony has only half the value of a man's. Married women are required by law to obtain their husband's permission to apply for a passport. Women are discouraged from pursuing careers. The Criminal Code provides for lenient sentences for men accused of murdering female relatives they believed to be "immodest" in order to "cleanse the honor" of their families, and a number of these "honor killings" were reported in 2004. Violence against women and spousal abuse is common. The rights of children are generally well respected in Jordan, and the government makes an effort to enforce child labor laws.

Bedouins are entitled to full citizenship, but nonetheless experience professional and social discrimination. Freedom of speech and of the press are restricted by the government. Human rights violations by the government included police brutality, arbitrary arrest and detention, and there were also allegations of torture.

### **4<sup>1</sup> HEALTH**

In 2004, Jordan had 205 physicians, 96 pharmacists, 55 dentists, and 275 nurses per 100,000 people. Medical services are concen-

trated in the main towns, but in recent decades the government has attempted to bring at least a minimum of modern medical care to rural areas. Village clinics are staffed by trained nurses, with regular visits by government physicians. As modern medicine has spread to the more remote areas, traditional methods have been dying out. The Ministry of Health, created in 1950, in cooperation with UNICEF, the World Health Organization, and the UNRWA, has greatly reduced the incidence of malaria and tuberculosis. In 1996, there were only 11 reported cases of tuberculosis per 100,000 people. Trachoma, hepatitis, typhoid fever, intestinal parasites, acute skin inflammations, and other endemic conditions remain common, however. In 2000, 96% of the population had access to safe drinking water and 99% had adequate sanitation. Health care expenditure was estimated at 8% of GDP.

In 2005, average life expectancy was 78.24 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24.6 and 2.6 per 1,000 people. About 50% of married women (ages 15 to 49) used contraception as of 2000. The infant mortality rate was 17.35 per 1,000 live births in 2005. Under age five mortality has been reduced dramatically from 149 in 1960 to 30 in 2000 for every 1,000 live births. Immunization rates for children up to one year old were: tuberculosis, 93%; diphtheria, pertussis, and tetanus, 87%; polio, 94%; and measles, 69%. As of 1999, rates for DPT and measles, respectively, were 97% and 94%. Only four cases of polio were reported in 1994; none were seen in 1996. As of 2000, an estimated 8% of all children under five were malnourished.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 600 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

## 42 HOUSING

A general housing shortage in the mid-1960s was aggravated by the influx of West Bank refugees after the 1967 war, and Jordan still lacked adequate housing in the early 1980s. During 1981–86, some 42,300 new residential building permits were issued. According to 1994 national statistics, there were 831,799 housing units nationwide, including 467,715 apartments, 335,423 *dar* (traditional, detached structures of one or more rooms), 2,877 barracks, and 6,907 tents. About 80% of all dwelling units were owner occupied. Most residential units were made of cement bricks or concrete blocks. About 3% of all dwellings were described as mud brick and rubble constructions. The preliminary results of the 2004 census indicated a 44.7% increase in housing units from 1994; for a total of about 1,204,000 housing units nationwide. The average number of members per household was estimated at about 5.3.

## 43 EDUCATION

Education is compulsory between the ages of 6 and 16. Ten years are devoted to primary education, followed by two years at the secondary stage. Vocational studies are offered as an option for secondary students. The United National Relief and Works Agency (UNRWA) operates schools in refugee camps. The academic year runs from September to June. The primary languages of instruction are Arabic and English.

In 2001, about 31% of children between the ages of four and five were enrolled in some type of preschool program. Primary school

enrollment in 2003 was estimated at about 92% of age-eligible students. The same year, secondary school enrollment was about 80% of age-eligible students. It is estimated that about 98% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 20:1 in 2003.

Jordan has five universities: the University of Jordan (founded in 1962), at 'Ammān; Yarmuk University at Irbid; Mu'tah University, in Karak governorate in southern Jordan; the University of Jordan for Science and Technology; and the Zaqā University established in 1993. In addition there are 53 community colleges; two of these are UNRWA schools on the East Bank for Palestinian students. In 2003, about 35% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 89.9%, with 95.1% for men and 84.7% for women.

As of 2003, public expenditure on education was estimated at 5% of GDP, or 20.6% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The library at the University of Jordan has 670,000 volumes. In 1977, the department of Libraries, Documentation, and Archives was founded to establish the national library, which had 70,000 volumes in 2002. The University of Jordan for Women, founded in 1991, holds 17,000 volumes. The Library of the Jordan University of Science and Technology holds 100,000 books and 30,000 back issues of periodicals, subscribing to 518 titles. The Philadelphia University Library ('Ammān) holds about 78,642 volumes and 370 subscriptions to periodicals while Amman University Library has 77,500 books (in Arabic and in English) and over 340 titles of periodicals.

More than half of Jordan's museums are archaeological and historical. 'Ammān has four major museums: the Jordan Archaeological Museum, the Folklore Museum, the Popular Life Museum, and the Mosaic Gallery. The Department of Antiquities Museum is located in Salt. The Museum of Jordanian Heritage, one of the finest archeological museums in the country, is in Irbid, as is the Natural History Museum.

## 45 MEDIA

Public communications and broadcasting facilities are government controlled. Telephone and telegraph facilities were introduced soon after World War II. In 2003, there were an estimated 114 mainline telephones for every 1,000 people; about 1,100 people were on a waiting list for telephone service installation. The same year, there were approximately 242 mobile phones in use for every 1,000 people.

All radio and television broadcasts are controlled by the government. Radio Jordan transmits AM and FM broadcasts in English, and the television stations broadcast programs in English, Arabic, French, and Hebrew on two channels. A few private radio stations have been permitted to operate as entertainment programming. As of 1999, there were six AM and five FM radio stations. In 2003, there were an estimated 372 radios and 177 television sets for every 1,000 people. The same year, there were 44.7 personal computers for every 1,000 people and 81 of every 1,000 people had access to the Internet. There were 21 secure Internet servers in the country in 2004.

Jordan's four major daily newspapers (with 2002 estimated daily circulations) are *Al-Dustour* (*Constitution*, 100,000), *Al-Rai* (*Opinion*, 90,000), *Sawt Ash-Shaab* (*Voice of the People*, 30,000), and *Jordan Times* (15,000). All except the English-language *Jordan Times* are in Arabic; all are published in 'Ammān and are owned and operated by the private sector. *Al-Rai* is a government-controlled paper, founded after the 1970–71 civil war; *Al-Dustour* is 25% government owned. There are also weeklies and less frequent publications published in Arabic in 'Ammān. One weekly, *The Star*, is published in English. The press code, enacted in 1955, requires all newspapers to be licensed and prohibits the publishing of certain information, mainly relating to Jordan's national security, unless taken directly from material released by the government.

The constitution provides for freedom of speech and the press; however, in practice there are some significant restrictions on these rights. Private citizens can be prosecuted for slandering the Royal Family, and the Press and Publication Law of 1993 restricts the media coverage of 10 subjects, including the military, the royal family, and economic policy.

#### 46 ORGANIZATIONS

Religious organizations still are of major importance, and membership in the hamula, the kinship group or lineage comprising several related families, also is of great significance as a framework for social organization. Literary and theatrical clubs have become popular, especially since World War II, but political organizations died out after the 1957 ban on political parties. Jordan serves as the home base for a number of multinational cultural and educational organizations, including the Islamic Academy of Sciences and the Arab Music Academy.

There are chambers of commerce in 'Ammān and other large towns. The Jordan Trade Association supports business owners with domestic and international holdings. Other labor and business organizations include the Jordan Exporters and Producers Association of Fruits and Vegetables and the Association of Banks in Jordan. There are several professional associations, particular those dedicated to research and education in medical and scientific fields.

National youth organizations include the Jordanian Association for Boy Scouts and Girl Guides, YMCA/YWCA, Junior Chamber, National Union of Jordanian Students, and the Orthodox Youth Education Society. There are a variety of sports associations and clubs, representing such pastimes as tennis, track and field, and badminton. The Alliance for Arab Women and the Jordanian National Committee for Women are based in 'Ammān.

The Noor Al-Hussein Foundation, founded in 1985, is a major national social welfare organization. The Red Crescent Society, Habitat for Humanity, and Caritas have national chapters.

#### 47 TOURISM, TRAVEL, AND RECREATION

The East Bank is an area of immense historical interest, with some 800 archaeological sites, including 224 in the Jordan Valley. Jordan's notable tourist attractions include the Greco-Roman remains at Jerash (ancient Garasi), which was one of the major cities of the Decapolis (the capital, 'Ammān, was another, under the name of Philadelphia) and is one of the best-preserved cities of its time in the Middle East. Petra (Batra), the ancient capital of Nabataea in southern Jordan, carved out of the red rock by the Nabataeans, is

probably the East Bank's most famous historical site. Natural attractions include the Jordan Valley and the Dead Sea, which—at 392 m (1290 ft) below sea level—is the lowest spot on Earth. Biblical attractions include Bethany Beyond the Jordan, where Jesus was baptized by John the Baptist; and Mount Nebo, where Moses saw the Promised Land.

The beaches on the Gulf of Aqaba offer holiday relaxation for Jordanians, as well as tourists. Sports facilities include swimming pools, tennis and squash courts, and bowling alleys. Eastern Jordan has modern hotel facilities in 'Ammān and Al-Aqabah, and there are government-built rest houses at some of the remote points of interest. A valid passport and visa are required. Visitors may obtain a visa, for a fee, at most international points of entry.

About 1.6 million tourists arrived in Jordan in 2003. Of these visitors, 64% came from the Middle East. There were 19,698 hotel rooms with 37,859 beds and an occupancy rate of 33%. The average length of stay in 2003 was two nights. Tourism expenditure receipts totaled \$1 billion that year.

In 2004, the US Department of State estimated the daily cost of staying in 'Ammān and the Dead Sea/Jordan Valley at \$204. Other areas were estimated at \$135 per day.

#### 48 FAMOUS JORDANIANS

The founder of Jordan's Hashemite dynasty—the term stems from the Hashemite (or Hashimite) branch of the tribe of the Prophet Muhammad—was Hussein ibn-'Ali (Husayn bin 'Ali, 1856–1931), sharif of Mecca and king of the Hijaz.

As a separate Arab country, Jordan has had a relatively short history, during which only two men have become internationally known. The first of these was the founder of the kingdom, 'Abdallah ibn-Husayn (1882–1951). Although he was born in Hijaz and was a son of the sharif of Mecca, he made 'Ammān his headquarters. He was recognized as emir in 1921 and king in 1946. The second was his grandson, King Hussein I (Husayn ibn-Talal, 1935–99), who ruled from 1953 until his death. In June 1978, 16 months after the death by helicopter crash of Queen Alia (1948–77), Hussein married his fourth wife, the Queen Noor al-Hussein (Elizabeth Halaby, b.US, 1951). King Abdullah II (b.1962) has reigned since the death of his father in 1999.

#### 49 DEPENDENCIES

Jordan has no territories or colonies.

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# KAZAKHSTAN

Republic of Kazakhstan

*Kazakstan Respublikasy*



**CAPITAL:** Astana (formerly Akmol, Tselinograd)

**FLAG:** Light blue with a yellow sun and soaring eagle in the center and a yellow vertical ornamentation in the hoist.

**ANTHEM:** *National Anthem of Kazakhstan.*

**MONETARY UNIT:** The tenge (₸), issued in 15 November 1993, is the national currency, replacing the ruble (₹). There is a coin, the tyin. One hundred tyin equal one tenge. ₸1 = \$0.00749 (or \$1 = ₸133.44; as of 2005), but exchange rates fluctuate widely.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year, 31 December–1 January; International Women's Day, 8 March; Nauryz (Kazak New Year), 28 March; Solidarity Day, 1 May; Victory Day, 9 May; Independence Day, 25 October.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Kazakhstan is located in southern Asia between Russia and Uzbekistan, bordering on the Caspian Sea and the Aral Sea, with a total area of 2,717,300 sq km (1,049,155 sq mi). Kazakhstan shares boundaries with Russia on the n and w, China on the e, Kyrgyzstan, Uzbekistan, and Turkmenistan on the s, and the Caspian Sea on the w. Kazakhstan's boundary length totals 12,012 km (7,464 mi). Its capital city, Astana, is located in the north-central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Kazakhstan is varied. There are three mountain regions, the Altay Shan in the northeast, the Tian Shan in the southeast, and the Ural Mountains in the northwest. In the center of the country are vast stretches of desert and steppe (arid grassy plains). Most of the country is desert, semidesert, or steppe.

The highest point in the country is Khan Tangiri Shyngy, a peak at 6,398 m (20,991 ft) in the Tian Shan. The lowest point is Vpadi-na Kaundy, which is located in the southwest region known as the Karagiye Depression and dips to 132 m (433 ft) below sea level. Severe earthquakes are periodically experienced in the seismically active region along the Tian Shan.

The Irtysh River, near the northeast border, is the longest river to pass through Kazakhstan. It has a length of 4,441 km (2,760 m). Two of the world's largest lakes are shared by Kazakhstan: The Caspian Sea (the world's largest lake) and the Aral Sea (the fourth-largest in the world). The largest inland lake completely within the borders of the country is Lake Balkhash, with an area of 18,200 sq km (7,300 sq mi). It is the fifteenth-largest in the world.

## <sup>3</sup>CLIMATE

The country has an arid continental climate. In January, the mean temperature is -5°C (23°F). Rainfall averages between 25 cm (9.8

in) and 38 cm (15 in). Because of the wide ranges in elevation in the country, there are wide variations in temperature and rainfall.

## <sup>4</sup>FLORA AND FAUNA

The sparse plant covering in the desert consists of saltworts, wormwoods, alhagi, and a haloxylon typical of the southern desert. Forests, particularly in the mountain regions, include cedar, larch, spruce, and juniper. Animals native to the country include the antelope, snow leopard, ibex, sand cat, and jerboa. As of 2002, there were at least 178 species of mammals, 379 species of birds, and over 6,000 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Kazakhstan faces several important environmental issues. As the site of the former Soviet Union's nuclear testing programs, areas of the nation have been exposed to high levels of nuclear radiation, and there is significant radioactive pollution. The nation also has 30 uranium mines, which add to the problem of uncontrolled release of radioactivity. Kazakhstan has sought international support to convince China to stop testing atomic bombs near its territory, because of the dangerous fallout.

Mismanagement of irrigation projects has caused the level of the Aral Sea to drop by 13 m, decreasing its size by 50%. The change in size has changed the climate in the area and revealed three million hectares of land that are now subject to erosion.

Air pollution in Kazakhstan is another significant environmental problem. Acid rain damages the environment within the country and also affects neighboring countries. In 1992 Kazakhstan had the world's 14th highest level of industrial carbon dioxide emissions, which totaled 297.9 million metric tons, a per capita level of 17.48 metric tons. In 1996, the total had dropped to 173.8 million metric tons. In 2000, the total of carbon dioxide emissions was at 121.3 million metric tons. Pollution from industrial and

agricultural sources has also damaged the nation's water supply. United Nations (UN) sources have reported that, in some cases, contamination of rivers by industrial metals was 160 to 800 times beyond acceptable levels. Pollution of the Caspian Sea is also a problem.

Kazakhstan's wildlife is in danger of extinction due to the overall level of pollution. According to current estimates, some areas of the nation will not be able to sustain any form of wildlife by the year 2015. In the areas where pollution is the most severe, 11 species of mammals and 19 species of birds and insects are already extinct. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 15 types of mammals, 23 species of birds, 2 types of reptiles, 1 species of amphibian, 7 species of fish, 4 species of invertebrates, and 1 species of plants. Threatened species included the cheetah, the black vulture, the swan goose, the spotted eagle, the asp, the Siberian crane, and the great snipe.

## 6 POPULATION

The population of Kazakhstan in 2005 was estimated by the United Nations (UN) at 15,079,000, which placed it at number 62 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 92 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.6%, a rate the government viewed as too low. The population began declining in the 1990s due to emigration, declining fertility rates, and lower life expectancy, especially among men. The projected population for the year 2025 was 15,927,000. The population density was 5 per sq km (14 per sq mi), with most people living in the east and north.

The UN estimated that 57% of the population lived in urban areas in 2005, but that the population in urban areas was declining at an annual rate of -0.03%. The capital city, Astana (formerly Akmola, Tselinograd), had a population of 332,000 in that year. The former capital, Almaty, is the largest city, with a population of 1,103,000. Other major metropolitan areas and their estimated populations include Karaganda, 437,000; Semey, 400,000; Chimkent, 360,000; Pavlodar, 349,000; and Oskemen, 334,000.

## 7 MIGRATION

Kazakhs abroad (in China, Mongolia, and other newly independent republics of the former USSR) are encouraged to return. Those who fled in Stalin's time automatically received citizenship; others must apply.

In 1996, there was an organized return of 70,000 Kazakhs from Mongolia, Iran, and Turkey. During 1991–95, some 82,000 Ukrainians and 16,000 Belarussians repatriated. Between 1991–96, 614,000 Russians repatriated and 70,000 Kazakhs repatriated. During 1992–96, 480,000 ethnic Germans returned to Germany. These Germans were forcibly deported to Central Asia during World War II as from the Volga region.

As of 1996, 42,000 Kazakhs had been displaced internally or had left for other Commonwealth of Independent States (CIS) countries as a result of the ecological problems of the Aral Sea, which had lost three-fourths its volume of water. There were also

160,000 displaced persons as a result of Semey, an above-ground nuclear testing site in northern Kazakhstan.

As of 2004, there were 74,144 refugees and asylum seekers in Kazakhstan. Of these, 13,684 were from Russia. In addition, there were 58,291 persons of concern to the United Nations High Commissioner for Refugees (UNHCR), all ethnic Kazakh who are stateless persons. The majority of the refugee population is located in the former capital Almaty and the southern part of the country.

In 2000 the net migration rate was -12.2 migrants per 1,000 population, amounting to a loss of 200,000 people. By 2005, the net migration rate had declined to an estimated -3.34 migrants per 1,000 population. The government viewed the emigration level as too high.

## 8 ETHNIC GROUPS

About 54% of the population are Kazakhs, 30% are Russians, and 3.7% are Ukrainians. The remaining population consists of Uzbeks (2.5%), Germans (2.4%), Tartars (1.7%), Uighurs (1.4%), and other groups.

## 9 LANGUAGES

The constitution declares Kazakh to be the state language and requires the president to be a Kazakh speaker. Kazakh is a Turkic language written in Cyrillic script with many special letters (but in Roman script in China since 1960). Modern Kazakh utilizes many words of foreign origin from Russian, Arabic, Persian, Mongol, Chinese, Tatar, and Uzbek. Only about 64% of all Kazakhs can speak the language effectively. Almost everyone can speak Russian (95%), which has special status as the "language of interethnic communication" and is widely used in the realm of official business.

## 10 RELIGIONS

About 47% of the population are Muslim. The Kazakhs, a distinct ethnic group originating with Turkic and Mongol settlers who arrived there in late antiquity (first century BC), are the dominant group in the population and are primarily Sunni Muslims of the Hanafi school. Islam had been adopted by the Kazakhs as early as 1043, but many of its popular religious practices did not become common until the late 18th century. The Uzbeks, Uighurs, and Tartars (which together make up less than 10% of the population) are also primarily Sunni Muslim. Other schools represented are Shafit Sunni, Shiite, Sufi, and Akhmadi.

About 33% of the population are Eastern Orthodox. There are several Protestant congregations, including Lutherans, Jehovah's Witnesses, Pentecostals, and Seventh-Day Adventists. There is also a small Jewish community. About 2% of the population are Roman Catholic.

The constitution provides for freedom of religion, but there are some restrictions placed on nontraditional religious groups. All groups must register with the government to obtain legal status and conduct business transactions. Some groups, such as the Jehovah's Witnesses, have been denied this legal status.

## 11 TRANSPORTATION

About 13,700 km (8,521 mi) of broad gauge railroad tracks traversed Kazakhstan, as of 2004. Highways totaled 82,980 km (51,614 mi) in 2002, of which about 77,918 km (48,465 mi) were



LOCATION: 48° N; 60° E. BOUNDARY LENGTHS: China, 1,533 kilometers (954 miles); Kyrgyzstan, 1,051 kilometers (653 miles); Russia, 6,846 kilometers (4,254 miles); Turkmenistan, 379 kilometers (236 miles); Uzbekistan, 2,203 kilometers (1,369 miles).

paved. In 1994, General Motors Corp. signed an agreement to distribute North American-built vehicles in Kazakhstan. The primary port is Guryev (Atyrau), on the Caspian Sea. There are 3,900 km (2,423 mi) of inland waterways on the Syrdariya and Ertis Irtysh rivers. Much of the infrastructure connects Kazakhstan with Russia rather than points within Kazakhstan. Although landlocked in the center of Eurasia and dependent on its transport connections through neighboring countries to deliver its goods to world markets, Kazakhstan as of 2005, had three merchant ships of 1,000 GRT or more. In 2004 there were an estimated 314 airports. As of 2005, a total of 66 had paved runways, and there were also 4 heliports. In 2003, about 1.010 million passengers were carried on scheduled domestic and international flights.

## <sup>12</sup>HISTORY

There is evidence of human habitation in present-day Kazakhstan from the earliest Stone Age, more than 300,000 years ago. The

steppe characteristics of most of the region are best suited for nomadic pastoralism, which an ever-shifting pattern of peoples have pursued in this territory. Achaemenid documents give the name Sacae to the first such group to be historically recorded. In the 3rd and 2nd centuries BC they were displaced by the Usun in the east, the Kangiui in the south central region, and the Alani in the west.

The first well-established state was that of the Turkic Kaganate, in the 6th century AD, replaced in the early 8th century by the Turgesh state. In 766, the Karluks established dominance in what now is eastern Kazakhstan. Some of the southern portions of the region fell under Arab influence in the 8th–9th centuries, and Islam was introduced. Western Kazakhstan was under Oghuz control in 9th to the 11th centuries; at roughly the same time the Kimak and Kipchak tribes, of Turkic origin, controlled the east. The large central desert of Kazakhstan is still called “Dashti-Kipchak,” or the Kipchak Steppe.

The Karluk state was destroyed by invading Iagmas in the late 9th and early 10th centuries. They formed the Karakhanid state, which controlled extensive lands into what is now China. The Karakhanids were in a constant state of war with the Seljuks, to the south, and control of parts of what is now Kazakhstan passed back and forth between them. The Karakhanids collapsed in the 1130s when they were invaded by Khitans, who established the Karakitai state. In the mid-12th century, Khwarazm split off from the weakening Karakitais, but the bulk of the state survived until the invasion of Genghiz Khan from 1219–1221.

Kazakhstan was part of Batu's Golden Horde, which in the 14th century broke up into the White Horde and Mogulistan. By the early 15th century, the White Horde had split into several large khanates, including the Nogai Horde and the Uzbek Khanate.

The present-day Kazakhs formed in the mid-15th century when clan leaders Janibek and Girei broke away from Abul Khair, leader of the Uzbeks, to seek their own territory in Semirechie, between the Chu and Talas rivers. First to unite the Kazakhs into one people was Khan Kasym (1511–23). When the Nogai Horde and Siberian Khanates broke up in the mid 16th century, tribes from both joined the Kazakhs. The clans separated into three Hordes: the Great Horde, which controlled Semirechie; the Middle Horde, which had central Kazakhstan, and the Lesser Horde, which had western Kazakhstan.

Russian traders and soldiers began to appear on the northwestern edge of Kazakh territory in the 17th century, when Cossacks founded the forts which became the cities of Uralsk and Gurev. The Kazakh khanate was in disarray at the time, badly pressed by Kalmyk invaders who had begun to move in from the east. Pushed west in what the Kazakhs call their "Great Retreat," the Kazakh position deteriorated until, in 1726, Lesser Horde khan Abul'khair requested Russian assistance. From that point on the Lesser Horde was under Russian control. The Middle Horde was conquered by 1798. The Great Horde remained independent until the 1820s, when pressure from both the Kokand Khanate and Russia forced them to choose what they regarded as the lesser of evils, the Russians.

There was, however, considerable resistance, led by Khan Kenen (Kenisary Kasimov), of the Middle Horde, whose followers fought the Russians 1836–47. Khan Kenen is now regarded as a Kazakh national hero. Russian attempts to quell this resistance led to establishment of a number of forts and settlements in Kazakh territory, which made Kazakh nomadism impossible and destroyed the Kazakh economy.

In 1863, Russia promulgated a policy in the Gorchakov Circular which asserted the right to annex "troublesome" border areas. It was on this basis that Russian troops began the conquest of Central Asia. Most of Kazakhstan was made part of the Steppe district of the Russian empire; the rest was in Turkestan.

Beginning in the 1890s, Russian settlers were aggressively moved into fertile lands in northern and eastern Kazakhstan, further displacing the nomadic Kazakhs. Between 1906 and 1912 more than a half-million Russian farms were started as part of the Stolypin reforms. By the time of the 1916 uprising the Kazakhs were broken and starving. Despite a strong effort against the Russians, they were savagely repressed.

At the time of the revolution a group of secular nationalists called the Alash Orda attempted to create a Kazakh government,

but it lasted less than two years (1918–20) before surrendering to the Bolsheviks.

The Kazakh Autonomous Soviet Socialist Republic was declared in 1920 and elevated to full republic status in 1936. In the period 1929–34, when Stalin was abolishing private agriculture and establishing huge collective farms, Kazakhstan suffered repeated famines which killed at least 1.5 million Kazakhs, as well as destroying 80% of the republic's livestock.

In World War II much Russian industry was evacuated to Kazakhstan; this was followed in 1953–65 by the so-called Virgin Lands campaign, which converted huge tracts of Kazakh grazing land to wheat and other cereal production. This campaign brought thousands more Russians and other non-Kazakhs to Kazakhstan; as a result Kazakhstan became the only Soviet republic in which the eponymous people were not a majority of the population. Because Russians and other Europeans nearly equal the number of Kazakhs in the republic, virtually every public act requires a delicate balancing of differing interests.

On 16 December 1986, Mikhail Gorbachev replaced Kazakhstan's longtime leader Dinmukhamed Kunayev, a Kazakh, with a Russian from outside the republic. This set off three days of rioting, the first public nationalist protest in the Soviet Union. In June 1989, more civil disturbances hastened the appointment of Nursultan Nazarbayev as republic leader. A metallurgist and a Kazakh, Nazarbayev became prominent in the last Soviet years as a spokesman both for greater republic sovereignty and for the formation of a confederation of former Soviet republics. He was elected president by the Kazakhstan parliament in 1990, which was reaffirmed by public vote in an uncontested election in December 1991. Not a party to the dissolution of the Soviet Union announced in early December 1991, Nazarbayev prevailed in arguments that Kazakhstan and other Central Asian states must join the new Commonwealth of Independent States.

Nazarbayev arranged a call by an extra-constitutional quasi-legislative 327-member People's Assembly composed of various cultural and ethnic leaders for an 29 April 1995 referendum on extending his rule until the year 2000. The extension was approved by over 93% of voters.

In October 1998, the Kazakh legislature approved constitutional amendments that enabled Nazarbayev to call for an early presidential race for 10 January 1999. The US State Department in November 1998 criticized a decision of the Kazakh Central Electoral Commission (CEC) and the Supreme Court that major opposition figure Akezhen Kazhegeldin was ineligible to run in the presidential race because of his participation in an "unauthorized" democracy meeting. Three candidates were registered besides Nazarbayev, but only one ran as a true opposition candidate. Onerous registration requirements included a \$30,000 deposit (forfeited by the losers) and 170,000 signatures gathered in at least 11 of 16 regions. Nazarbayev's candidacy was extensively covered by state-owned media. The Kazakh Central Electoral Commission reported that Nazarbayev had won with 79.8% of about seven million votes cast. The Organization for Security and Cooperation in Europe (OSCE) sent only token monitors, and declared on 11 January 1999, that "the electoral process...was far removed" from OSCE standards which Kazakhstan had pledged to follow. At his 20 January inauguration, Nazarbayev pledged to work to create a "democratic society with a market economy," to raise the standard

of living, and to uphold existing foreign and ethnic policies. In December 1998 the government moved from Almaty to Astana.

Nazarbayev stated that the geographic location of Kazakhstan and its ethnic makeup dictate its "multipolar orientation toward both West and East." He pursued close ties with Turkey, trade ties with Iran, and better relations with China, which many Kazakhs traditionally viewed with concern as a security threat. Kazakhstan has extensive trade ties with China's Xinjiang Province, where many ethnic Kazakhs and Uighurs reside.

While seeking to protect Kazakh independence, Nazarbayev also pursued close relations with Russia and other Commonwealth of Independent States (CIS) members for economic and security reasons. During Nazarbayev's July 1998 visit to Moscow, he and Yeltsin signed a Declaration of Eternal Friendship and Alliance Cooperation, in which both sides pledged to assist each other in the case of threats against each other, including by providing military support. In early 1999, Kazakhstan reaffirmed a CIS collective security agreement pledging the parties to provide military assistance in case of aggression against any one of them. In 1995, Kazakhstan joined the customs union formed by Russia and Belarus, which was reaffirmed in an accord on "deeper integration" signed in 1996 (Kyrgyzstan also signed and Tajikistan joined in 1998). Nazarbayev has been highly critical of the feeble union. Another customs union, formed in 1994 between Kazakhstan, Kyrgyzstan, and Uzbekistan (joined by Tajikistan in 1998), was set back by the repercussions of the 1998 Russian and Asian financial crises.

Kazakhstan is the most economically developed of the former Soviet Central Asian republics. Kazakhstan's economic prospects are promising because of its vast energy and mineral resources, low foreign debts, and well-trained work force. There is more Western private investment in Kazakhstan than elsewhere in Central Asia because of Kazakhstan's oil resources and efforts to attract investment. Second to Russia, Kazakhstan has the largest oil and gas reserves of the Caspian Sea regional states, holding promise of large export revenues. On 18 November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the "Istanbul Protocol" on constructing a trans-Caucasus oil pipeline from Azerbaijan to Turkey. Russia's pipelines, the major means for exporting Kazakh oil, were supplemented in 2001 with the opening of a 1,580-km (930-mi) oil pipeline from Kazakhstan to Russia's Black Sea port of Novorossiisk. Kazakhstan has also been involved in an oil swap arrangement with Iran, whereby Kazakhstan sends oil by tanker to northern Iran, and Iran in exchange exports some oil from its Persian Gulf ports. The GDP averaged over 9% 2000–05 and the unemployment rate for 2005 was a fairly low 8%. The country's economy heavily depends on oil exports, however, the government slowly diversified the economy to include light industry in 2005.

Following the 11 September 2001 terrorist attacks on the United States, Kazakhstan offered the use of its military bases, as well as air space for military and humanitarian purposes during the US-led military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces. Since 11 September, all radical Islamic groups in the Central Asian nations have been linked with international terrorism. Both the Hizb-ut-Tahrir ("Freedom Party") and the Islamic Movement of Uzbekistan (IMU), two radical Islamic organizations looking to establish an Islamic state in Central

Asia, have operations in the country, but the major units of the IMU have been destroyed by the US-led coalition.

On 18 November 2001, a new political movement, the Democratic Choice of Kazakhstan (DCK) was established, however, Nazarbayev cracked down increasingly on the group throughout 2002 into 2005. In what appeared to be politically motivated cases, two of the DCK's cofounders, Mukhtar Ablyayazov and Galymzhan Zhakiyanov, were arrested, convicted of abuse of power and corruption during their tenure in government, and sentenced to prison. Ablyayazov was freed from prison in 2003 after receiving an amnesty from Nazarbayev. Zhakiyanov was transferred from prison to a minimum security settlement colony in August 2004.

Of international interest was the scandal dubbed "Kazakhgate" in which Western oil companies allegedly paid millions of dollars to top Kazakh officials, including Nazarbayev, in exchange for lucrative contracts. The media within Kazakhstan was strongly encouraged not to report on the scandal.

### 13 GOVERNMENT

In March 1995, the Kazakh Constitutional Court ruled that the March 1994 legislative election was invalid because it violated the principle of "one person, one vote." Constituencies had not been drawn up representing approximately equal populations, and confused voting procedures resulted in electors voting for several candidates, it declared. On 11 March, Nazarbayev announced that the decision was in accordance with the constitution and dissolved the legislature. Some of the dismissed deputies tried to set up an alternative parliament, but the rebel movement soon fell apart. Nazarbayev announced that he would rule by decree pending new elections and called for a new constitution to be drafted, using France's parliamentary system as a model. On 30 August 1995, a referendum on a new constitution that widened presidential powers was passed with 89% of the vote. According to the US State Department, proposals by democracy and human rights advocates during the discussion phase were not incorporated into the final constitutional draft submitted to the referendum, and the turnout and results were "exaggerated."

Compared to an earlier 1993 constitution, the 1995 constitution increases the president's powers and reduces those of the legislature, and places less emphasis on protecting human rights. As fleshed out by a presidential edict, the legislature does not control the budget or its agenda, cannot initiate changes to the constitution, or exercise oversight over the executive branch. The president's nominees for premier and state bank head are ratified by the Majlis, the lower house of parliament, but he appoints the rest of the cabinet. If the legislature fails within 30 days to pass an "urgent" bill brought by the president, he may issue it by decree. About 10% or less of bills are initiated by deputies, but they debate and have forced minor changes in bills initiated by the presidency. While the president has broad powers to dissolve the legislature, it may only remove him for disability or high treason.

In October 1998, without any public debate, the legislature quickly rubber-stamped 19 constitutional amendments and announced an early presidential election. The changes included increasing the presidential term from five to seven years, lifting the 65-year age limit on governmental service, creating party list representation in the Majlis, extending the term of office from four to five years for the lower legislative chamber (the Majlis) and

from four to six years for the upper legislative chamber (the Senate). The Majlis consists of 77 seats, 10 of which are elected from the winning party's lists. The Senate has 39 seats (previously 47). Seven senators are appointed by the president; other members are popularly elected, 2 from each of the 14 oblasts, the capital of Astana, and the city of Almaty.

On 10 January 1999, Nazarbayev won reelection as president for a seven-year term in an election that fell far short of international standards. He won 81.7% of the votes cast; three other contenders shared the rest. Nazarbayev's most serious challenger, former prime minister Akezhan Kazhegeldin, was excluded from running on a technicality. In the December 2005 election, Nazarbayev was reelected once again, winning over 90% of the votes. The next election was scheduled for 2012.

Kazakhstan held indirect elections 17 September 1999; regional legislatures elected 32 members of a 39-seat upper legislative chamber, the Senate (On 29 November 1999, the remaining seven Senators were constitutionally appointed by Nazarbayev). The Organization for Security and Cooperation in Europe (OSCE) reported that Kazakh Central Electoral Commission (CEC) officials had improperly blocked some monitoring, and cited reports that other officials had threatened local legislators not to vote for oppositionists.

Elections to Kazakhstan's lower legislative chamber, the Majlis, took place on 10 October 1999, with 595 candidates and nine parties competing for 77 seats. Ten seats were reserved for a party list vote. Runoffs on 24 October were required for over two-thirds of constituency seats where no one candidate received over 50%. Ten seats were elected by party lists based on the percentage of votes parties received nationally (with a minimum vote threshold for representation of 7%), and the other 67 by single constituency voting. The Kazakh Communist Party (KPK), Otan, the Civic Party, and the Agrarian Party won seats under party list voting. No candidate nominated by a noncommunist opposition party gained a party list or single constituency seat. About one-half of the winning deputies ran as independents, though many of them were former government officials who were presumably pro-government. OSCE monitors concluded that the race was "a tentative step" in democratization, but decried interference in the race by officials, biased local electoral commissions, manipulation of results, unfair campaign practices by pro-government parties, and harassment of opposition candidates. Members of the KPK, Republican Party, and Azamat joined in a "Forum of Democratic Forces" that on 27 October stated that the Senate and Majlis elections were rigged by the government and were invalid.

The DCK, which was formally registered as a political party in May 2004, formed an electoral bloc with the Communist Party in July 2004 in hopes of gaining more seats in the Majlis. The 2004 Majlis election resulted in Otan capturing 42 of 77 total seats, while independent candidates, The Agrarian Party-Civic Party Bloc (AIST) secured 11 seats, followed by Asar with 4 seats, and the DCK with 1 seat. The only opposition candidate to win a seat, Alikhan Baymenov, announced that he refused to take up his seat in protest over what he considered electoral inconsistencies and fraud.

The Organization for Security and Cooperation in Europe (OSCE) again criticized the election for failing to meet international standards for democratic elections. Among the problems

noted were electoral ballot stuffing, media bias in favor of pro-presidential candidates and the exclusion of certain candidates for politically motivated reasons among others. None of the opposition parties recognized the outcome of the elections.

## <sup>14</sup>POLITICAL PARTIES

The constitution permits the formation of registered political parties, but in practice it is difficult to get the necessary legal permissions. Most parties are small, ephemeral, based on personalities, and lack detailed programs. Nine parties and groups participated in the party list part of the October 1999 lower-chamber legislative races, and four passed a 7% vote hurdle to win seats (the Republican People's Party withdrew from the party list vote after its leader, Akezhen Kazhegeldin, was not registered as a candidate). The nine were Otan (Fatherland), Azamat (Citizen), Alash (Patriot), the People's Congress, the Civic Party, the Communist Party, the Agrarian Party, the Labor Party, and the Revival Party. The pro-government Otan party bloc won the most seats in the party vote. Others included the Civic Party, Agrarian Party, and the Communist Party (KPK). Otan was formed in early 1999 from several prominent pro-Nazarbayev parties. The Civic Party, formed in 1998, represents state-industrial interests and hails Nazarbayev as its "spiritual father." Azamat was formed in 1999. Deputy Chair of the party Petr Svoik has called it the "constructive opposition." The Kazakh Communist Party (KPK), reregistered in July 1994, has advocated some economic recentralization and anti-Western policies. The People's Congress, or Social-Democratic Party, has both Kazakh and Russian members and is headed by the Kazakh poet Olzhas Suleymenov. Originally pro-Nazarbayev, the party became increasingly critical of the government after 1993. The nationalist Alash Party has refused to register because of legal requirements that it submit personal information about members to the government. Members of unregistered parties may run for elected office as individuals, but not as party members.

Twelve parties were registered and participated in the 2004 elections. The most important addition was the the DCK, formally registered as a political party in May 2004, which formed an electoral bloc with the Communist Party in July 2004. The 12 were Otan (Fatherland), Azamat (Citizen), AIST (Agrarian Party-Civic Party Bloc), Ak Zhol Party (Bright Path), ASAR (All Together), AUL (Village), Civic Party, Communist Party (KPK), Communist People's Party of Kazakhstan, Democratic Choice Party of Kazakhstan, Democratic Party of Kazakhstan and Alash (Patriots' Party).

A 2002 law raised from 3,000 to 50,000 the number of members that a party must have to register, making it more difficult for political pressure groups to form actual opposition parties.

In Uralsk (Western Kazakhstan) and Petropavlovsk (Northern Kazakhstan) there are Cossack obshchinas, or communities, agitating for autonomous status. Denied registry by Kazakhstan, many are active in Cossack obshchinas across the border in Russia, where Cossacks have the right to maintain military organizations and carry weapons.

## <sup>15</sup>LOCAL GOVERNMENT

Kazakhstan is divided into 14 *oblasts* (provinces); the cities of Almaty, Astana, and Bayqongyr have special administrative status equivalent to that of *oblasts*. The 14 *oblasts* are in turn divided into *rayons* (districts). As of 1999, there were 84 cities, 159 *rayons*, 241

settlements, and 2,049 *auls* (villages). Each *oblast*, *rayon*, and settlement has its own elective assembly, charged with drawing up a budget and supervising local taxation. Cities have local assemblies as well; if large enough, cities are also divided into *rayons*, each with its own assembly. These assemblies are also elected for five-year terms. The number of *oblasts* was reduced from 19 to 14 in 1997 under the government's consolidation program.

The *oblast* and *rayon* assemblies do not choose the local executives. According to the 1995 constitution, the local executives, known as *glavs* or *akims*, are appointed by the president, upon recommendation by the prime minister. The *akims* serve at the pleasure of the president, and he has the power to annul their decisions. The *akim* appoints the members of his staff, who become the local department heads. There is some discussion of shifting to local election of the regional *akims*.

## 16 JUDICIAL SYSTEM

A new constitution was adopted by referendum in 1995, placing the judiciary under the control of the president and the executive branch. There are local and *oblast* (regional) level courts, and a national-level Supreme Court and Constitutional Council. A special arbitration court hears disputes between state enterprises. There is also a military court system. Local level courts serve as courts of first instance for less serious crimes such as theft and vandalism. *Oblast* level courts hear more serious criminal cases and also hear cases in rural areas where no local courts have been established. A judgment by a local court may be appealed to the *oblast* level. The Supreme Court hears appeals from the *oblast* courts. The constitution establishes a seven member Constitutional Council to determine the constitutionality of laws adopted by the legislature. It also rules on challenges to elections and referendums and interprets the constitution. The president appoints three of its members, including the chair.

Under constitutional amendments of 1998, the president appoints a chairperson of a Supreme Judicial Council, which nominates judges for the Supreme Court. The Council consists of the chairperson of the Constitutional Council, the chairperson of the Supreme Court, the Prosecutor General, the Minister of Justice, senators, judges, and other persons appointed by the president. The president recommends and the senate (upper legislative chamber) approves these nominees for the Supreme Court. *Oblast* judges (nominated by the Supreme Judicial Council) are appointed by the president. Lower level judges are appointed by the president from a list presented by the Ministry of Justice. The Ministry receives the list from a Qualification Collegium of Justice, composed of deputies from the Majlis (lower legislative chamber), judges, prosecutors, and others appointed by the president). Under legislation approved in 1996, judges serve for life.

The constitution calls for public trials where the defendant has the right to be present, the right to counsel, and the right to call witnesses. There is the presumption of innocence of the accused, and the defendant has the right of appeal. In practice, trials of political oppositionists have been closed, and there is widespread corruption among poorly paid judicial personnel. It is a criminal offense to offend the honor and dignity of the president.

Nazarbayev has stated that "the path from totalitarianism to democracy lies through enlightened authoritarianism" but has nonetheless allowed some degree of pluralism. The US State De-

partment concluded in its *Country Reports on Human Rights Practices for 2001* that the Kazakh government respected the human rights of its citizens in some areas, but serious problems remained in others. The government infringed on citizens' right to change their government. Members of the security forces often beat or otherwise abuse detainees, and there were allegations of arbitrary arrest and detention of political opponents. The government infringed on citizens' rights to privacy by conducting unlawful monitoring of correspondence and searches of premises. The government increasingly moved against independent media, harassing and monitoring them, and as a consequence, many journalists practiced self-censorship.

Despite constitutional guarantees, freedom of assembly and association is limited although it is legal to form and join trade unions, and unions are able to engage in strikes. In December 2003, Nazarbayev introduced a moratorium on the death penalty and introduced life imprisonment as an alternative. Prison conditions remained harsh and life-threatening; the government agreed to improve conditions in 2005.

Traditional customs limit the opportunities available to women, and women's rights organizations claim that the penalties regarding domestic violence and sexual harassment are extraordinarily lenient. Trafficking of women and children is another serious problem which has not seemed to lessen. Amnesty International reports that Kazakhstan is both the origin and transfer point for women being trafficked from South and Southeast Asia to the Middle East and Europe.

Kazakhstan is a member of many international organizations including the United Nations and is an observer at the World Trade organization.

## 17 ARMED FORCES

As of 2005, Kazakhstan's armed forces had 65,800 active personnel, of which the Army accounted for 46,800 personnel. Its equipment included 930 main battle tanks, 140 reconnaissance vehicles, 573 armored infantry fighting vehicles, 770 armored personnel carriers, and 986 artillery pieces. The Air Force had 19,000 active personnel (including air defense). Air Force equipment included 164 combat capable aircraft, of which there were 124 fighters and 40 fighter ground attack aircraft. The service's air defense arm operated more than 147 surface-to-air missile batteries. Kazakhstan has no navy. Paramilitary forces included 2,000 presidential guards, an estimated 20,000 internal security troops, and an estimated 12,000 border guards. The defense budget in 2005 was \$419 million.

## 18 INTERNATIONAL COOPERATION

Kazakhstan was admitted to the United Nations (UN) on 2 March 1992; it is a member of ESCAP and several nonregional specialized agencies, including the FAO, IAEA, IFC, IMF, the World Bank, UNCTAD, UNESCO, UNIDO, and the WHO. Kazakhstan is a member of the Asian Development Bank, the Commonwealth of Independent Nations, the Organization of the Islamic Conference (OIC), and the OSCE.

The country has observer status in the WTO and the OAS. In 2000, Kazakhstan, Russia, Belarus, Kyrgyzstan, and Tajikistan established the Eurasian Economic Community. In June 2001, leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and

Uzbekistan met in China to launch the Shanghai Cooperation Organization (SCO) and signed an agreement to fight terrorism and ethnic and religious militancy while promoting trade.

Kazakhstan is part of the Nuclear Suppliers Group (London Group) and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Kazakhstan is part of Conventions on Biological Diversity and Air Pollution, CITES, the Montréal Protocol, MARPOL, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

The Kazakhstan economy is extremely well-endowed with large tracts of arable land and rich reserves of coal, oil, and rare metals. Animal herding was the mainstay of the nomadic Kazakh population before their incorporation into the Soviet Union; wool production remained an important agricultural product, along with grains and meat.

Like other countries of the former USSR, Kazakhstan faced serious economic dislocation after 1991, resulting from the disruption of trade with other post-Soviet republics, an end to the flow of official revenues from the Soviet central government, the decline in state production orders, and the need for sudden currency adjustments. Estimated GDP fell by 8.5% in 1991, 14% in 1992, 15.3% in 1993, and 25% in 1994. Overall output was estimated to have shrunk by one-third between 1990–93. Positive if weak growth returned in 1996, when real GDP increased 1.1%, followed by an increase of 1.7% in 1997. Recovery was then arrested briefly by the effects of the Russian financial crisis, as real GDP declined 1.9% in 1998, but growth resumed in 1999 with a rise in real GDP of 2.7%. Economic and fiscal reforms in 1999 and a rise in world energy prices helped spur growth to 9.6% in 2000, and to an estimated 12.6% in 2001. Meanwhile significant progress was made in bringing inflation under control. After independence, inflation reached a staggering 2,000% in 1993, declining to 35% in 1994 and 1995, and to 28.6% in 1996. In 1998, in the recession accompanying the Russian financial crisis, inflation fell to 1.9%. With growth in 1999, inflation grew to 8.3% and 13.2% in 2000. However, prudent monetary policies instituted in 1999 helped reduce inflation to an estimated 6.6% in 2001. Fiscal reforms helped to transform a general government deficit equal to 5% of GDP in 1999 to a surplus equal to 2.9% of GDP in 2001. Registered unemployment was only 3.3% in 2001, although according to US State Department and CIA estimates, actual unemployment ranged between 10% and 30%.

A revitalized energy sector supported by substantial foreign investment has been the main factor in the economy's strong performance, but economic reforms and good harvests have also been important elements. Privatization legislation adopted since 1992 has promoted the rapid transfer of small shops and services to the private sector, although large-scale privatization has gone much slower. In 1996, the government concluded an agreement for the 1,580-km (990-mi) Caspian Pipeline Consortium (CPC) pipeline to run from the western Tengiz oil field to the Black Sea. The CPC was officially opened on 27 November 2001. Foreign investment in Kazakhstan's oil industry has helped boost production, with prospects of the country becoming one the world's largest producers at 3.5 million barrels per day by 2015. Such optimistic predictions rest largely on three major oil and gas fields—Tengiz, Karachaga-

nak, and Kashagan—the last of which was hailed by analysts as the world's largest oil discovery in 30 years. An oil pipeline between Kazakhstan and China was being built in the mid-2000s, with the second of three segments completed in December 2004. The pipeline was expected to reach from the Caspian oilfields to the Chinese border, and was expected to be completed around 2010. In January 2001, the president decreed the establishment of the National Fund for the purpose of protecting the economy from the effects of swings in the price of oil and other commodities. In February 2002, the president decreed the formation of a new national energy company, KazMunaiGaz, formed through the merger of Kazakoil, the state oil company, and TransNefteGaz, the state oil and gas transport company. The main purposes of KazMunaiGaz are to ensure a single state policy on energy issues, and to better compete with foreign energy companies.

Kazakhstan enjoyed strong economic growth in 2005, benefiting from record export prices for its energy, minerals, and agricultural exports. The real GDP growth rate stood at 9% in 2005, following a 9.2% expansion in 2004 and 9.5% growth in 2003, but continued growth in imports in 2006–07 was forecast to lessen the rate of economic expansion. Nevertheless, the growth rate was expected to average just over 8% in 2006, potentially rising to 8.4% in 2007. High producer price inflation and sustained inflows of hard currency were expected to keep annual average consumer price inflation close to 7% in 2006, although it was projected to ease in 2007 as producer costs rose less steeply following lower energy prices. In 2005, agriculture accounted for 7.8% of GDP, with industry contributing 40.4% and services 51.8%. Oil now accounts for more than half of industrial output. The agricultural sector is inefficient and labor-intensive: it is the largest single employer in the country but an increasingly irrelevant exporter. In 2002, agriculture provided 35% of total employment. Due to the growth of the oil sector and the likely real appreciation of the currency, in the long term the agricultural sector will need to be subsidized if it is to survive.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Kazakhstan's gross domestic product (GDP) was estimated at \$132.7 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$8,700. The annual growth rate of GDP was estimated at 9%. The average inflation rate in 2005 was 7.4%. It was estimated that agriculture accounted for 7.8% of GDP; industry, 40.4%; and services, 51.8%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$147 million or about \$10 per capita and accounted for approximately 0.5% of GDP. Foreign aid receipts amounted to \$268 million or about \$18 per capita and accounted for approximately 1.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Kazakhstan totaled \$16.83 billion or about \$1,129 per capita based on a GDP of \$30.8 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was es-

timated that for the period 1990 to 2003 household consumption grew at an average annual rate of -4.3%. In 2001 it was estimated that approximately 37% of household consumption was spent on food, 20% on fuel, 9% on health care, and 6% on education. It was estimated that in 2004 about 19% of the population had incomes below the poverty line.

## **21 LABOR**

Kazakhstan's labor force in 2005 was estimated at 7.85 million persons. In 2002 it was estimated that the services sector engaged 50% of the workforce, while agriculture accounted for 20%, and industry the remaining 30%. The unemployment rate in 2005 was estimated at 7.6%.

Although workers are entitled to join or form unions, registration generally is a lengthy and difficult process. The Confederation of Free Trade Unions claimed about 300,000 members in 2002, but that number is considered to be high. Some workers who have joined independent unions are subjected to various forms of harassment, indicating hostility by local authorities and state-sponsored trade unions. Workers are entitled to strike after all conciliation procedures have been exhausted. Employers must be notified 15 days prior to a strike.

The minimum age for employment is 14 but only for part-time work. Children under 18 have legal protections from hazardous work, and those between 14 and 16 years of age may only work with parental permission. As of 2002, the minimum wage was about \$24 per month, which falls below the minimum subsistence amount. The legal maximum workweek is 48 hours, although most enterprises maintain a 40-hour workweek.

## **22 AGRICULTURE**

In 2003, Kazakhstan had an estimated 22.7 million hectares (56 million acres) of arable land, representing 8.4% of the total land area. Most cropland is found in the northern steppes, where the failed Virgin and Idle Land Project of the 1950s occurred. Small-scale privatization resulted in the formation of 31,055 private farms by 1995, up from 3,333 in 1991. By 2003, there were 149,986 private farms, accounting for 94% of agricultural holdings. The average farm size in 2003 was about 110 hectares (270 acres). Between 1990 and 2000, annual agricultural output fell an average of 7.9%. However, during 2002–04, output was up almost 15% from 1999–2001.

Potatoes, fruits, and vegetables are other significant food crops. Less than 2% of agricultural land is used to cultivate commercial crops such as cotton, sugar beets, sunflowers, and flax. Kazakhstan is the only former Soviet republic that exports grain. Wheat accounts for about one-third of all sown acreage. Wheat production declined from 18,285,000 tons in 1992 to 9,900,000 tons in 2004. Similarly, barley production fell from 8,511,000 tons to 1,534,000 tons during that time. Rice is produced in irrigated stretches along the Syrdar'ya near Qyzlorda and around Taldyqorgha in the east. Production amounted to 277,000 tons in 2004.

During the Soviet period, groundwater resources and chemical fertilizers were overused, resulting in depleted soils, decreasing yields, and environmental pollution.

## **23 ANIMAL HUSBANDRY**

About 70% of Kazakhstan's total land area is permanent pastureland. In 2005, the livestock population included 25.4 million chickens, 11.3 million sheep, 1.3 million pigs, 1.1 million horses, and about 2.1 million goats. Total meat production in 2005 amounted to 762,000 tons, of which 45% was beef, 14% mutton and lamb, 27% pork, 6% chicken, and 8% other meat.

Wool and skins are important animal products; in 2005, 27,000 tons of greasy wool and 41,800 tons of cattle hides were produced. That year, cow milk production totaled 4,695,800 tons, and 139,100 tons of eggs were laid.

## **24 FISHING**

Fisheries are concentrated around the Caspian Sea, and are of some importance to the local economy. The total catch in 2003 was 23,885 tons, all from inland fishing. Freshwater bream and Azov sea sprat were the principal species.

## **25 FORESTRY**

Only 4.5% of Kazakhstan is covered by forests and woodlands; forestry is of little commercial importance. Imports of forestry products amounted to nearly \$158.8 million in 2004.

## **26 MINING**

The leading industries in Kazakhstan in 2002 were, in order, oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, phosphates, and sulfur. In 2000, Kazakhstan was the eighth-largest producer of manganese ore in gross weight and ninth in manganese content of ore. Kazakhstan was the CIS's leading producer in chromite, lead, and zinc. The country was also a major producer of beryllium, bismuth, cadmium, chromium, ferroalloys, magnesium, rhenium, titanium, and uranium, and produced significant amounts of arsenic, barite (75% of the former Soviet Union's output), molybdenum, natural gas, phosphate rock, and tungsten. Among other minerals, Kazakhstan produced cobalt, magnesium, nickel, vanadium, and all grades of asbestos, as well as the industrial minerals boron, cement, and kaolin. Kazakhstan had commercial reserves of 3 ferrous metals, 29 nonferrous metals, 2 precious metals, 84 types of industrial minerals, and coal, natural gas, and petroleum. The eastern region of Kazakhstan was rich in alumina, arsenic, bauxite, beryllium, bismuth, cadmium, chrome, copper, gold, iron ore, lead-zinc, manganese, molybdenum, rhenium, silver, titanium, and tungsten.

In 2002, Kazakhstan's exports totaled nearly \$10 billion, with 89% of that total accounted for by mineral and other mineral-related products. Crude oil alone accounted for more than 50% of the nation's exports in that year.

Output of metals in 2002 included: marketable iron ore (gross weight), 15.423 million metric tons, up from 14.14 million metric tons in 2001; manganese ore (gross weight), 1,792,200 metric tons, up from 1,386,500 metric tons in 2001; chromite, 2,369,400 metric tons, up from 1.19 in 1996; lead, 39,300; mined zinc, 322,100, up from 159,400 in 1996; mined copper, 430,200, up from 2,045,700 metric tons in 2001; bauxite, 4,376,600 metric tons; mined gold, 22,404 kg, down from 25,010 kg in 2001; silver, 892,100 kg down from 981,900 kg in 2001; and alumina, 1.386 million tons.

Copper mining began to recover after foreign companies acquired management rights to the nation's copper producers, most notably the Zhezqazgan complex, which also included concentration, smelting, and refining facilities. Kazakhstan had supplied more than 95% of chromite production for the former USSR through the Donskoy mining and beneficiation complex at Khromtau. Iron ore found near Rudnyy supplied the iron and steel plants in the Russian Urals region as well as plants at Karaganda and Temirtau.

## 27 ENERGY AND POWER

Kazakhstan has significant reserves of oil and natural gas, and is thus, important to the world's energy market. Specifically, the country possesses the largest recoverable crude oil reserves in the Caspian Sea region. Kazakhstan also has significant recoverable reserves of coal.

As of 1 January 2005, Kazakhstan had proven oil reserves estimated at 9 to 29 billion barrels. In 2004, oil production was estimated at 1,221.3 million barrels per day, of which crude oil accounted for 83% of output. Domestic demand in that same year came to an estimated 156,700s barrels per day. Kazakhstan's fields include: the Tengiz, with estimated recoverable crude oil reserves of 6 to 9 billion barrels; the Karachaganak field, with recoverable reserves of 2.4 billion barrels of oil; the Kashagan field with recoverable reserves estimated at 7 to 9 billion barrels; and the Kurmangazy with reserves of 7.33 billion barrels.

Kazakhstan also has sizeable reserves of natural gas. As of 1 January 2005, the country's proven natural gas reserves were put at 65 to 70 trillion cu ft. In 2003, natural gas output was estimated at 500 billion cu ft and at 560 billion cu ft in 2004. In 2003, domestic demand for natural gas totaled an estimated 558 billion cu ft and an estimated 550 billion cu ft in 2004.

Kazakhstan also has the largest recoverable reserves of coal in Central Asia. These reserves in 2003 were estimated at 34,479.2 million short tons, most of which was hard coal (anthracite and bituminous). In 2003, production of coal was estimated at 86.45 million short tons, with consumption that year placed at an estimated 58.5 million short tons.

Coal-fired plants make up the bulk of Kazakhstan's electric power capacity. Of the nation's 71 power plants, 80% are coal fired, while hydropower facilities account for 12% of capacity. Installed capacity, was estimated in 2003 to be 17.2 GW. In 2003, electric power output was estimated at 60.4 billion kWh, of which 85% came from coal-fired plants. In that same year, demand for electricity was estimated at 52.6 billion kWh.

## 28 INDUSTRY

Before its independence, Kazakhstan's designated manufactures included phosphate fertilizer, rolled metal, radio cables, aircraft wires, train bearings, tractors, and bulldozers. The country also had a well-developed network of factories that produced about 11% of the Soviet Union's military goods. Overwhelmingly dominated by state-owned enterprises under the centrally planned economy, independent Kazakhstan's economy has been substantially, if incompletely, privatized and reoriented to the market economy. Government plans originally called for an almost complete privatization by 2000 through a combination of auctions, the distribution of investment coupons to the public, and case-

by-case negotiations for larger enterprises. As of 2001, 71% of the total number of organizations with state participation had been privatized, including 23,170 state-owned enterprises and state stock holdings and state shares in 3,495 organizations.

The process of restructuring its industry has been wrenching, however. Industrial production declined by 13.8% in 1992, by 14.8% in 1993 and by 28.5% in 1994. Decline continued in 1995, but at the single digit rate of 8%. The first positive growth in industrial production after independence was a weak 0.3% improvement in 1996. Privatization moved ahead quickly in that year and into the summer of 1997, a year in which real GDP increased 4%. However, industrial production declined again in 1998—by 2%—due primarily to the combined effects of the Russian financial crisis and a fall in world oil prices. The president, citing the low fuel prices, decreed a halt to further privatization in the country's vital oil and gas sector, and slowed the negotiations on privatization of the remaining large state enterprises called the "Blue Chips." Subsequently, industrial growth resumed at a moderate 3% in 1999, but then at robust double-digit rates of 16% in 2000 and 14% in 2001. For 2002, the estimated growth rate was 9.8%, slightly ahead of overall GDP performance. The share of industrial production fell from 25.9% of GDP in 1994 to 21.8% of GDP in 1995, but had risen to 30% by 2001. In 2005, industry accounted for 40.4% of GDP, and the industrial production growth rate stood at 10.7%.

To stimulate recovery, increasingly liberal foreign investment incentives were offered 1991–97. In 1995 Kazakhstan's largest pre-independence operation, the Karaganda Steel Mill (Karmet) was acquired by a London-based company. Pre-independence, Karmet was one of the largest integrated metallurgical complexes in the world, producing coke and chemical products in addition to pig iron, steel, and a wide variety of steel products. In 1995, it was operating at less than half its capacity, workers' wages were often months in arrears, and its installations were being degraded for lack of maintenance. By 2002, about \$800 million had been invested in the renamed Ispat Karmet, and output had risen from 2.1 million tons of rolled steel in 1995 to 3.63 million tons in 2001 (still nearly 40% below pre-independence levels).

Most of Kazakhstan's manufacturing, refining, and metallurgy plants are concentrated in the north and northeast, in Semey, Petropavl, and Aktobe. In south-central Kazakhstan, Shymkent is an important center for chemicals, light manufactures, metallurgy, and food processing; Almaty is important for light industry, machine building, and food processing.

The mining industry accounts for over a third of industrial production, three-fourths of which by value is the production of crude oil and associated gas. Fuel production's share in industrial value-added rose from 11% in 1995 to more than 25% in 2000. By contrast, coal and lignite, 96% of which is produced in Pavlodar and Karaganda oblasts, and iron ore mining, have experienced steady declines since 1991, and each currently accounts for less than 2% of industrial production.

By value the biggest manufacturing category is the processing of agricultural products, accounting for almost 17% of industrial production. Second is the production of nonferrous metals, at about 13% of the total. Textiles and leather manufacturing is served by inputs of wool and other material from the country's own livestock as well as imports of cotton from other parts of the

former USSR. Textiles and related products make up an estimated 8% of total industrial output.

Almost 7% of industrial output (14% of manufactures) is accounted for by ferrous metallurgy. Production includes bulldozers, excavators, and metal-cutting equipment.

Kazakhstan has the Caspian Sea region's largest recoverable crude oil reserves—from between 9 and 29 billion barrels. The petroleum industry accounts for roughly 30% of government revenue and about half of export revenue, which has driven economic growth in the early- and mid-2000s. Kazakhstan's total oil refining capacity in 2002, was about 427,000 barrels per day. There are three refineries: one in the north (at Pavlodar), one in the west (at Atyrau), and one in the south (at Shymkent). In 2006, the refineries were working at about 51% capacity, averaging about 345,093 barrels per day.

## 29 SCIENCE AND TECHNOLOGY

The Kazakhstan Academy of Sciences, founded in 1946 in Almaty, has departments of physical and mathematical sciences, earth sciences, chemical-technological sciences, and biological sciences. Kazakhstan in 1996 had 47 research institutes concerned with agriculture and veterinary science, medicine, natural sciences, and technology. There is a botanical garden in Almaty. Scientific training is available at 2 universities and 25 higher educational institutes.

In 1987–97, science and engineering students accounted for 20% of college and university enrollments. In 2002, Kazakhstan had 630 researchers and 92 technicians actively engaged in research and development (R&D) per million people. In 2001, (the latest year for which the following data was available) R&D spending totaled \$174.890 million or 0.22% of GDP. Of that amount, business spending accounted for the majority at 58.1%, with government at 38.3%. Foreign sources accounted for 2.8%, and private nonprofit institutions accounted for 0.9%. High technology exports in 2002 totaled \$157 million, or 10% of manufactured exports.

## 30 DOMESTIC TRADE

The wholesale and retail sector, previously dominated by state-controlled distribution channels, has seen the dynamic growth of independent small shops and traders. Price controls have been lifted for 90% of consumer and 80% of wholesale prices, although basic goods and services such as bread, flour, baby food, medicines, fodder, housing rents, utilities, and public transportation have been excluded from liberalization. A 15% value added tax applies to most goods and services; it was lowered from 16% in 2004.

The country sponsors a number of trade exhibitions through the year, including the Kazakhstan Oil and Gas Exhibition, held in Almaty every October, and a Consumer Expo in April.

## 31 FOREIGN TRADE

In 1990, about 89% of Kazakhstan's exports and 88% of its imports represented trade with other former Soviet republics (at foreign trade prices). A serious disruption in the country's trading patterns occurred as the input procurement system within the Soviet centrally planned economy disintegrated, the uses of hard currency and world market-determined transaction prices were adopted by former USSR republics, and export demand from Eastern Eu-

### Principal Trading Partners – Kazakhstan (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	12,926.7	8,408.7	4,518.0
Bermuda	2,192.6	...	2,192.6
Russia	1,967.3	3,277.6	-1,310.3
Switzerland-Liechtenstein	1,679.9	62.1	1,617.8
China	1,652.6	523.7	1,128.9
Italy-San Marino-Holy See	1,013.1	249.7	763.4
British Virgin Islands	602.0	...	602.0
Ukraine	426.2	323.7	102.5
Iran	411.1	...	411.1
France-Monaco	278.1	196.9	81.2
United Arab Emirates	215.1	25.2	189.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

ropean countries shrank in the early 1990s. To facilitate adjustment to these hard new realities, the government decreed key trade liberalization measures in early 1992, ending export license requirements. With liberalization, exports and imports increased substantially throughout the 1990s.

Exports are dominated by petroleum products, followed by nonferrous and ferrous metals—a pattern that was likely to continue. Kazakhstan's largest imports are machinery and oil and gas products. In percentage terms, in 2004 Kazakhstan's major exports were: oil and gas condensate (56.8% of total exports); base metals (5.2%); refined copper (5%); and ferroalloys (4.1%). The primary imports in 2004 were: machinery and equipment (26.8% of total imports); light vehicles (4.3%); oil products (4%); and base metal pipes (3.8%).

Kazakhstan's leading markets in 2004 were: Switzerland (18.7% of all exports); Italy (15.5%); Russia (14.1%); and China (9.8%). The leading suppliers were: Russia (37.7% of all imports); Germany (8.2%); China (5.9%); and Ukraine (5.7%).

## 32 BALANCE OF PAYMENTS

Strong exports of oil and minerals created trade surpluses in the early 2000s. Large amounts of foreign direct investment have also aided the country's balance of payments situation. Kazakhstan floated its currency, the tenge, in 1999, resulting in a devaluation. Subsequently, exports recovered and there was a fall in imports, and the currency stabilized against the dollar.

In 2004, total exports on a customs basis were worth \$20 billion, and imports were worth \$12.8 billion. In 2005, the current account had a balance of \$3.343 billion, and was forecast to remain in surplus over the 2006–07 period, although it was predicted to narrow as oil prices were projected to fall over that period.

## 33 BANKING AND SECURITIES

In December 1990, the Almaty branch of Gosbank (the former Soviet State Bank) was made into the Independent Kazakh (National Bank of Kazakhstan-NBK). In the next year the existence of private and public financial institutions were legalized. In 1993, the parliament approved a new banking law that separated the National Bank of Kazakhstan from the government, and gave the

**Balance of Payments – Kazakhstan (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>-182.5</b>
Balance on goods	4,088.2	
Imports	-9,144.5	
Exports	13,232.6	
Balance on services	-2,365.2	
Balance on income	-1,740.9	
Current transfers	-164.7	
<b>Capital Account</b>		<b>-28.8</b>
<b>Financial Account</b>		<b>2,728.9</b>
Direct investment abroad	119.6	
Direct investment in Kazakhstan	2,068.5	
Portfolio investment assets	-2,073.3	
Portfolio investment liabilities	212.3	
Financial derivatives	15.9	
Other investment assets	-873.5	
Other investment liabilities	3,259.4	
<b>Net Errors and Omissions</b>		<b>-984.1</b>
<b>Reserves and Related Items</b>		<b>-1,533.5</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

central bank the power to conduct monetary and credit policies and regulate the commercial banking sector. Before November 1993, monetary and credit policy was under the control of two central banks, the Russian Central Bank (RCB), which also acted as the ruble zone's central bank, and the NBK. Until November 1993, the currency unit in the country was the ruble. On 15 November 1993, Kazakhstan established its own currency, the tenge.

In 1995 the NBK continued the tight monetary stance it adopted in 1994, becoming increasingly sophisticated in its monetary operations.

The NBK admits that corporate governance and management in banks is weak: Kazakhstan's banks tend to be very small, concentrated in Almaty, and more interested in dealing in treasury bills than in providing long-term credits to lenders. As of 2003, there was no deposit insurance scheme in operation. Organized crime is also a problem for many banks, with security therefore assuming a considerable cost.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.8 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 9%. The reform of the banking sector was initially set up according to a two-tier system, with the central bank occupying the top tier and specialized, sector-oriented banks occupying the second tier. Among these specialized banks are Narodny Bank (for savings); Kazakhstan Bank (for industry and agriculture); Turan Bank (for the construction sector); Kredsotsbank (for housing and municipal services); and Agroprombank (for agriculture).

In 2002, there were 47 commercial banks, including 1 state bank (3% of total financial sector assets), 1 intergovernmental bank, 16

banks with foreign participation, and 12 foreign representative offices. In 2001, total bank assets reached \$3.82 billion.

The Kazakhstan Stock Exchange and the Central Asian Stock Exchange both operate in Kazakhstan.

**3<sup>4</sup> INSURANCE**

Approximately 73 insurance companies were registered in 1999.

**3<sup>5</sup> PUBLIC FINANCE**

Kazakhstan has one of the fastest growing economies in the world, thanks almost entirely to high world oil prices. GDP grew 9.6% in 2000, 13.2% in 2001, and 9.5% in 2002. The surge has been extremely helpful in ridding the government deficit. In 1999, the deficit was equivalent to 3.5% of GDP; by 2001 the government ran a primary surplus of 1.9% of GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Kazakhstan's central government took in revenues of approximately \$1.2 billion and had expenditures of \$1.2 billion. Revenues minus expenditures totaled approximately -\$11.2 billion. Public debt in 2005 amounted to 9.8% of GDP. Total external debt was \$32.7 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were ₸700.37 billion and expenditures were ₸734.81 billion. The value of revenues was us\$5 million and expenditures us\$5 million, based on a official exchange rate for 2003 of us\$1 = ₸149.58 as reported by the IMF. Government outlays by function were as follows: general public services, 32.7%; defense, 5.5%; public order and safety, 10.0%; economic affairs, 15.0%; environmental protection, 0.4%; housing and community amenities, 1.4%; health, 2.6%; recreation, culture, and religion, 1.8%; education, 3.2%; and social protection, 27.5%.

**3<sup>6</sup> TAXATION**

In January 2002 a new Tax Code went into effect. The new code, seen by tax experts as a model of equity, economic neutrality and simplicity (on its face, if not in its implementation), replaced the 1995 Tax Code that had been criticized for leaving too much discretion in the hands of the Tax Police and other government officials. The new code also reduced a number of tax rates. Under it, the personal income tax (PIT) ranges from 5% to a top rate of 30%, down from 40%, while the corporate income tax (CIT) rate remains set at 30%. Social taxes (payroll taxes) were reduced to 11% from 21% and the rate for the value-added tax (VAT), introduced 1 January 1992, was reduced to 16% from 20%.

Dividends and interest are subject to a 15% withholding tax, while royalties are subject to a 20% rate.

In January 2003, a new investment law was introduced that generally eliminates tax incentives for foreign investors.

**3<sup>7</sup> CUSTOMS AND DUTIES**

In Kazakhstan, licenses are required to import certain products and the importation of others is prohibited. An import tariff schedule eliminated duties for most consumer goods in April 1994. There are no longer any export tariffs on most goods. However, animal skins, nonferrous and scrap ferrous metals are subject to an export duty. Tariffs have increased on certain products, including alcoholic beverages, leather, and carpets. The average

tariff is 9%. There is also a 16% value-added tax (VAT) on destination principal. Kazakhstan, Belarus, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan have formed a customs union. In May 1992, the Republic of Kazakhstan and the United States signed a most-favored nation agreement for reciprocal tariff treatment.

### 38 FOREIGN INVESTMENT

Even before its formal independence, the government adopted the Foreign Investment Law of 1991 that allowed investment by foreign companies in any economic activity except the manufacture of military goods. The law contained provisions for duty-free imports as well as tax breaks for firms with foreign investment, especially those involved in producing consumer goods, agricultural goods, and electronic and medical equipment. Further, the law also laid out provisions for the operation of Special Economic Zones (SEZs) where imports of intermediate products and exports of finished goods would be allowed without customs duties.

The regime was subsequently revised in a new Foreign Investment Law in 1994 (amended in 1997) to provide stronger guarantees against changes in Kazakhstan's legislation, greater clarity on investment requirements and on the credit facilities available to foreign investors, some additional customs exemptions, and a guarantee of the right to recourse to international arbitration to settle disputes.

From August to November 1996, the government pursued a vigorous privatization program. In 1997, a new law enabled investors to qualify for up to 100% tax relief for five years, and for up to 50% tax relief for the second five years. Priority areas were infrastructure, manufactures, housing, construction in Astana (designated the new capital as of December 1997), and agriculture. Following the recession in 1998, in 1999 the government began to change its stance on foreign investment from favorable treatment to national treatment. In January 2001, the government passed laws to control the transfer of capital out of the country. Foreign investors expressed concern over the increased authority given customs officials to regulate export and import transactions.

In 2001 the government moved to enact a new investment law to replace the 1994 and 1997 regulations. Because of strong opposition from foreign investors, the president did not sign the new law until January 2003. The new code, unlike the previous law, offers fewer protections to foreign investors and limits exemptions from customs fees to one year, with extensions limited to no more than five years. Particularly contentious was the removal of the right to international arbitration to settle disputes.

In 1996, foreign direct investment (FDI) was estimated at \$1.22 billion, and at \$1.3 billion in 1997. FDI flows fell slightly to \$1.2 billion in 1998, or from 9.4% of GDP to 5.7% of GDP. In 1999, FDI flow rose to almost \$1.8 billion, and then soared to \$2.75 billion in 2000, or from 11.4% of GDP to 15% of GDP. From 1993 to 2001, total gross inflow of FDI amounted to about \$17 billion. Over a third (34% or \$5.2 billion) of the FDI flow came from the United States, with United Kingdom (including the British Virgin Islands) the second-largest source at \$2.3 billion or more than 15%. Other major sources of FDI are South Korea, China, Italy, Turkey, Japan, and Germany.

Since 1995, FDI in the development of the country's immense oil and gas deposits has averaged more than \$1 billion, and was close to \$2 billion in 2001. As of October 2001, there were 3,606

joint ventures and 2,030 foreign companies operating in Kazakhstan according to its Ministry of Economy and Trade. Important non-oil sector projects include the expansion of gold production in partnership with foreign concerns promoted as a means of quickly boosting the inflow of foreign exchange.

As of 2006, foreign investors were increasing their focus on Kazakhstan's energy infrastructure, including oil transportation routes such as the completed Baku-Ceyhan-Tbilisi (BTC) pipeline, and a pipeline between Kazakhstan and China, projected to be finished around 2010. Kazakhstan's efforts to create a favorable investment regime, especially in the energy sector, through economic liberalization and privatization, contributed to a cumulative \$38.4 billion in foreign investment by September 2005, primarily in the oil and gas sector, but increasingly in other areas, such as mining and agricultural equipment. Foreign investors are also active in the banking sector, as well as in consumer goods and telecommunications. The United States was the largest investing country in Kazakhstan in 2005 (\$11.5 billion), followed by the Netherlands (\$4.5 billion), the United Kingdom (\$4.3 billion), and Italy (\$2.4 billion). TengizChevrOil (TCO) is the largest single investment in Kazakhstan. It is a joint venture consortium between Chevron Overseas Petroleum Inc., Exxon Mobil, Kazakhstan's national oil and gas company (KazMunaiGaz), and LUKArco. It is part of a 40-year, \$20 billion agreement signed in 1993 to extract an estimated 6 to 9 billion barrels of recoverable oil. Through 2004, TCO had received more than \$7 billion in direct investment, and its output had reached an estimated 280,000 barrels of oil per day.

In 2005, FDI amounted to 12% of GDP, down from 20.3% in 2004 and 15.2% in 2003. Net gold and hard currency reserves of the National Bank totaled an estimated \$7.1 billion by year-end 2005.

### 39 ECONOMIC DEVELOPMENT

While still a republic of the USSR (prior to independence in 1991), Kazakhstan underwent rapid development of its agricultural and industrial sectors. Vast tracts of land were brought into cultivation with the expansion of irrigation under the USSR's "Virgin Lands" program, while within the industrial sector, development of its metallurgical, mining, and machinery industries were prioritized. Growth in these various economic sectors was fueled by a high labor-force-participation rate in the local population, especially among women, as well as the import of some skilled labor from Russia. By the 1980s, growing problems of inefficiency and inadequate technological development in the overwhelmingly dominant state sector resulted in a flagging rate of growth overall.

The region's industrial and agricultural development had, moreover, come at some high environmental costs. The structure of Kazakhstan's transportation and energy sectors clearly highlight the overall orientation of the economic base fostered under the Soviet regime; railroads and paved roads are clustered mainly in the north and the south, serving more to link Kazakhstan with Russia, Uzbekistan, and Kyrgyzstan than to integrate the republic itself. Similarly, electricity transmission networks facilitate the exchange of energy with different republics in the former USSR rather than between different parts of Kazakhstan.

Since sovereignty was declared in December 1991, Kazakhstan has been embarked on a process of economic restructuring aimed

at establishing a market economy. In 2002, President Nazarbayev reported that Kazakhstan was recognized by both the EU and the United States as a market economy, and that 75% of the country's GDP was derived from the private sector. This transformation, substantial if incomplete, involved reform on many fronts: privatization; lifting of price, capital, and profitability controls; the elimination of subsidies; debt restructuring; tax, customs, and banking reform; creation of a securities and exchange commission; and trade and investment liberalization. The government made several policy changes in the late 1990s and early 2000s that left outside investors and auditors uncertain about the direction and stability of the economic regime.

Independent Kazakhstan appealed to numerous international agencies for assistance in restructuring its economy. The World Bank's aid program comprised both policy-based adjustment loans and investment projects in areas that included agriculture, energy, environment, finance, health, legal reform, roads, social protection, taxation, urban transport, and water supply and sanitation. The European Bank of Reconstruction and Development (EBRD) supported both private sector development and public sector projects such as ports, power, railways, and telecommunications. Technical assistance for enterprise and civil service reforms, food production and distribution, and human development have been provided by other UN agencies and the EU. The Islamic Development Bank (IDB) was active in the areas of health, transport, postal service, and water supply. Japan, the largest bilateral donor, provided significant balance-of-payments support and extended loans for the Astrana airport and the transport infrastructure. The United States provided assistance for privatization, tax and pension reforms, and social services. Other bilateral donors are Germany, Saudi Arabia, and Turkey. By 2006, Kazakhstan had become the first country in the former USSR to have repaid—in advance—its IMF debt.

In 1993, the government negotiated a far-reaching major contract to explore and develop the Tengiz oil field. Through mergers, acquisitions and sales, the shareholders in this venture as of 2006 were ChevronTexaco, Exxon Mobil, KazMunaiGas, and LukArco.

In 2000, the Philip Morris Co. completed a \$200 million green-field cigarette factory in the Almaty region.

In seeking to achieve monetary stability, Kazakhstan in 1995 and 1996 entered into credit agreements with the IMF. In 1996 the president established a secret National Fund, into which he deposited the proceeds from the sale of shares in the Tengiz oil field. The existence of the National Fund was not revealed until 2001, and by 2002 most of the original \$1 billion had reportedly been used in two major withdrawals—\$480 million had been used in 1997 to pay off pension funds threatened with bankruptcy, and \$400 million had been used in 1998 to cover budget deficits stemming from the collapse of the Russian ruble. While the secret fund seems to have cushioned the economy from external shocks, its existence raised serious questions about the transparency of the government's finances.

The government emerged from the financial crises of the late 1990s less committed to privatization and ready to dismantle some of its incentives for foreign investment. In 1999, the government halted or slowed privatization programs. There was also a shift in monetary policy. In February 2002 the government took another major step away from privatizing the oil and gas sector

by announcing the establishment of a national energy conglomerate, KazMunaiGaz, combining the national oil company with the national oil and gas transport company for the stated purpose of being able to compete with the international oil companies. In 2002, agreement was reached among Azerbaijan, Georgia, Turkey, Turkmenistan, and Kazakhstan on the route for the Baku-Tbilisi-Ceyhan (BTC) pipeline, and construction began in May 2003. The first stage of the pipeline was officially inaugurated in May 2005.

As of 2006, the economic policy program was focused on maintaining fiscal prudence, achieving economic diversification away from the oil industry, and managing the exchange rate in the face of large hard-currency inflows. Of these goals, that of diversifying the production base will be the hardest to attain. However, the free functioning of market mechanisms was forecast to be hampered by the government's pursuit of interventionist policies for the promotion of favored enterprises. President Nursultan Nazarbaev, upon reelection in December 2005, announced political reforms should follow economic reforms.

#### 40 SOCIAL DEVELOPMENT

Social security programs were first introduced in 1956, and were revised in 1991 and 1996 following independence. All employed persons, including noncitizens, qualify for old age, disability, and survivorship pensions. Employers contribute 30% of payroll, while employees contribute 1% of earnings. Residents of ecological disaster areas are entitled to early retirement. Workers' compensation is offered under a dual social insurance and universal system. The government funds a family assistance program for needy citizens, refugees, and stateless persons residing in the country.

Women have equal rights under the law, although discrimination persists. Women generally have access to higher education but are still channeled into mostly low-level, low-paid jobs. Traditional attitudes towards women are a barrier to achieving an active role in politics or business. Sexual harassment in the workplace is common, and as of 2004, the government took no steps to address the issue. Violence against women and domestic abuse remained problems and are vastly underreported. Trafficking in women remained a serious issue. The constitution provides for the upkeep and education of orphans, although limited financial resources result in many children receiving inadequate education and medical care.

Ethnic tensions between Kazakhs and Russians continued to exist. Ethnic Kazakhs receive preferential treatment in housing, education, and employment. Although the Russian language still predominates, the 1995 constitution specifies that Kazakh is the official state language. The government is responsible for numerous violations of democratic freedoms and human rights. Prisoners are beaten and tortured, and killings are committed by security forces.

#### 41 HEALTH

Under restructuring of the health care system, roughly half of Kazakhstan's hospitals, mainly facilities in rural areas, were closed between 1990 and 1997 and the number of acute-care hospital beds was decreased by 44%. As of 1999, the rural health care network, which had deteriorated due to lack of funds, was in the midst of reorganization. As of 2004, there were an estimated 330

physicians, 567 nurses, and 28 dentists per 100,000 people. Total health care expenditure was estimated at 5.5% of GDP.

The average life expectancy in 2005 was 66.55 years. The infant mortality rate for that year was 29.21 per 1,000 live births. For every 100,000 live births, 70 women died during pregnancy or in childbirth. More than half of married women ages 15–49 (66%) used some form of contraceptive. The crude birth rate as of 2002 was estimated at 17.8 per 1,000 inhabitants. Major causes of death were communicable diseases and maternal/perinatal causes, non-communicable diseases, and injuries. There were 130 reported cases of tuberculosis per 100,000 people in 1999. In 1990–94, immunization rates for children up to one year old were: tuberculosis, 87%; diphtheria, pertussis, and tetanus, 80%; polio, 75%; and measles, 72%. As of 1999, figures for DPT and measles were, respectively, 98% and 99%. A majority (67%) of children under five suffered from some form of anemia (1995).

The HIV/AIDS prevalence was 0.20 per 100 adults in 2003. As of 2004, there were approximately 16,500 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

Major environmental health concerns include industrial pollution in the east, the former nuclear facilities in the Semey region, and ecological threats in the Aral Sea region.

## 4<sup>2</sup> HOUSING

As of 1 January 1994, 458,700 households were on waiting lists for housing in urban areas. Though specific data was not available concerning the actual number of dwelling units, it was estimated that about 79% of all housing was in private ownership and about 17% was owned by the state; indicating a dramatic shift from figures in 1990 which placed private ownership at 32% and state ownership at 64%. In 2000, there were about 10,500 new housing units built. About 91% of the population had access to improved water sources and 99% had access to improved sanitation systems.

## 4<sup>3</sup> EDUCATION

Both at the primary and secondary level, education is free and state funded. Although Russian is the most commonly taught language, Kazakh, which is the official state language, is now gaining popularity and is being extended to all areas. A small percentage of students are also taught Uzbek, Uighur, and Tajik. Most children are enrolled in a kindergarten program at age six. This is followed by four years of primary school and five years of basic secondary studies. Students may then choose to continue in a two-year academic school, a two-year vocational school, or a four-year professional school. The academic year runs from September to June.

In 2001, about 12.8% of children between the ages of three and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 91% of age-eligible students. The same year, secondary school enrollment was about 87% of age-eligible students. Most students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003.

There are about 55 institutions of higher education and three universities. Third level educational institutes had a total of 260,043 pupils in 1996. The University of Kazak Al-Farabi State University was founded in 1934 and offers history, philosophy, economics, sociology, journalism, mathematics, physics, chemis-

try, biology, and geography. The Karaganda State University was founded in 1972 and teaches philosophy, economics, law, history, mathematics, physics, chemistry, and biology. The Technical University at Karaganda Metallurgical Combine was founded in 1964 and has faculties of metallurgy, mechanics and technology, and chemical technology. In 2003, about 45% of the tertiary age population were enrolled in some type of higher education program; 39% men and 51% women. The adult literacy rate for 2004 was estimated at about 99.5%.

As of 2003, public expenditure on education was estimated at 3% of GDP.

## 4<sup>4</sup> LIBRARIES AND MUSEUMS

Three outstanding libraries are the National Library of the Republic of Kazakhstan in Almaty (5.5 million volumes), the Scientific and Technical Library of Kazakhstan also in Almaty (22.3 million volumes), and the Central Library of the Kazak Academy of Science (6.2 million volumes). The Al-Farabi Kazak State University Library in Almaty has 1.5 million volumes. Kazakhstan has an extensive public library system. The Pushkin Regional Public Library in East Kazakhstan is regarded as the oldest public library in the nation, with over 700,000 items, and a major cultural center for the region. The Karaganda Regional Public Library contains about 440,369 items.

Kazakhstan has dozens of museums. The Central State Museum of Kazakhstan in Almaty features 90,000 exhibits exploring the history and physical conditions of the region. The A. Kasteyer Kazak State Art Museum (formerly the Kazak T.G. Shevchenko State Art Gallery) in Almaty primarily contains works of Russian and Kazak artists from the 15th to 20th centuries. There are regional and general interest museums throughout the country.

## 4<sup>5</sup> MEDIA

Kazakhstan is connected to the other former Soviet republics by land line or microwave and to other countries through Moscow. In 2003, there were an estimated 130 mainline telephones for every 1,000 people; about 168,000 people were on a waiting list for telephone service installation. The same year, there were approximately 64 mobile phones in use for every 1,000 people.

Nearly all broadcasting facilities are owned by the government, so that even independent companies must rely on some government support. Kazak Radio broadcasts in Kazak, Russian, Uighur, German, and Korean. Kazak Television, established in 1959, broadcasts in the same languages except for Korean. In 2004, there were about 116 independent television and 35 radio stations. Only three stations had nationwide coverage; only one of these was nominally independent. In 2003, there were an estimated 411 radios and 338 television sets for every 1,000 people. The same year, 16 of every 1,000 people had access to the Internet. There were six secure Internet servers in the country in 2004.

In 2004, the government reported that there were about 990 privately owned newspapers and 418 privately owned magazines nationwide. Nearly every major city has its own paper. The government operates one of the two national Russian-language newspapers and the only national Kazakh language newspaper that appears daily. Leading newspapers in 2002 included *Kazakhstanskaya Pravda* (Kazakhstan Truth), *Didar Kazakhstan*, *Khalyk Kenesi* (Councils of People), *Leninshil Zhas* (Leninist Youth), *Len-*

*inskaya Smena* (Leninist Rising Generation), and *Yegemen Kazakhstan* (Sovereign Kazakhstan).

The constitution and 1991 Press Law provide for a free press, although in practice the media is said to perform self-censorship in key subject areas, especially criticism of the president and other government officials.

#### 46 ORGANIZATIONS

The major economic organizations in Kazakhstan are the Union of the Chambers of Commerce Industry of the Republic of Kazakhstan and the Union of Cooperative Entrepreneurs. The Zhardem International Charitable Fund promotes public interest in science and culture and operates cultural and educational centers for children and teenagers. There are many professional associations dedicated to research and education in the fields of medicine and other sciences. The Republican Council of Women's Organizations, established in 1985, promotes economic and social equality for women. National youth organizations include the Association of Young Leaders, Kazakhstan Youth Forum, and the Union of Youth of Kazakhstan. There are several sports associations and clubs for both youth and adult amateur athletes. There are national chapters of the Red Crescent Society and Caritas.

#### 47 TOURISM, TRAVEL, AND RECREATION

Kazakhstan offers a wide variety of natural landscapes to the hardier traveler, ranging from forests and mountain ranges to the vast steppes where Kazakh nomads live in tents called yurts and race thoroughbred horses and camels. The old capital, Almaty (Kazakh for "mountain of apples"), has no historic attractions but is an attractive city where tree-lined streets, parks, fountains, and canals give it a European flavor. In the winter, ice skating is popular on its waterways. Air service to Kazakhstan has direct flights to Almaty from Ankara, Frankfurt, Hamburg, and other cities, as well as frequent daily flights from Moscow. Kazakhstan is open to both business travelers and tourists.

In 2003, about 3.2 million tourists visited Kazakhstan. There were 11,104 hotel rooms with 22,172 beds. Tourist expenditures totaled \$638 million. A passport, visa, and onward/return ticket are required for all visitors wishing to enter Kazakhstan. Visitors staying more than 30 days must have proof of a negative HIV test.

The US Department of State estimated the 2005 daily expenses to stay in Astana at \$268, and in Almaty at \$265.

#### 48 FAMOUS KAZAKHS

Nursultan A. Nazarbayev (b.1940) was elected president of Kazakhstan in December 1991. Sergey Tereshchenko, Akezhan Kazhegeldin, Imangali Tasmagambetov, and Daniyal Akhmetov have each served as prime minister since independence in 1991. Abay Ibragin Kunanbayev (1845–1904) is internationally known as a 19th century humanist and poet, and is considered the founder of modern Kazakh literature. Writer Mukhtar Auezov (1897–1961) wrote *Abay*, a novel about steppe life that was translated into English. The novelist Kaltay Muhamedjanov is from Kazakhstan.

#### 49 DEPENDENCIES

Kazakhstan has no territories or colonies.

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# KIRIBATI

Republic of Kiribati

**CAPITAL:** Tarawa

**FLAG:** Above a blue and white heraldic representation of Pacific waters, a golden sun rises against a red background, with a golden frigate bird at the top.

**ANTHEM:** *Troika kain Kiribati (Stand Kiribati).*

**MONETARY UNIT:** The Australian dollar is the national currency. A\$1 = US\$0.76336 (or US\$1 = A\$1.31) as of 2005.

**WEIGHTS AND MEASURES:** Kiribati is in transition from imperial to metric standards.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 12 July; Youth Day, 4 August; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays include Good Friday, Easter Monday, Queen's Birthday (June), Bank Holiday (August), and Prince of Wales's Birthday (November).

**TIME:** Midnight = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Kiribati (pronounced "Kiribass") consists of 33 islands in the central Pacific, situated around the point where the International Date Line intersects the equator. Scattered over more than 5 million sq km (2 million sq mi) of ocean are the 17 islands of the Gilberts group (including Banaba, formerly Ocean Island); the 8 Line Islands (including Christmas Island); and the 8 Phoenix Islands. The distance between Christmas Island in the west and Banaba in the east is more than 3,200 km (2,000 mi). Kiribati's total land area is 811 sq km (313 sq mi), and its total coastline is 1,143 km (710 mi). Comparatively, the area occupied by Kiribati is about four times the size of Washington, DC.

Kiribati's capital city, Tarawa, is located on the island of Tarawa.

## <sup>2</sup> TOPOGRAPHY

Kiribati is made up of three island groups: the Gilbert Islands (on the equator), the Phoenix Islands (to the east), and the Line Islands (north of the equator). Most of the islands are coral atolls built on a submerged volcanic chain. Christmas Island is the largest atoll in the world, with an area of 606 sq km (234 sq mi). The highest point of the country is an unnamed point on the island of Banaba, which reaches a peak of 81 m (266 ft). The lowest point is at sea level (Pacific Ocean).

## <sup>3</sup> CLIMATE

Tempered by prevailing easterly trade winds, the islands have a maritime equatorial climate, with high humidity during the November–April rainy season. Although the islands lie outside the tropical hurricane belt, there are occasional gales and even tornadoes. Rainfall varies from an average of 102 cm (40 in) near the equator to 305 cm (120 in) in the extreme north and south.

Severe droughts can also occur. On average, there is less than 1% variation between the cool and hot months, but daily temperatures range from 25°C (77°F) to 32°C (90°F), with an annual mean temperature of 27°C (81°F).

## <sup>4</sup> FLORA AND FAUNA

The extreme poverty of the soil and the variability of the rainfall make cultivation of most crops impossible. Only babai (a kind of taro root), coconut palms, and pandanus trees grow easily on most islands. Pigs and poultry were probably introduced by Europeans. Sea life abounds.

## <sup>5</sup> ENVIRONMENT

According to the United Nations (UN) Report for Pacific Island Developing Countries (1992), the most significant environmental problems facing the nations in this area of the world are global warming and the rise of sea levels. Variations in the level of the sea may damage forests and agricultural areas and contaminate fresh water supplies with salt water. A rise in sea level by even 2 feet (60 cm) would leave Kiribati uninhabitable; in 1996, such a rise was forecast as a possibility by 2100. Kiribati, along with the other nations in the area, is vulnerable to earthquakes and volcanic activity. The nation also has inadequate facilities for handling solid waste, which has been a major environmental concern, particularly in the larger population centers.

The environment in Kiribati has also been adversely affected by metals and chemicals from mining activities, and agricultural chemicals have polluted coastal waters. Phosphate mining was especially devastating, rendering the island of Banaba almost uninhabitable. The Banabans, who were forced to move to the Fijian island of Rabi, sued the owners of the mines and won special compensation. A fund was set up to compensate the people of Kiribati.

Called the Phosphate Revenue Equalization Fund (PREF), in 1996 it amounted to A\$200 million.

The lagoon of the southern Tarawa atoll has been heavily polluted by solid waste disposal. Like other Pacific islands, Kiribati is sensitive to the dangers of pollution and radiation from weapons tests and nuclear waste disposal. The UN report describes the wildlife in these areas as "among the most critically threatened in the world." According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 species of birds, 1 type of reptile, 4 species of fish, and 1 type of mollusk. Endangered species included the green sea turtle, the coconut crab, the giant grouper, the tiger shark, the pygmy killer whale, and the mukojima bonin honeyeater.

## 6 POPULATION

The population of Kiribati in 2005 was estimated by the United Nations (UN) at 92,000, which placed it at number 180 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 40% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as too high. Population growth in the capital, Tarawa, was seen as a serious problem by the government. The projected population for the year 2025 was 141,000. The population density was 126 per sq km (326 per sq mi). The population is unevenly distributed; some islands of the Phoenix and Line groups are uninhabited.

The UN estimated that 43% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 3.67%. The capital city, Tarawa, had a population of 42,000 in that year, with an annual growth rate of about 5.2%.

## 7 MIGRATION

For the islanders, migration has been a perennial form of escape from drought and starvation. In the 19th century, recruiting ships forcibly took Gilbert Islanders for plantation work in Hawaii, Australia, Fiji, and Peru; some voluntarily reenlisted after the great drought of 1870. Although the majority eventually returned home, it is reckoned that between 1860 and 1890, some 10,000 islanders (of a total population of 30,000) were living overseas. In the 20th century, Fiji and the Solomon Islands continued to be popular places for Gilbert Islanders in search of work. Internal migration until 1979 was mainly to Banaba Island for work in the phosphate industry; since then, migration has been primarily to Nauru or to copra plantations in the Line Islands. During 1988–93, some 4,700 people were resettled on the Teraira and Tabuaeran atolls of the Line Islands because of overcrowding on the main island group. The total number of migrants in 2000 was 2,000. In 2001 Australia refused entry to all boat people, many of them Iraqis setting out from Indonesia. Kiribati and other Pacific islands agreed to accept migrants headed to Australia from Indonesia in boats in exchange for aid from Australia. In 2005, the net migration rate was estimat-

ed as zero migrants per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

About 98.8% of the people are Gilbertese of Micronesian extraction. Polynesians (mainly from Tuvalu) make up 0.5% of the total; Europeans and people of mixed races make up 0.7%.

## 9 LANGUAGES

The principal languages spoken are Gilbertese (also called I-Kiribati or Kiribatese) and English. The official language is English, but it is seldom used on the outer islands. Gilbertese is an Austro-nesian language related to many other Pacific tongues.

## 10 RELIGIONS

Christian missionaries first arrived in 1857, when Dr. Hiram Bingham, of the American Board of Foreign Missionaries, began to spread Protestantism in the northern Gilberts with the help of Hawaiian pastors. In 1888, Catholicism was introduced to the islands by the Sacred Heart Mission. The American Board withdrew from the territory in 1917 and was succeeded by the London Missionary Society, which had placed Samoan pastors on the islands as early as 1870.

Virtually the entire population is Christian. According to 2002 government statistics, 55% of the population were Roman Catholics and 37% belonged to the Kiribati Protestant Church (formerly called the Congregational Church). Religious minorities included the Church of Jesus Christ of Latter-Day Saints (3%), the Seventh-Day Adventists (2%), and Baha'is (2%). About 5% of the population claimed no religious preference.

The constitution provides for freedom of religion, and this right is generally respected in practice. Christmas, Easter, and National Gospel Day are celebrated as national holidays.

## 11 TRANSPORTATION

The remoteness of the scattered islands has severely hampered transport and communications. There are only about 670 km (416 mi) of roads, mostly on Tarawa. The Nippon Causeway, completed in 1987 with Japanese assistance, replaced ferry service between Betio and Bariki. A series of similar causeways links north and south Tarawa. In 1995, there were about 2,000 vehicles in Kiribati, almost three-quarters of which were motorcycles.

There is no rail, river, or lake transport, although canoes travel freely on the lagoons. However, as of 2003, there were some 5 km of canals on the Line Islands. The main ports are located on Betio islet, near Tarawa, and on Tabuaeran and Christmas islands. Betio is equipped for handling containers, and Banaba has a cantilever for phosphate loading. In 2005 Kiribati had one passenger cargo ship of 1,000 GRT or more at 1,291 GRT. A number of shipping lines call at the islands, and government boats provide interisland service. There were an estimated 20 airports in 2004, of which 3 had paved runways as of 2005. All the major islands have airstrips; the airports on Christmas Island and at Bonriki (Tarawa) are used for scheduled overseas flights. Air Tungaru, the national airline, operates regularly scheduled flights to Honolulu and Tuvalu. In 1997 (the latest year for which data was available), 28,000 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

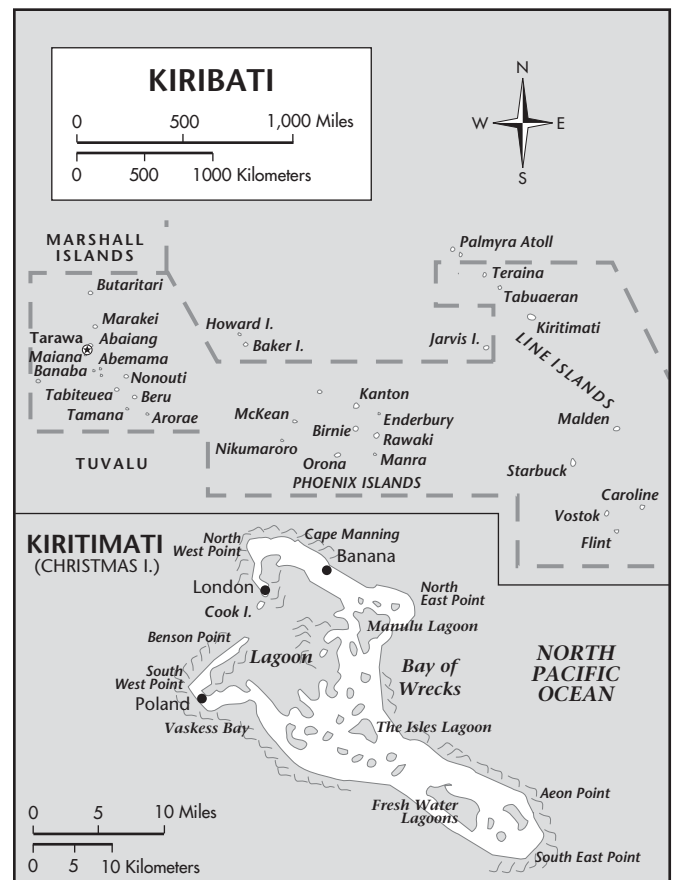
The main wave of Micronesian settlement is thought to have come from Samoa in the 13th century, but Gilbertese tradition suggests that the Samoans were not the first settlers. European discovery dates from 1537, when Christmas Island was sighted by Spanish explorers. The English sea captain James Cook encountered the islands in 1777, and commercial activities in the region began early in the 19th century. The Gilbert Islands were a favorite whaling ground, and deserting crews began to settle on the islands in the 1830s. Trading ships were calling there regularly by the 1850s, and a flourishing copra and coconut trade was established by the 1860s, as well as an illicit human traffic. The Office of British High Commissioner to the Western Pacific was created in 1877 to help suppress abuses by recruiting ships seeking labor for overseas service. In 1888, Christmas, Fanning (now Tabuaeran), and Washington (now Teraina) islands were annexed by the British, and Phoenix Island was placed under their protection. A declaration of British protectorate over the Gilbert and Ellice groups followed in 1892. A handful of administrators established local native governments, and a period of stability ensued.

Ocean Island was annexed by Britain in 1900 following Sir Albert Ellis's discovery of its valuable phosphate deposits. The Gilbert and Ellice groups (including Ocean, Fanning, and Washington islands) were declared a British colony in 1916. British control was extended to Christmas Island in 1919 and to the uninhabited Phoenix group in 1937, but after the United States laid claim to Canton and Enderbury, a joint British-American administration over these islands was established. During World War II, the Gilberts were occupied by Japanese forces until 1943, when the invaders were driven out by US forces after heavy casualties on both sides. Ocean Island was liberated by the Australians in 1945.

In a 1974 referendum, the Ellice Islands voted for separation, subsequently becoming the independent nation of Tuvalu. Internal self-government for the Gilberts was established as of 1 January 1977, and the islands became the independent Republic of Kiribati on 12 July 1979. In September, the new nation signed a treaty of friendship with the United States (ratified by the US Senate in 1983), by which the United States relinquished its claim to the Line and Phoenix groups (including Canton, Enderbury, and Malden).

Jeremia Tabai, chief minister at the time of independence, became president of the new republic in 1979 and was reelected in May 1982 and February 1983. Although the constitution limits a president to three terms, Tabai argued that he had not completed three full terms and was reelected in May 1987. In 1991, Tabai stepped down and was replaced by Teatao Teannaki, head of the National Progressive Party. Teannaki served until 1994, when Teburoro Tito, head of the nation's first real political party, the Maneaban Te Mauri Party (MTM), was elected. The MTM won 19 of 39 seats in the House.

A special problem was posed by the Banabans, who were resettled in 1946 on Rabi (Fiji)—bought for them by means of phosphate royalties—so that strip mining on their native island could continue unimpeded. In 1975, the Banabans sued, petitioning the British courts for damages. After a lengthy legal battle, representatives of the Banabans (most of whom still reside on Rabi) agreed in 1981 to the creation of a trust fund of nearly A\$15 million for



LOCATION: 4° N to 3° S; 168° to 176° E. TOTAL COASTLINE: 1,143 kilometers (710 miles). TERRITORIAL SEA LIMIT: 12 miles.

Banaban development. Recognition of Banaban minority rights is enshrined in Kiribati's constitution.

Kiribati opposes French nuclear testing in the Pacific and signed the 1985 Raratonga Agreement declaring the South Pacific a nuclear-free zone. In 1985, Kiribati signed a one-year fishing agreement with the former Soviet Union that aroused controversy at home and abroad. The agreement was not renewed after talks for its renegotiation broke off in September 1986.

Kiribati began resettling more than 4,700 people on outlying atolls in August 1988 in an attempt to relieve overcrowded conditions on the Tarawa atolls. Overcrowding was still a concern in 2004, when Kiribati planned to launch a program for the development of up to four new urban centers on the outer islands. The program had the backing of the Asian Development Bank and the United Nations Development Program, and was aimed at reducing the flow of population to Tarawa.

In September 1988 Kiribati ratified the South Pacific Regional Fisheries Treaty, which permits US tuna ships to operate within its 200-mi exclusive zone. In early 1992, the Parliament of Kiribati instructed the government (against its wishes) to seek compensation from the United States for damage done to the country during the Pacific War (1941–45).

In 1994, the government of Kiribati underwent a constitutional crisis when President Teatao Teannaki was forced to resign following a no-confidence vote by the opposition in parliament, who had charged him with misusing travel funds. As specified in the

constitution, executive authority was then transferred to a Council of State until new parliamentary and presidential elections could be held, but one member of the council refused to resign when his term expired and had to be forcibly removed, prompting calls for constitutional reform to prevent a similar situation from occurring in the future. Teburoro Tito was elected president in September, and elected to a second term in November 1998.

Together with Nauru and Tonga, Kiribati was admitted to the United Nations in 1999. In March of that year, the government declared a state of emergency as water shortages reached crisis levels due to an extended drought and pollution of the available water supply. Long-term elevation of the surrounding sea level due to global greenhouse emissions remains a serious concern for Kiribati, which reportedly has already lost two uninhabited islands and has been forced to move segments of its population inland, away from coastal regions.

The 2002 presidential election process began with a general election for parliament on 29 November, but several rounds of voting took place before the election of a president on 25 February 2003. In January 2003, opposition parliamentarians named Tabernannang Timeon to stand against Tito in the February election, instead of Harry Tong, after Tong stepped aside in order not to split the opposition vote against Tito. Bakeua Bakeua Tekita stood as a third candidate. Tito narrowly won the 25 February election, defeating Timeon by only 547 votes, but after serving only one day of his third term as president, Tito's government was toppled by a vote of no-confidence in the opposition-controlled parliament. In July 2003, Anote Tong was elected president.

Kiribati established diplomatic relations with the former Soviet Union in 1979 and with the People's Republic of China in 1980. In November 2003, Kiribati was the fifth Pacific nation to recognize Taiwan. Kiribati hoped to maintain ties with both Taiwan and mainland China, but by the end of the month, China had cut diplomatic ties and removed the Chinese space tracking station located on Tarawa atoll, but continued to maintain an embassy staffed by three diplomats.

### **13 GOVERNMENT**

Under the independence constitution of 1979, Kiribati is a democratic republic within the Commonwealth of Nations. It has a 42-member unicameral legislature, the House of Assembly (*Maneaba ni Maungatabu*). Forty members are elected for four-year terms, one appointed seat is reserved for a representative of the Banaban community, and the attorney general sits (*ex-officio*) as a nonelected member of parliament. The Speaker is elected to office by members of parliament but is not a member of parliament. He has neither an original nor casting vote in parliamentary decisions. The president (*beretitenti*), who is both head of state and head of government, is elected directly by popular vote from among members of the House of Assembly, to a term of up to four years; candidates are selected by the House from among its own members. When the president no longer enjoys the confidence of the legislature, the House is dissolved and new parliamentary and presidential elections are held, with a Council of State (consisting of the head of the Civil Service Commission, the chief justice, and the Speaker of the House) governing in the interim. The cabinet

consists of the president, vice president, attorney general, and no more than 10 other ministers selected from parliament.

Teatao Teannaki, head of the National Progressive Party, was elected the nation's second president in July 1991. He was obliged to resign following a no-confidence vote in 1994, and Teburoro Tito, head of the Maneaban Te Mauri Party (MTM), was elected president. Tito was reelected in 1998 and 2003. Following a vote of no-confidence, another presidential election was held in July 2003. Anote Tong was elected president, with Teima Onorio serving as his vice president.

### **14 POLITICAL PARTIES**

Traditionally, Kiribati had no formally organized parties. Instead, ad hoc opposition groups tended to coalesce around specific issues. There were no formally constituted political parties until 1985, when opponents of the Soviet fishing agreement founded the Christian Democratic party, headed by Dr. Harry Tong.

Other parties that formed after 1991 include the Boutokaan te Koaua Party; the Liberal Party; the New Movement Party; and the Health Peace and Honour Party. Today, the only recognizable parties are the Maneaban te Mauri Party (formerly known as the Christian Democratic Party) and the Boutokaan te Koaua Party.

### **15 LOCAL GOVERNMENT**

There are fully elected local councils on all the islands, in accordance with the local government ordinance of 1966. For administrative purposes the islands are divided into six districts: Tarawa (including the Phoenix group); North, South, and Central Gilberts; Banaba; and the Line Islands. This structure has been further divided into 21 island councils, one for each of the inhabited islands. The geographic dispersion of the islands leaves considerable freedom for the districts; their councils have wide taxing powers, including land taxes, and draw up their own estimates of revenues and expenditures.

### **16 JUDICIAL SYSTEM**

The 1979 constitution provides for a High Court with a chief justice and other judges, acting as the supreme court. There is also a Court of Appeal and magistrates' courts. Island courts were established in 1965 to deal with civil and criminal offenses. Native land courts have jurisdiction over property claims. High Court and Court of Appeal judges are appointed by the president.

The judiciary is independent and free from government influence. Civil rights and civil liberties are guaranteed in the constitution and respected in practice. Procedural due process safeguards are based on English common law. Trials are fair and public. The law prohibits arbitrary interference with privacy, family, home, and correspondence. The government authorities respect these provisions.

### **17 ARMED FORCES**

Legislation providing for the establishment of a defense force of 170 men was repealed in 1978. There is a small police force. Australia and New Zealand provide defense assistance.

### **18 INTERNATIONAL COOPERATION**

Kiribati was admitted to the United Nations (UN) on 14 September 1999 and is a member of several nonregional specialized agen-

cies, including the FAO, ICAO, the World Bank, IMF, IFC, ILO, UNESCO, and WHO.

Kiribati participates in the Asian Development Bank, the ACP Group, the Pacific Island Forum, and the Alliance of Small Island States (AOSIS). The nation is also part of the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, Kiribati is part of the Basel Convention, the Convention on Biological Diversity, the London Convention, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Kiribati's economy was supported by revenues from phosphate mining on Banaba until the deposits were exhausted in 1979. Since then, the nation has relied on fishing, subsistence agriculture, and exports of copra, recently 80–95% of exports, and fish, 4–20% of exports. The country is heavily dependent on aid from the United Kingdom, Japan, Australia, New Zealand, and China. Aid equals 25–50% of GDP, while tourism provides about 20%. In the 1990s, GDP increased steadily, peaking at A\$80.3 million in 1999, and then fell by 2.7% and 1.2% in 2000 and 2001, respectively, to A\$78.1 million and A\$77.2 million, respectively. GNP runs between 1.5 to 2 times the size of GDP. In 2001, GNP was A\$136.9 million, 177% of GDP. Per capita GDP in 2000 was A\$843 and per capita GNP was A\$1,495. Inflation, at 0.4% in 2000 as measured by consumer prices, increased to 9.4% in 2001. Unemployment was officially 2%, but underemployment was estimated by the government to be about 70% by a 1992 estimate.

In 2004, the GDP growth rate was 1.8%, down from 2.5% in 2003. The inflation rate increased slightly, from 1.4% to 2.3%, but is not expected to pose any problems to the economy. The country is still heavily dependent on foreign aid and on remittances from workers abroad.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005, Kiribati's gross domestic product (GDP) was estimated at \$79.0 million, supplemented by a nearly equal amount from external sources. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$800. The annual growth rate of GDP was estimated at 1.5%. The average inflation rate in 2001 was 2.5%. It was estimated that agriculture accounted for 30% of GDP, industry 7%, and services 63%.

## 21 LABOR

In 2001 (the latest year for which data was available), there were an estimated 7,870 economically active people in Kiribati, excluding subsistence farmers. Overall, about 90% of the labor force is engaged in agriculture or fishing. Overseas workers remitted a large percentage of their wages to Kiribati.

In urban areas there is a small but strong trade union movement. Affiliates of the Kiribati Trades Union Congress (KTUC), founded in 1982 with Australian assistance, include the Fishermen's Union, the Cooperative Workers' Union, the Seamen's Union, the Teachers' Union, and the Public Employees' Association; in 2002, the

KTUC had about 2,500 members. Workers have the right to strike but rarely exercise this option. The government does not interfere with union activity.

There is no statutory minimum wage; however, the government sets wage levels in the large public sector, which is the major employer in the cash economy. The standard workweek for those in the public sector was 36.25 hours, with overtime pay for any additional hours. Children may not work under the age of 14. This is effectively enforced by the government in the modern, industrial sector of the economy, but many children do perform light labor in the traditional fishing economy.

## 22 AGRICULTURE

Agriculture is limited chiefly to coconut and pandanus production. About 37,000 hectares (91,400 acres) of land is considered arable, representing 5.1% of the total land area. Overseas technical aid has allowed some islands to cultivate bananas and papaws for the Tarawa market. An estimated 103,000 tons of coconuts, 5,000 tons of bananas, and 5,900 tons of vegetables and melons were produced in 2004. Agricultural trade in 2004 consisted of us\$1.8 million in exports and us\$14.3 million in imports. Agriculture contributes 30% to GDP.

## 23 ANIMAL HUSBANDRY

There were 12,400 pigs in Kiribati in 2005; pork production was 876 tons. The Agricultural Division has introduced improved breeds of livestock.

## 24 FISHING

Sea fishing is excellent, particularly for skipjack tuna around the Phoenix Islands. Kiribati has one of the world's longest maritime zones, covering approximately three million sq km. Commercial fishing has expanded dramatically since 1979 as a result of projects funded by Japan, the United Kingdom, and the EU. The total sea catch in 2003 was 35,947 tons. Kiribati also receives revenue from the sales of licenses permitting foreign vessels to fish its offshore waters. Seaweed is also exported. Exports of fish products were valued at us\$4.26 million in 2003.

## 25 FORESTRY

The forested area was estimated to cover 38.4% of the islands in 2000, but there is little useful timber on the islands.

## 26 MINING

There has been no mining in Kiribati since the closing of the Banaba phosphate industry, in 1979. In its last year of operation, 445,700 tons of phosphates worth us\$18 million were exported.

## 27 ENERGY AND POWER

Kiribati has no known reserves of oil, natural gas, or coal. Thus imports are relied upon to meet any fossil fuel needs.

In 2002, imports and consumption of refined petroleum products each averaged 210 barrels per day. There were no imports of coal or natural gas in 2002.

The government maintains electricity-generating plants on Tarawa and Christmas Island, and there are private generators on Banaba and several other islands. In 2002, electric power generat-

ing capacity was 0.003 million kW, with production at 0.012 billion kWh. Consumption in that year came to 0.011 billion kWh. All electric power was generated from fossil fuels.

## 2<sup>8</sup> INDUSTRY

Several small industries have been established, including a soft drink plant, a biscuit factory, boat-building shops, construction companies, furniture plants, repair garages, bakeries, and laundries. The government also promotes local handicrafts. A pilot project on Kiritimati for producing solar-evaporated salt began operations in 1985. In 2000, this had declined to 0.7%, down from 1.2% in 1999. Construction was 2.7% of GDP in 2000, down from 4.6% in 1999.

There is not a lot of data pertaining to the country's industry, but in 1998 this sector was estimated to have a 7% share in the GDP—as compared to the services sector which amounted to 63%. In 2001, the economically active population of Kiribati (excluding subsistence farmers) was 7,870.

## 2<sup>9</sup> SCIENCE AND TECHNOLOGY

The Foundation for the Peoples of the South Pacific, founded in 1982 and located at Bairiki, Tarawa, provides technical assistance for agriculture and nutrition programs.

## 3<sup>0</sup> DOMESTIC TRADE

The domestic economy operates on a subsistence and barter basis. With very few local production or agricultural facilities, the nation relies heavily on imported goods of all types. Revenues from fishing licenses, worker remittances, and foreign assistance form the basis of the economy. Retail sales are handled by cooperative societies, which distribute the bulk of consumer goods and perform all merchandising functions not dealt with by the government. Although private trade is growing, cooperatives are preferred as a matter of public policy because they are closer to the local tradition than individual enterprises. Tourism is slowly growing as the main domestic economic activity.

## 3<sup>1</sup> FOREIGN TRADE

The loss of the phosphate industry, copra price fluctuations, and the islands' remoteness have hindered overseas trade, but an upward trend in foreign trade was perceptible in the 1980s. Copra—the only commodity exported by Kiribati—accounted for 64% of total domestic exports in 1996. Fish and seaweed are also exported, accounting for 14% and 8% of total exports, respectively. Kiribati's main export partners are the United States, Australia, and New Zealand. Australia provides 44% of imports; Fiji, 19%; Japan, 15%; New Zealand, 4%; and the United States and China, 5% each.

In 2002, Kiribati's exports amounted to \$35 million (FOB—Free on Board), while the imports rose to \$83 million (CIF—Cost and Freight). In 2004, the bulk of exports went to France (45.7%), Japan (29.2%), the United States (9.1%), and Thailand (5.4%). Imports included foodstuffs, machinery and equipment, miscellaneous manufactured goods, and fuel, and mainly came from Australia (33.6%), Fiji (29.8%), Japan (10.3%), New Zealand (6.9%), and France (4.1%).

### Principal Trading Partners – Kiribati (1999)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	9.1	41.0	-31.9
Bangladesh	4.7	...	4.7
United States	1.5	1.9	-0.4
Marshall Islands	1.1	...	1.1
Denmark	0.7	...	0.7
China, Hong Kong SAR	0.3	0.3	...
Australia	0.2	18.2	-18.0
Japan	0.1	6.1	-6.0

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

### Balance of Payments – Kiribati (1994)

(In millions of US dollars)

<b>Current Account</b>		<b>1.4</b>
Balance on goods	-21.1	
Imports	-27.3	
Exports	6.1	
Balance on services	0.3	
Balance on income	14.8	
Current transfers	7.3	
<b>Capital Account</b>		<b>2.5</b>
<b>Financial Account</b>		<b>-4.8</b>
Direct investment abroad	-0.0	
Direct investment in Kiribati	0.4	
Portfolio investment assets	-6.6	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	...	
Other investment liabilities	1.4	
<b>Net Errors and Omissions</b>		<b>-5.1</b>
<b>Reserves and Related Items</b>		<b>6.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

## 3<sup>2</sup> BALANCE OF PAYMENTS

Continued deficits in the trade balance are often met by grants from the United Kingdom to the government's current and capital accounts. Foreign aid, in fact, accounts for between 25% and 50% of GDP.

The US Central Intelligence Agency (CIA) reported that in 1998, the purchasing power parity of Kiribati's exports was us\$6 million, while imports totaled us\$44 million, resulting in a trade deficit of us\$38 million.

The International Monetary Fund (IMF) reported that in 1994 Kiribati had exports of goods totaling us\$6 million and imports totaling us\$27 million. The services credit totaled us\$18 million and debit us\$17 million.

There was no data available on the exports and imports of goods and services, but the World Bank estimated that in 2003, Kiribati's

resource balance reached -\$77 million. The current account balance was also negative, at -\$13 million, and the country had virtually no foreign exchange reserves.

### **33 BANKING AND SECURITIES**

The Bank of Kiribati in Tarawa is jointly owned by the Westpac Banking Corp. (Australia) and the government of Kiribati (49%). The Kiribati Development Bank, opened in 1987, was to take over the assets of the National Loans Board when it became fully operational.

### **34 INSURANCE**

Individual coverage is available in Tarawa through private and government agencies.

### **35 PUBLIC FINANCE**

Local revenues are derived mainly from import duties, fishing fees, and investment income from the phosphate fund. The country has been running a capital account deficit since independence. Overall, budgetary deficits have appeared in recent years, growing substantially in the 1990s.

The US Central Intelligence Agency (CIA) estimated that in 2000 Kiribati's central government took in revenues of approximately \$28.4 million and had expenditures of \$37.2 million. Revenues minus expenditures totaled approximately -\$8.8 million. Total external debt was \$10 million.

### **36 TAXATION**

The main source of tax revenue, the phosphate industry, ended in 1979. Other taxes have brought meager returns, except for a copra export tax, with producers protected by a government stabilization fund. The Revenue Equalization Reserve Fund decreased from A\$658 million at the end of 2000 to A\$635 million at the end of 2001. This is equivalent to 10 years of imports or 8.2 times GDP.

A progressive income tax, introduced in 1975, is set at 25% of gross income above US\$1,233 and increases in two steps to 35% on gross incomes over US\$34,393. Companies are taxed 25% of net profits of the first US\$34,393 and 35% on any net profits over this amount. The hotel tax is a flat rate of 10% of turnover. Withholding tax on dividends paid to overseas investors (except Australians) is 30%; withholding tax on dividends paid to Australians is 15%. Island councils levy local rates; a landowners' tax is based on land area and fertility.

### **37 CUSTOMS AND DUTIES**

Since a single-line tariff was introduced on 1 January 1975, trade preferences are no longer granted to imports from Commonwealth countries. Tariffs, applying mostly to private imports, are imposed as a service of revenue at rates up to 75%. Most duties are levied ad valorem, with specific duties on alcoholic beverages, tobacco, certain chemicals, petroleum, cinematographer's film, and

some other goods. Goods from all sources are subject to an additional freight levy charge.

### **38 FOREIGN INVESTMENT**

Foreign investment legislation was passed in 1986. The Foreign Investment Commission (FIC) grants licenses on a case-by-case basis. Investments over US\$171,790 must also be approved by the cabinet. Performance criteria regarding employment, training, and production are often set. Certain local industries are closed to foreign investment, including pig farming, poultry farming, millionaire salad exportation, domestic interisland shipping, and wholesaling. Endangered species are protected. Fisheries and the agricultural sector are not closed, but are subject to restrictions.

There has been little appreciable investment in recent years. Government statistics show a total of 21 approved foreign investments from 1995 to September 1997, whereas there were only five approved foreign investments the previous three years. In 2001, foreign direct investment (FDI) was a -US\$426,000 and portfolio investment was a -US\$5.7 million. Portfolio investment flows have been persistently negative, reaching a peak outflow of US\$17.7 million in 1992. The main sectors for investment have been tourist-related activities, shipping, fishing ventures, and the processing and export of fish. The main sources of investments have been the United States, Japan, the United Kingdom, Australia, and New Zealand.

### **39 ECONOMIC DEVELOPMENT**

The economic development plans for 1979–82 and 1983–86 were financed chiefly by the United Kingdom and supplemented by Australia, New Zealand, and Japan, with loans from the Asian Development Bank. Canada, Germany, and the Republic of Korea also have started small aid programs. The government lays out National Development Plans at four-year intervals, the most recent plan covered 2000–04. The goals are set with expertise assistance from Australia, the United Kingdom, New Zealand, and international financial organizations, the country's primary sources of aid. The current National Development Plan sets priority on the development of fisheries and air transportation, including a proposal for a government airline. Other sectors emphasized are communications, agriculture, and tourism. Policies are aimed at improving education and training, increasing government revenues, increasing employment opportunities, and narrowing the trade deficit. It has been made illegal to sell land in Kiribati, but it may be leased. Concern about preserving traditional culture and the environment, and preventing the formation of a landless class, are as strong as aspirations for economic growth and participation in the cash economy. Of particular concern in this group of low-lying atolls is the effects of global warming, as a significant rise in the sea level could literally make much of the country disappear.

Economic development continued to be hampered by the fragmented structure of the country, a weak infrastructure, an uneducated workforce, and the remoteness from foreign markets. The main growth sector is tourism. Kiribati is dependent on foreign aid (which represents around 50% of the GDP), and on remittances sent back by people working abroad.

## 40 SOCIAL DEVELOPMENT

A provident fund system provides old age, disability, and survivor benefits for all employees over 14 years old, with the exception of domestic workers. It is funded by employee contributions of 7.5%; employers pay an equal percentage of payroll. Retirement is allowed at ages 45–50 and benefits are paid as a lump sum. Workers' compensation is available for some employed persons and the cost is covered by the employer. A funeral grant is provided if there are no eligible survivors.

Women are accorded the same legal rights as men, but have traditionally been relegated to a subordinate role in society. However, they are gradually breaking out of their traditional role and entering both skilled and unskilled occupations. There have also been signs of affirmative action in government hiring and promotions. Domestic violence is a significant problem, and alcohol abuse is often a factor in violence against women. Child abuse appears to be a growing problem, although the government is committed to the welfare of children.

There were no reports of human rights abuses or of the systematic discrimination of minorities. Corporal punishment remains legal for some crimes.

## 41 HEALTH

All health services are free. A nurses' training school is maintained at the 160-bed Central Hospital in Tarawa. There are four medical districts, each with its own medical officer and staff. Each inhabited island has a dispensary, and there is a medical radio network linking all the islands. In 2004, there were an estimated 30 physicians, 235 nurses, and 5 dentists per 100,000 people. The population of Kiribati had increased access to safe water and sanitation.

Tuberculosis remains the most serious public health problem (about 200 cases per 100,000 people in 1990); other endemic diseases are leprosy, filariasis, and dysentery. There was a cholera outbreak in 1977, after which projects to construct water and sewage pipes were sped up. Vitamin A deficiency, frequently causing night blindness and xerophthalmia, is a common occurrence among children in Kiribati.

Infant mortality was estimated at 48.52 per 1,000 live births in 2002 and average life expectancy was 61.71 years. The immunization rates for a child under one year of age were as follows in 1995: diphtheria, tetanus, and whooping cough, 60%; polio, 100%; measles, 100%; and tuberculosis, 60%. As of 2002, the crude birth rate and overall mortality rate were estimated at 31.6 and 8.8 per 1,000 people respectively. The total fertility rate was estimated at 4.3 births per woman.

## 42 HOUSING

Most Kiribatians live in small villages of 10 to 150 houses and construct their own dwellings from local materials. The use of more permanent building materials, such as concrete with corrugated aluminum roofing, is becoming common in urban areas. Loans to prospective homeowners are provided by the National Loans

Board. Dwellings range from traditional houses with thatched roofs to nontraditional houses with metal roofs.

## 43 EDUCATION

The government has gradually taken over control of primary education from the missions. Education has been made compulsory by the government for children between the ages of 6 and 15. They go through seven years of primary education and five years of secondary education. In 1997, there were 17,594 students attending 86 primary schools, with 727 teachers. The student-to-teacher ratio stood at 24:1. In secondary schools, there were 215 staff and 4,403 students in that same year. Secondary school pupils take the New Zealand school certificate. The estimated adult literacy rate is 93%.

Higher education courses are available at the Kiribati Extension Center of the University of the South Pacific (Fiji) in Tarawa. Other postsecondary education is provided by scholarships for study abroad. The Tarawa Technical Institute offers instruction in technical and vocational skills. The Marine Training Center offers 18-month instruction in deck, engine room, and catering work on foreign shipping lines; there are approximately 200 students enrolled in these programs.

## 44 LIBRARIES AND MUSEUMS

The National Library and Archives in Tarawa is the largest library in the country with a collection of 50,000 volumes, including those in small units throughout the islands. The University of the South Pacific has a campus in Tarawa with a small library of 5,700 volumes. The Kiribati Library and Information Network was formed in 2001 to promote libraries and the study and profession of library science in the nation. The Kiribati Cultural Centre in Bikenibeu houses the National Museum of Kiribati.

## 45 MEDIA

In 2002, there were 4,500 mainline telephones and 500 mobile phones in use across the country. Radio Kiribati, operated by the Broadcasting and Publications Authority (BPA), transmits daily in I-Kiribati and English and broadcasts a few imported Australian programs. As 2004, there were three radio stations, two of which were owned by the government. There were no national television stations in operation. Kiribati is on the Peacesat network, which provides educational transmissions from Suva. A satellite link with Australia was established in 1985. As of 1997, there were 17,000 radios and 1,000 televisions in use nationwide. In 2002, there were 2,000 Internet subscribers.

The BPA publishes a fortnightly bilingual newspaper, *Te Uekera*. There is no commercial press; all publications are government- or church-sponsored. The Information Department at Tarawa publishes *Atoll Pioneer*, a weekly newspaper. *Te Itoi ni Kiribati*, a weekly newsletter, is published by the Roman Catholic Church. *Te Kaotan te Ota* is a newspaper published monthly by Protestant Church. The constitution provides for legally guaranteed freedom of speech and press.

## 46 ORGANIZATIONS

The most important organization is the *mronron* (meaning "sharing"), a cooperative society based on kinship or locality. There is a national Credit Union League and a teachers' union. National

youth organizations include the Kiribati Students' Association, the Kiribati Scouts Association, and the Kiribati Girl Guides Associations. Sports clubs and associations represent amateur athletes in a variety of pastimes, including tennis, weightlifting, and track and field. There is a national chapter of the Red Cross Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Tourism, although important to the economy of Kiribati, is very limited. There is a visitors' bureau at Tarawa, and there are hotels in Betio and on Abemama and Christmas islands. The bureau makes available fishing, swimming, and boating facilities on Tarawa and arranges trips by sea or air to other islands. Ecotourism and World War II battle sites are also attractions.

Popular sports in Kiribati are football (soccer) and weightlifting. Kiribati first competed in the Olympic Games in Athens, Greece, in 2004. Traditional dancing and singing styles have survived.

In 2001, a total of 4,555 tourists visited Kiribati. Over 50% of these visitors came from East Asia. There were 162 hotel rooms in 2002. A valid passport, visa, onward/return ticket, and proof of sufficient funds are required to travel in Kiribati.

#### **48 FAMOUS KIRIBATIANS**

Ieremia Tabai (b.1950) was president from independence until 1991. Teburoro Tito (b.1953) was president and foreign minis-

ter from 1994 to 2003. Anote Tong (b.1952) became president in 2003.

#### **49 DEPENDENCIES**

Kiribati has no territories or colonies.

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# KOREA, DEMOCRATIC PEOPLE'S REPUBLIC OF (DPRK)

Democratic People's Republic of Korea  
*Choson Minjujuui Inmin Konghwa-guk*

**CAPITAL:** P'yŏngyang

**FLAG:** A wide horizontal red stripe is bordered on top and bottom by narrow blue stripes, separated from the red by thin white stripes. The left half of the red stripe contains a red five-pointed star on a circular white field.

**ANTHEM:** *The Song of General Kim Il Sung.*

**MONETARY UNIT:** The won (w) of 100 chŏn (or jeon) is the national currency. There are coins of 1, 5, 10, and 50 chŏn, and 1 won, and notes of 1, 5, 10, 50, and 100 won. w1 = \$0.00588 (or \$1 = w170) as of 2004.

**WEIGHTS AND MEASURES:** The metric system and native Korean units of measurement are used.

**HOLIDAYS:** New Year's Day, 1 January; Kim Jong Il's Birthday, 16 February; International Women's Day, 8 March; Kim Il Sung's Birthday, 15 April; May Day, 1 May; Liberation Day, 15 August; National Foundation Day, 9 September; Founding of the Korean Workers' Party, 10 October; Anniversary of the Constitution, 27 December.

**TIME:** 9 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Democratic People's Republic of Korea (DPRK), often called North Korea, occupies the northern 55% of the Korean Peninsula in East Asia. It has an area of 120,540 sq km (46,541 sq mi), extending 719 km (447 mi) NNE–SSW and 371 km (231 mi) ESE–WNW. Comparatively, the area occupied by the DPRK is slightly smaller than the state of Mississippi. It is bordered on the N by China; on the NE by the Russia; on the E by the Sea of Japan (including East Korea Bay), known in Korea as the East Sea; on the S by the Republic of Korea (ROK); and on the S and W by the Yellow Sea and Korea Bay, with a total land boundary length of 1,673 km (1,040 mi) and a coastline of 2,495 km (1,550 mi). A demilitarized zone (DMZ), 4,000 m (13,100 ft) wide, covering 1,262 sq km (487 sq mi), and located north and south of the 38th parallel, separates the DPRK from the ROK, which occupies the southern part of the Korean Peninsula.

The DPRK's capital city, P'yŏngyang, is located in the southwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The Democratic People's Republic of Korea (DPRK) is mostly mountainous. Mt. Paektu (2,744 m/9,003 ft), an extinct volcano with a scenic crater lake, is the highest point; it is located on the border with China and forms part of the Machŏl Range. Other peaks of note include Mt. Kwanmo (2,541 m/8,337 ft), in the Hamgyong Range; Mt. Myohyang (1,909 m/6,263 ft), in the Myohyang Range, north of P'yŏngyang; and Mt. Kumgang ("Diamond Mountain," 1,638 m/5,374 ft), in the Taebaek Range in the

southeast. Only about 20% of the country consists of lowlands and plains, but it is in these areas that the population is concentrated. The principal lowlands are the Unjon, P'yŏngyang, Chaeryong, Anju, and Yonbaek plains, extending from north to south along the west coast; and the Susong, Yongchon, Kilchu, Hamhung, and Yonghung plains, along the eastern shore.

The principal rivers are the Tumen and Yalu along the northern border of the peninsula, both of which rise in Mt. Paektu, and the Taedong, which flows past P'yŏngyang. The Imjin rises in the DPRK near the 38th parallel in the west and crosses into the ROK before entering the Yellow Sea. Yellow Sea tides on the west coast rise to over 9 m (30 ft) in some places; Sea of Japan tides on the east rise to only about 1 m (3 ft).

## <sup>3</sup>CLIMATE

The climatic range is greater than the limited size of the peninsula would suggest. The average January temperature is -17°C (1°F) at Chunggang on the north-central border and -8°C (18°F) at P'yŏngyang. In the hottest part of the summer, however, the variation is not nearly so marked, average temperatures ranging from 24°C (75°F) in P'yŏngyang to 21°C (70°F) along the relatively cool northeast coast. Spring and fall are unusually pleasant, but winters are colder than average for the latitude, and summers are hot and humid.

Precipitation is around 50 cm (20 in) along the upper reaches of the Tumen, but more than half of the peninsula receives 75–100 cm (30–40 in) per year. Nearly all the rainfall occurs in the April–September period, especially during the rainy season, from late June to early August. Typhoons occur occasionally in the early fall.

Days without frost number about 180 in the northern part of the peninsula and increase toward the south.

#### **4 FLORA AND FAUNA**

Cold temperate vegetation, including firs, spruces, and other needled evergreens, predominate in mountainous areas of the Democratic People's Republic of Korea (DPRK), with alpine varieties flourishing at the higher altitudes. There are over 2,800 species of plants. The hilly terrain of Mt. Paektu is believed to be the peninsula's last remaining habitat for Siberian tigers and is also, along with other alpine areas, the home of bears, wild boar, deer, snow leopards, and lynx. Common at lower elevations are the roe deer, Amur goral, wolf, water shrew, and muskrat. The more than 150 birds species seen in the DPRK include the black Manchurian ring-necked pheasant, black grouse, and three-toed woodpecker; the hawk owl, lesser-spotted woodpecker, and willow tit are indigenous to Mt. Paektu.

#### **5 ENVIRONMENT**

The Democratic People's Republic of Korea (DPRK) has environmental problems in the area of water pollution from agricultural and industrial sources. The nation has 67 cu km of renewable water resources, with 73% used for farming activity and 16% used for industrial purposes. In 1992, the DPRK was among the 20 countries with the world's highest levels of industrial carbon dioxide emissions, which totaled 253.7 million metric tons, a per capita level of 11.21 metric tons. In 1996, the total rose to 254.3 million metric tons. In 2000, the total of carbon dioxide emissions dropped to 188.9 million metric tons.

The Korean government has established 220 facilities to regulate environmental conditions, industrial areas, protected land, and water reserves. The government also created the Law of Environmental Protection. In 2003, about 2.6% of the total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 12 types of mammals, 22 species of birds, 1 species of amphibian, 5 species of fish, 1 species of invertebrate, and 3 species of plants. Endangered species in the DPRK included the tiger (particularly the Siberian tiger), Amur leopard, Oriental white stork, Japanese crested ibis, and Tristram's woodpecker. The Japanese sea lion has become extinct.

#### **6 POPULATION**

The population of North Korea in 2005 was estimated by the United Nations (UN) at 22,912,000, which placed it at number 47 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.9%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 25,755,000. The population density was 190 per sq km (492 per sq mi), with the majority of the population residing in the southern regions and the mountainous northern border being the most sparsely populated.

The UN estimated that 60% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.93%. The capital city, P'yŏngyang, had a population of 3,228,000

in that year. Other large cities and their estimated populations include Hamhung, with 848,000 inhabitants; Chŏngjin, 600,000; Sinŭiju, 349,500; and Kaesŏng, 334,433.

#### **7 MIGRATION**

During the generation of Japanese occupation (1910–45), some 3 million Koreans, mainly from the northern provinces, emigrated to Manchuria and parts of China, 700,000 to Siberia, some 3 million to Japan, and about 7,000 to the United States (mostly to Hawaii). From the end of World War II in 1945 through 1950, at least 1.2 million Koreans crossed the 38th parallel into the South Korea (Republic of Korea—ROK), refugees either from Communism or from the Korean War. Repatriation of overseas Koreans is actively encouraged in an attempt to ameliorate the nation's chronic labor shortages. Between 1945 and 1950, an estimated 300,000 Koreans were repatriated from Manchuria and Siberia; over 93,000 of about 600,000 Koreans in Japan were repatriated to the Democratic People's Republic of Korea (DPRK) between December 1959 and the end of 1974. The General Association of Korean Residents in Japan actively promotes DPRK cause, and the P'yŏngyang government subsidizes some Korean schools on Japanese soil. Some 250,000 people of Korean origin in Japan have links to the DPRK, providing \$600–\$1,800 million in annual remittances to relatives.

Under a 1986 treaty with China, North Koreans apprehended as illegal immigrants in China are quickly returned to the DPRK and executed. Between 1992 and 1996, about 1,000 North Koreans fled to China, where refugees can avoid detection within large ethnic Korean communities. Both China and South Korea have begun to construct refugee camps in anticipation of a mass exodus of the population should the North Korean government collapse. According to *Migration News*, in 2003 an estimated 150,000 North Koreans living in northern China's Primorye region bordering North Korea and China were made an offer allowing them to settle there. About 2,500 North Koreans worked in Primorye in 2003; the number was estimated at 5,000 in 2004; some 40,000 ethnic Korean Russians live in Primorye and another 40,000 on the neighboring island of Sakhalin. In 2005, the net migration rate was zero migrants per 1,000 population.

#### **8 ETHNIC GROUPS**

The Koreans are believed to be descended primarily from Tungusic peoples of the Mongoloid race, who originated in the cold northern regions of Central Asia. There is scant evidence of non-Mongoloid admixture. There is a small Chinese community and a few ethnic Japanese; however, the Democratic People's Republic of Korea (DPRK) has no sizable ethnic minority.

#### **9 LANGUAGES**

The Korean language is usually acknowledged as a member of the Altaic family and is clearly related to other agglutinative tongues such as Turkish, Mongolian, and Japanese. Linguistic unification of the Korean Peninsula apparently followed political unification in the 7th century AD, and today the dialect differences are comparatively slight.

Korean is written with a largely phonetic alphabet called Han'gul. Created in 1443 under the great King Sejong, the Korean alphabet originally consisted of 14 consonants and 10 vowels; since then, 5 consonants and 11 vowels have been added. Han'gul let-

ters are combined into syllables by clustering, in imitation of Chinese characters. Before the invention of Han'gul, Koreans wrote in Chinese, which continued to be both the official language and the language of most literature until the beginning of the 20th century. With the beginning of the Japanese colonial administration in 1910, Japanese became the official language, and the use of Korean was restricted.

Since 1949, the Democratic People's Republic of Korea (DPRK) has used only Han'gul (calling it Choson Muntcha) for writing. North Korean linguists have studied Han'gul extensively, publishing comprehensive dictionaries in 1963 and 1969. In 1964, Kim Il Sung called for purification of Korean by replacing borrowings from English and Japanese with native Korean or familiar Chinese terms. The traditional honorifics of polite language remain in use, though in simplified forms, and have been sanctioned by the government.

Some Chinese (Mandarin dialect) and Russian are spoken in border areas.

## 10 RELIGIONS

The constitution provides for freedom of religious belief, but in practice the government discourages all organized religious activity except that which serves the interests of the state. Real religious freedom does not exist. The constitution also states that "no one can use religion as a means to drag in foreign powers" or to disrupt the social order.

According to current government estimates, a majority of the population professed no religion or were avowed atheists. However, foreign observers indicate that religious activity within the country is much greater than the government suggests. Indigenous shamanism, notable for its emphasis on exorcising evil spirits, is practiced by a small percentage of the population, mostly in rural areas. The government reports that about 40,000 people are followers of the Ch'ondogyo Young Friends Party, a government-approved group based on the earlier religious movement that was forced underground in 1948. Ch'ondogyo offers an eclectic blend of both Christian and Buddhist elements. The government also estimates that 10,000 Buddhists remain active despite the conversion of many Buddhist temples to secular uses.

Up to the mid-1940s, P'yongyang was an important center of Korean Christianity. Most of the nation's Christians, predominantly Protestants, fled to the Republic of Korea—ROK (South Korea) to escape persecution between 1945 and 1953. Christians make up less than 1% of the population, or about 14,000 people, according to the government. A number of Christian churches are overseen by lay leaders, since there are very few ordained priests and ministers. House churches may be more common among Christians; however, since these meetings are generally kept secret, there was no exact data concerning membership or participation. Those caught proselytizing may be arrested and are subject to harsh penalties.

The constitution provides for freedom of religious beliefs, but in practice the government strongly discourages any religious activities that are not under official control. The principles of *Juche*, the government ideology of self-reliance, and the personality cult surrounding the "Dear Leader" Kim Jong-Il, have taken on the form of civil religion used by the government for the basis of its rule.



LOCATION: 37°38' to 43°1' N; 124°13' to 130°39' E. BOUNDARY LENGTHS: China, 1,025 kilometers (637 miles); Russia, 16 kilometers (10 miles); South Korea, 240 kilometers (149 miles); total coastline, 1,028 kilometers (639 miles).

TERRITORIAL SEA LIMIT: 12 miles.

## 11 TRANSPORTATION

The rail network, which has been rebuilt and extended following its almost complete destruction during the Korean War, is the principal means of transportation, carrying nearly all of the nation's freight and most of its passenger traffic. In 2004, railways in use comprised 5,214 km (3,243 mi) of standard gauge track, of which 3,500 km (2,177 mi) have been electrified. The principal lines run along the west coast from P'yongyang to Sin'uiju and across the peninsula from P'yongyang to Wonsan, Hamhung, and Ch'ongjin. A northern line, completed in the early 1980s, links P'yongyang to Hyesan and Musan. The major trunk routes are electrified. A subway system opened in P'yongyang in 1973 and was expanded under the 1978–84 development plan. There are also train services to Moscow and Beijing.

Road transportation is of secondary importance. In 2002, highways totaled an estimated 31,200 km (19,388 mi), of which only 1,997 km (1,241 mi) were paved. The exceptions are a superhigh-

way connecting P'yŏngyang with Kaesŏng and two multilane highways, which link the national capital with the ports of Wonsan and Namp'o.

Most of the nation's 2,253 km (1,400 mi) of navigable waterways are suitable for small craft only. Rivers utilized for freight transportation are the Yalu, Taedong, and Chaeryong. The principal ports are Namp'o on the west coast, and Chŏngjin and Hŭngnam (Hamhung) on the east coast. In 2005, there were 238 ships in the merchant fleet of 1,000 gross registered tonnage (GRT) or more, with a total capacity of 985,108 GRT. In 2004, there were an estimated 78 airports. As of 2005, a total of 35 had paved runways, and there were also 20 heliports. Limited air services connect P'yŏngyang with other cities within the Democratic People's Republic of Korea (DPRK) and in China and the former USSR. In 2003, about 75,000 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The history of the Korean people begins with the migration into the Korean Peninsula of Tungusic tribes from northern China and Manchuria about 3,000 BC. The archaeological evidence indicates that these tribes possessed a Neolithic culture. It was not until about the 8th century BC that the art of metalworking came to Korea from China. The recorded history of Korea begins around 194 BC, when the ancient kingdom of Chosŏn ("Land of Morning Calm") in northwestern Korea was seized by Wiman, a military figure from China of either Chinese or Korean origin. He usurped the throne from a king who, according to legend, was a descendant of Kija, a historical Chinese nobleman who emigrated from China at the end of the Shang dynasty (c.1122 BC). A popular Korean legend of much later origin asserts that Kija was preceded in his rule over the Korean Peninsula by a dynasty started in 2333 BC by the semidivine figure Tan-gun, an offspring of the son of the divine creator and a "bear woman" (possibly a woman from a bear-totem tribe). Both Tan-gun and Kija are still widely revered.

The primitive state controlled by Wiman's successors fell victim to expanding Chinese power in 108 BC, and more than four centuries of Chinese colonial rule followed. During this period, the advanced Chinese culture slowly spread into nearly every corner of Korea, giving impetus to the coalescence of the loosely knit Korean tribes into statelike formations. By AD 313, when the Chinese power was destroyed, three Korean kingdoms had emerged: Paekche, in the southwest; Silla, in the southeast; and Koguryo, in the northwest. The three kingdoms had advanced cultures for the time, each compiling a written history during the 4th–6th centuries. During the same period, Buddhism was introduced into Korea, from which it was later taken to Japan. Ultimately, the Silla kingdom crushed the other two and united all but the northernmost portion of the peninsula, ushering in the age of the Silla Unification (668–900). After rebellions broke out, Korea again suffered a threefold division until reunification was achieved in 936 under the leadership of Wang Kon, who proclaimed a new dynasty in the kingdom of Koryŏ (founded in 918), which derived its name from Koguryo; the name Korea is derived from Koryŏ.

Chinese influence on political and social institutions and on Korean thought went on at an accelerated pace during the Koryŏ period, and there were some notable cultural achievements,

including the traditional invention of the use of movable metal type in printing in 1234. Beginning in 1231, however, the Mongols invaded Koryŏ, devastating the land and, from 1259 on, making puppets of the Korean kings. Following a revolt against the Mongol Empire in 1356 and a subsequent period of disorder, Gen. Yi Song-gye assumed the throne as King T'aejo in 1392, adopting the name Chosŏn for Korea, moving the capital from Kaesŏng (the capital of Koryŏ since 918) to Seoul, and ushering in the long-lived Yi (or Li) Dynasty (1392–1910).

The first hundred years of Yi rule witnessed truly brilliant cultural achievements, especially during the reign of King Sejong (1418–50). The world's first authenticated casting of movable metal type was made in 1403. The Korean alphabet, Han'gul, was developed. A rain gauge was invented and put into use throughout the peninsula. A spate of basic texts—including histories, geographies, administrative codes, and works on music—were compiled and issued under state auspices. Scholars competed for government posts through the civil service examination system. By about 1500, however, factionalism divided the kingdom, and the Yi rulers were ill prepared to meet foreign invasion. In 1592, in the course of an attempt to conquer China, the Japanese, under Hideyoshi Toyotomi, invaded Korea and were repulsed by an allied Chinese army and the Korean navy under Yi Sun-sin; in 1597, there was another invasion, which ended with Hideyoshi's death in 1598. After being invaded by the Manchus in 1636, Korea became a vassal state, eventually falling under the official but loose control of the Qing (Ch'ing), or Manchu, dynasty in China. During the 18th century, two energetic kings, Yongjo (r.1724–76) and Chongjo (r.1776–1800), were able to arrest the process of dynastic decline. The intellectual and cultural revival that they engendered, known as the Practical Learning Movement (Sirhak), was short-lived, however, and the Yi kingdom's bitterest century followed.

The first six decades of the 19th century were marked by a succession of natural disasters, by mounting peasant unrest and insurrection, and by administrative relapse into hopeless corruption and inefficiency. Eventually, a Korean figure came forward to attempt to rescue the dynasty from impending collapse. This was Yi Ha-leng, known as the Taewŏngun (prince regent), who was the father of the king, Kojong, and held the actual power during the decade 1864–73. While his domestic reforms were generally enlightened and beneficial, he adopted an isolationist policy, including persecution of the growing Roman Catholic community in Korea. Such a policy was doomed to failure. Soon after the Taewŏngun's downfall, the Kanhwa Treaty of 1876 with Japan opened Korea by force both to Japan and to the clamoring Western nations. During the last quarter of the 19th century, Korea was the prize in a complex rivalry for mastery of the peninsula among Japan, China, Western imperialist powers, and domestic political forces. Japan seized upon the pretext of peasant uprisings in Korea's southern provinces (the Tonghak Rebellion, led by followers of what later came to be called the Ch'ondogyo religion) during 1894–95 to destroy the waning Chinese power in Korea in the First Sino-Japanese War. A decade later, Japan turned back a Russian bid for supremacy in the Russo-Japanese War (1904–5). In 1910, with the tacit approval of the United States and the European powers, the Yi Dynasty came to an end with the formal annexation of Korea by Japan.

### The Democratic People's Republic

For 35 years, Korea (renamed Choson) remained under the Japanese yoke, until liberated by US and Soviet troops at the end of World War II. Although Japanese colonial rule brought Korea considerable economic development along modern Western lines, the benefits went primarily to the Japanese, and the process was accompanied by ever harsher political and cultural oppression. The Korean people staged a nationwide passive resistance movement beginning on 1 March 1919 (the Samil or "March 1" Movement), only to have it swiftly and brutally crushed by their Japanese overlords. In the 1920s and 1930s, nationalist and Communist movements developed both within Korea and among Korean exiles in the former USSR, Manchuria (which was occupied by Japan in 1931), and the rest of China. After the onset of the Second Sino-Japanese War in 1937, the Japanese aimed to eradicate Korean national identity; even the use of the Korean language was banned.

After Japan accepted the Potsdam Declaration for unconditional surrender on 14 August 1945, the 38th parallel was chosen, as a result of US initiative, as a line of demarcation between Soviet occupation forces (who had entered the north on 8 August) and US occupation forces (who were introduced on 8 September). While the Americans set up a full military government allied with conservative Korean political forces, the Soviets allied their government with leftist and Communist Korean forces led by Kim Il Sung, who had been an anti-Japanese guerrilla leader in Manchuria. After a joint commission set up by the United States and the USSR failed to agree on plans for the reunification of Korea, the problem was placed on the United Nations (UN) agenda in September 1947. In accordance with a UN resolution, elections were held on 10 May 1948 in South Korea alone; North Korea did not recognize UN competency to sponsor the elections. The newly elected National Assembly formulated a democratic constitution and chose Syngman Rhee, who had been the leader of an independence movement in exile, to be the first president of the Republic of Korea (ROK), proclaimed on 15 August 1948. On 9 September, the Democratic People's Republic of Korea (DPRK) was established in the north, with Kim Il Sung at the helm. Like its southern counterpart, the DPRK claimed to be the legitimate government of all Korea. In December, however, the ROK was acknowledged by the UN General Assembly as the only government in Korea to have been formed according to the original UN mandate. The next year and a half brought sporadic border clashes between the two Koreas, coupled with increasing guerrilla activity in the south.

On 25 June 1950, the People's Army of the DPRK struck across the 38th parallel at dawn in a move to unify the peninsula under Communist control. The DPRK forces advanced rapidly; Seoul, the ROK capital, fell within three days, and the destruction of the ROK seemed imminent. At US urging, the UN Security Council branded the DPRK an aggressor and called for the withdrawal of the attacking forces. President Harry S. Truman ordered US air and naval forces into battle on 27 June and ground forces three days later. A multinational UN Command was then created to join with and lead the South Koreans. An amphibious landing at Inch'on (15 September) in the ROK under General Douglas MacArthur brought about the complete disintegration of the DPRK's military position.

MacArthur then made a fateful decision to drive into the north. As the UN forces approached the Yalu River, China warned that it would not tolerate a unification of the peninsula under US/UN auspices. After several weeks of threats and feints, "volunteers" from the Chinese People's Liberation Army entered the fighting en masse, forcing MacArthur into a costly pell-mell retreat back down the peninsula. The battle line stabilized nearly along the 38th parallel, where it remained for two years. On 27 July 1953, an armistice agreement was finally signed by the North Korean People's Army, the Chinese volunteers, and the UN Command at P'anmunjom in the DPRK, ending a conflict that had cost the lives of an estimated 415,000 South Koreans, 23,300 Americans (combat dead), and 3,100 UN allies; casualties among Communist forces were officially estimated by the DPRK at 50,000 but may have been as high as two million. A military demarcation line, which neither side regarded as a permanent border, was established, surrounded by the DMZ. After the armistice agreement, all but a token force of UN Command troops withdrew, except those of the United States, which in 1954 guaranteed the security of the ROK under a mutual defense treaty. A postwar international conference held in 1954 to resolve the problem of Korea's political division was unable to find a satisfactory formula for reunification. Meanwhile, the DPRK, with the aid of China and the former USSR, began to restore its war-damaged economy. A series of purges consolidated political power in the hands of Kim Il Sung and his supporters. By the end of the 1950s, Kim had emerged as the unchallenged leader of the DPRK and the focus of a personality cult that developed around him and his family.

In 1972, the government replaced the original 1948 constitution with a new document (which would be further revised in 1992), and reunification talks, stalled since 1954, resumed under Red Cross auspices, though without lasting effect. Throughout the 1970s and 1980s, as part of its cold war with the ROK, the DPRK extended its diplomatic relations to over 100 countries. The ROK continued to charge the DPRK with attempts at sabotage and subversion, including infiltration by tunnels under the DMZ. In the 1980s, Korea's basic divisions remained unresolved. In 1980, President Kim proposed that both North and South Korea be reunited as a confederal state, with each part retaining regional autonomy and its own ideological and social system, but the ROK has rejected the concept; the DPRK has likewise rejected the ROK's repeated proposals for the resumption of North-South talks on reunification unless the United States is a third party in the negotiations, but neither the ROK nor the United States has accepted that condition. Kim was unanimously reelected president in May 1990, and his son, Kim Jong Il (1942- ), groomed since the 1960s as his designated successor, appeared to be running the nation's day-to-day affairs, though without the benefit of any formal administrative post. Indications of an improvement in relations between the North and South included material relief provided by the DPRK to the ROK after a flood in 1984, talks under Red Cross auspices that led to a brief reunion of separated families in 1985, economic discussions, and interparliamentary contacts. The DPRK did not participate in the 1988 summer Olympic Games, officially hosted by the ROK, since it was not named as cohost.

During the 1990s, the DPRK was less able to rely on its allies, the large communist states of the former Soviet Union and China.

In 1990, the Soviet Union and the ROK opened formal diplomatic relations however, by 1991, the collapse of the Soviet Union cut off an important source of economic and political support for the DPRK. After a break of 12 years since the DPRK sided with the former Soviet Union in the Sino-Soviet clash of 1969, China and the DPRK reestablished ties in 1982. In 1990, China and the ROK began to encourage mutual trade and in 1992 established formal diplomatic relations. Beginning in 1993, China demanded that all its exports to the DPRK be paid for with cash instead of through barter. The DPRK found itself increasingly isolated and in severe economic difficulty. Reunification talks and the DPRK's relations with the United States took on added urgency as the DPRK sought international recognition and economic aid.

In the first half of the 1990s, the DPRK's foreign relations revolved around issues of joint US-ROK military exercises and of nuclear capabilities. Repeatedly, since 1986, the DPRK canceled negotiations with the ROK during the annual "Team Spirit" exercises of US and ROK militaries. In 1991, the United States withdrew its nuclear weapons from the ROK and the two Koreas signed a bilateral agreement to create a nuclear-free peninsula. Yet it was suspected that the DPRK was developing the capability to reprocess nuclear fuels and build nuclear weapons. (Both the ROK and Japan had stockpiles of plutonium.) Conflicts over the access of an International Atomic Energy Agency (IAEA) inspection team, which the DPRK allowed into North Korea in May 1994, to a reprocessing plant led to new tensions. These tensions were defused with an agreement for high-level talks between the United States and the DPRK, previously refused by the United States, to be held on 8 July 1994, followed on 25 July by a summit in P'yongyang between the presidents of the two Koreas, the first such summit since Korea was divided in 1945.

On 8 July 1994, just as the US-DPRK talks were beginning, President Kim Il Sung died, and the talks were suspended. Kim Jong Il replaced his father as leader of the country, without assuming Kim Il Sung's previous titles of state president and general secretary of the Korean Workers Party. The official mourning period for Kim Il Sung was extended to three years.

On 10 September 1995, Russia advised the DPRK that it would not extend the 1961 treaty on friendship, cooperation, and mutual assistance. The DPRK closed the Neutral Nations Supervisory Committee offices in the northern half of the joint security area at Panmunjom in an effort to dismantle the Military Armistice Agreement in May 1994, following the expulsion of the Czech and Polish representatives and the withdrawal of China, one of the three original signatories to the agreement. This post-Cold War framework was designed to pressure the United States into guaranteeing the DPRK's survival by means of a bilateral peace treaty. Marshall O Jin U, the armed forces supreme commander and second in the hierarchy behind Kim Il Sung, died 25 February 1995. He had been a prominent symbol of military acceptance of the younger Kim.

After he had served as North Korea's de facto leader for four years without formally being named as president, Kim Jong Il's position was made official. On 5 September 1998, the Supreme People's Assembly paid tribute to his father, Kim Il Sung, by permanently abolishing the post of president, which left Kim Jong Il, in his capacity as Chairman of the National Defense Commission, the nation's top political official. At the same session, the assembly approved a number of other changes to the nation's constitution.

Later in 1998, tensions over North Korea's nuclear capabilities were revived when it reportedly fired a three-stage ballistic missile into the Pacific; claims that the vehicle was a satellite launcher were initially greeted with skepticism on the part of the United States and Japan, over which it had been fired.

Widespread flooding, due in part to North Korea's efforts to expand the land under collectivization by massive deforestation, has led to a national famine. Relief efforts have not been able to raise nearly enough food to feed North Korea's starving population. The policies of North Korea's government have led to reticence on the part of those nations that normally would have contributed to the UN-sponsored World Food Program (WFP). Nevertheless, in 1998, the WFP mounted the largest aid effort on record in an attempt to save millions of North Koreans from starvation. That year, the DPRK accepted nearly \$1 billion in food aid. Famine conditions continued into 2005, although it appeared the worst of the famine had receded. The UN estimated that between one and two million North Koreans have died as a result of famine, economic mismanagement, and restrictions on the flow of information; approximately half of the population suffers from malnutrition. Another factor contributing to the economy's poor performance, before and after the natural disasters of the 1990s, was the disproportionately large percentage of monies that were allocated to the military; some reports claim more than 25% of the GNP was spent for both offensive and defensive purposes. In 2005, North Korea had the fourth-largest army in the world. It had an estimated 1.2 million armed personnel, compared to about 650,000 in the South; 20% of men ages 17-54 are in the regular armed forces.

Due to economic reforms in 2002, a rudimentary free-market system in North Korea came into existence, mainly in the countryside, which allowed farmers to sell their products as their main source of income. However, the North Korean economy is absolutely centrally planned and a large informal or black market exists for items such as food, clothes, appliances, and even cosmetics. The government assigns all jobs and prohibits private property. The government retains a high level of discrimination by giving all citizens security ratings of "core," "wavering," or "hostile." The lower the rating the harder it is to find employment, educational opportunities, residence and access to medical facilities. An increasing problem for North Korea is illegal migration of North Koreans into China to escape these harsh political and economic conditions.

As part of an effort to bring North Korea out of its self-imposed isolation, its government renewed diplomatic initiatives toward the South that had been interrupted by the death of Kim Il Sung in 1994. What became known as South Korean president Kim Dae Jung's "sunshine policy" of rapprochement toward the North resulted in the signing of a joint agreement at a summit in P'yongyang between Kim Dae Jung and Kim Jong Il in June 2000. In 2003, incoming South Korean president Roh Moo Hyun pledged to continue the "sunshine policy," but by then relations with North Korea had deteriorated due to revelations in October 2002 that North Korea was undertaking a program to enrich uranium for use in nuclear weapons. This revelation came on the heels of US president George W. Bush's January 2002 State of the Union Address, in which he labeled North Korea (along with Iran and Iraq) a state that endangers the peace of the world by supporting terrorism and pursuing weapons of mass destruction (chemical, biological, and nuclear weapons). In late 2002, North Korea

accused the United States of not adhering to the Agreed Framework between the two countries, established in 1994, in that the United States' construction of two light-water reactors in North Korea was far behind schedule. The North demanded the IAEA remove seals and surveillance equipment from its Yongbyon power plant, which the IAEA said was in danger of reprocessing spent fuel rods for plutonium.

In January 2003, North Korea announced it would withdraw from the Nuclear Nonproliferation Treaty. In March, four armed North Korean fighter jets intercepted a US reconnaissance plane in international air space over the Sea of Japan about 150 miles off North Korea's coast, and shadowed it for 22 minutes. The US plane broke off its mission and returned to its base in Japan, unharmed. On 1 April, the United States announced that stealth fighters sent to South Korea for a training exercise were to remain there once the exercises ended. Later that month, talks were held between US and North Korean officials in Beijing; the talks ended in mutual recrimination, when US officials indicated the North had admitted it possessed nuclear weapons. The US announced on 6 June 2003 that it would redeploy some of its 37,000 troops from the demilitarized zone (DMZ) between North and South Korea, in an attempt to enhance security and create a more agile and mobile force in the region. On 9 June, North Korea stated it would be necessary to develop a "nuclear deterrent" to reduce conventional weapons and funnel resources to programs that benefit its citizens, and to respond to the hostile stance taken by the United States with regard to North Korea.

In September 2004 there was an immense explosion in the country, which North Korea claimed was the demolition of a mountain, but which political analysts believe may have been nuclear bomb testing. In February 2005, American officials claimed North Korea had admitted to having at least one nuclear weapon, although it had been not proven and was refuted by North Korea. However, the greatest fear is not that North Korea would create nuclear bombs for their own use but that they would sell plutonium or enriched uranium to rogue states or terrorists. In 2005, China proposed, through the UN, that North Korea be allowed to retain a peaceful nuclear program after abandoning its weapons—a proposal that North Korea rejected. North Korea demanded concessions, most notably a nuclear reactor for generating electricity, before disarming. The United States, however, would not acquiesce to this demand, citing North Korea's history of pursuing atomic bombs. In late 2005, after two years of six-nation talks, North Korea agreed to dismantle its nuclear program in exchange for energy aid, economic cooperation and security assurances, although implementation of the program was not expected to begin for several more years.

### **13 GOVERNMENT**

In theory, the highest organ of state power is the unicameral Supreme People's Assembly (SPA), with 687 members in 2005. In practice, however, governmental control rests with the leadership of the Korean Workers' (Communist) Party and the military. SPA members are elected every five years and meet for only a few days each year to ratify decisions made by other governmental and party organs. As part of a series of constitutional changes made by the SPA in its 1998 session, a Presidium was created to operate as the top governmental body between sessions of the SPA, performing

functions that formerly belonged to a 19-member Standing Committee and the 24-member Central People's Committee.

Under the constitution (first adopted in 1948, completely revised in 1972, and again in 1992 and 1998), the SPA also elected the president of the Democratic People's Republic of Korea (DPRK); however, as of 1998, following the death of Kim Il Sung four years earlier, the post of president was abolished. In addition, the responsibilities of the cabinet (formerly called the Administrative Council) were expanded.

The state ideology is self-reliance (*Chuch'e* or *Juche*), the Korean version of Marxism-Leninism that was formulated in 1930 and adopted by the party in 1955. Under the new constitution (which created the post of president), Kim Il Sung, who had previously held state power as premier (1948–72), was elected to the presidency in 1972 and reelected in 1977, 1982, 1986, and 1990. Kim Il Sung died 8 July 1994. Kim Jong Il assumed his father's responsibilities and was formally acknowledged as the nation's leader at the 1998 session of the SPA. Hong Song Nam has been premier since September 1998.

Suffrage extends to all men and women 17 years of age or older. Elections are on a single slate of Communist-approved candidates, on a yes or no basis. Following elections, it is usually asserted that nearly all those eligible voted and that their votes were unanimously in favor of the candidates.

### **14 POLITICAL PARTIES**

The Korean Workers' (Communist) Party, the ruling party of the Democratic People's Republic of Korea (DPRK), was formed on 10 October 1945 through a merger of the Communist Party and the New Democratic Party. By the mid-1980s, party membership was estimated to have risen to over three million, or about 16% of the population, the largest percentage of any Communist country. The principal party organ is the National Party Congress. The congress adopts the party program and approves the political line set by its Central People's Committee. The party constitution states that a congress is to be convened every four years; however, as of 2003, no party congress had been convened since 1980.

To guide the party between sessions of the National Party Congress, the congress elects a Central People's Committee and a Central Auditing Commission, which looks after the party's financial affairs. The Central People's Committee elects the 10 members of the Politburo (Political Bureau). At the top of the party hierarchy is the Presidium of the Politburo, of which the only remaining member is Kim Jong Il. The other members either died or were dismissed, but a new Politburo could not be appointed because the party congress has not met. In October 1997, Kim Jong Il was named to succeed his father as general secretary of the party.

A "united front" policy confers nominal status on two ostensibly non-Communist political parties: the Korean Social Democratic Party, founded in 1945 and known as the Korean Democratic Party until 1981, and the Friends Party, founded in 1946 for adherents of the Ch'ondogyo faith.

### **15 LOCAL GOVERNMENT**

Of Korea's 13 historic provinces (*do*), 6 were wholly or partly within the Democratic People's Republic of Korea (DPRK) after 1945. The Communist regime subsequently established two new provinces and divided another into two sections, thus raising the number

of provinces to nine: North P'yongan, South P'yongan, Chagang, North Hwanghae, South Hwanghae, Kangwon, North Hamgyong, South Hamgyong, and Yanggang. In addition, there are four provincial-level cities under the central government (P'yongyang, the capital, and Kaesŏng, Najin Sonbong, and Namp'o). The provinces are divided into cities (*si*), counties (*kun*), or districts (*kuyok*) and villages (*eup*), towns (*ri*), blocks (*dong*), or workers' districts. There are currently 24 ordinary cities, 146 counties, 31 districts, 2 subdistricts, 3,255 villages, 146 towns, 1,137 blocks, and 255 workers' districts.

There are people's assemblies and people's committees at all levels of administration. Members of the people's assemblies are elected for four-year terms at the provincial level and for two-year terms at the county, township, and village levels. The assemblies supervise public, economic, and cultural activities. They also elect and recall people's committees, which are the permanent executive and administrative organs of the state at the local level.

## 16 JUDICIAL SYSTEM

The judicial system consists of the Central Court, formerly called the Supreme Court; the courts of provinces, cities, and counties; and special courts (courts-martial and transport courts). Most cases are tried in the first instance by people's courts at the city or county level. Provincial courts try important cases and examine appeals from lower-court judgments. Members of the Central Court are named by the Standing Committee of the Supreme People's Assembly (SPA); lower courts are appointed by the people's assemblies at the corresponding level. A prosecutor-general, who is also appointed by the SPA, is the country's chief law enforcement officer. He appoints prosecutors at the provincial, city, and county levels. The Central Court is the final court of appeal for criminal and civil cases and has initial jurisdiction over grievous crimes against the state. The Central Court supervises all lower courts and the training of judges. It is staffed by a chief judge or president, two associate chief judges or vice presidents, and an unknown number of regular judges.

The People's Courts are the lowest level of the judicial system. They are organized at the county (*kun*) level, even though they may have jurisdiction over more than one county or smaller city. Unlike the high courts, they are staffed with a single judge, who is assisted by two "people's assessors," laymen who are temporarily selected for the judiciary. An initial trial is typically presided over by one judge and two people's assessors. If the case is appealed, three judges preside, and a decision is made by consultation.

Judges at the city and county levels serve two-year terms and are usually Korea Workers' Party members. The law bans all independent civic groups, social welfare groups, and labor unions. Strikes, collective bargaining, or other types of organized activity are also illegal. The penal code (8 chapters, 161 articles) was adopted by the SPA on 5 February 1987. Punishment for criminal behavior is determined by both the type of crime, political or nonpolitical, and the status of the individual. Penalties for various types of crimes range from imprisonment, forced labor, banishment to remote areas, fines, loss of privileges or work status, and reeducation to death. Due to the revision of the penal code in 1998, there are only 5 offences that merit the death penalty, decreased from 20: plots against national sovereignty, terrorism, treason against the motherland by citizens, treason against the people, and murder.

Although a penal code and a judicial system exist, prosecution of alleged crimes against the state is conducted outside the judicial system and in secret. There are no known recidivism statistics.

There are several types of detention camps for convicted prisoners. Political criminals are sent to separate concentration camps managed by the State Security Department. Reports from defectors in 2005 were that 150,000–200,000 political prisoners and family members were being detained in security camps in remote areas. Refugees have also reported the occurrence of medical and scientific experiments on political prisoners. The government prohibits live births in prison and there are reports of forced abortion and infanticide. Emigration and defection are illegal.

North Korea is not party to the International Court of Justice, but is a member of the United Nations.

## 17 ARMED FORCES

Out of an estimated 1,106,000 personnel on active duty in 2005, an estimated 950,000 were in the Army, an estimated 46,000 in the Navy, and 110,000 in the Air Force. An additional 4.7 million were in the reserves, and there was a civilian Worker/Peasant Red Guard militia of 3.5 million. The Army's equipment roster included more than 3,500 main battle tanks, over 560 light tanks, an undisclosed number of armored infantry fighting vehicles, more than 2,500 armored personnel carriers, and over 17,900 artillery pieces. Major naval units included 88 tactical submarines, 3 frigates, 6 corvettes, 301 patrol/coastal vessels, and 23 mine warfare ships. The Air Force had 590 combat capable aircraft, including 299 fighters and 211 fighter ground attack aircraft. The service also had 24 attack helicopters. The Democratic People's Republic of Korea (DPRK) has admitted to developing a nuclear weapons program. North Korea has provided advisors to 12 African countries. The Ministry of Public Security controls 189,000 internal security force personnel. The defense budget in 2005 was estimated at \$1.9 billion. Because of the secrecy inherent in the DPRK, reliability of the figures provided is uncertain, as is information on the combat readiness of its forces.

## 18 INTERNATIONAL COOPERATION

During the mid-1970s, the Democratic People's Republic of Korea (DPRK) came out of its relative isolation to pursue a vigorous international diplomacy. By 1986, it had diplomatic relations with 103 countries, including 67 that also had relations with the Republic of Korea (ROK). The DPRK became a member of the United Nations on 17 September 1991 and belongs to several nonregional specialized UN agencies, including the FAO, ICAO, IFAD, IMO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, and WMO. The country is also a part of the ASEAN Regional Forum, G-77, and the Nonaligned Movement.

The DPRK retains treaties of friendship, cooperation, and mutual defense concluded with China and the republics of the former USSR in 1961. The DPRK was the only Asian Communist country to remain neutral in the Sino-Soviet dispute. The demilitarized zone that separates North and South Korea has been in place since 1953, though both governments claim a desire for reunification. The DPRK withdrew from the Nuclear Nonproliferation Treaty in 2003.

In environmental cooperation, the DPRK is part of the Antarctic Treaty, the Convention on Biological Diversity, the Mon-

tréal Protocol, MARPOL, and the UN Convention on Climate Change.

## 19 ECONOMY

The Korean War devastated much of the Democratic People's Republic of Korea's (DPRK) economy, but growth after postwar reconstruction was rapid. The Communist regime used its rich mineral resources to promote industry, especially heavy industry. A generally accepted figure put annual industrial growth from 1956 to 1963 at about 25%. By 1965, industry accounted for 78% of the total output, and agriculture 22%, an exact reversal of their respective contributions in 1946. Until the oil crisis of the 1970s, the DPRK ranked as one of the most prosperous states in Asia, but the government's pursuit of self-reliance (*Juche*) had, by the end of the 1960s, also transformed it into one of the most isolated and strictly regulated economies in the world. After 1965, greater emphasis was placed on agriculture and light industry, the latter stressing increasing demands for consumer goods. The industrial growth rate slowed in the late 1960s to around 14% and averaged about 16% during the 1970s. In the meantime, the military government in South Korea—the Republic of Korea (ROK)—began a series of five-year plans in 1962 that set it on the trajectory of export-led growth that, by 2001, would produce a per capita income 19 times greater than that in the DPRK. Efforts in the DPRK to accelerate the growth rate during the mid-1970s, requiring substantial imports of heavy industrial equipment from Japan and Western Europe, led to a payments crisis, and the DPRK was repeatedly compelled to reschedule its foreign debt.

The seven-year plan for 1978–84 called for an annual increase in industrial output of 12%. Reliable data on the economy became increasingly difficult to obtain as Kim Il Sung's regime became more obsessed with passing power and his particular vision on to his son, Kim Jong Il. In the 1980s, the government also became seriously involved in the clandestine supply of missiles and nuclear technology to Pakistan and Middle East countries, particularly Iran. Estimates are that growth fell to no more than 2% or 3% in the early 1980s as about one-fourth of output went into the country's outsized military.

After a three-year "period of adjustment," the government announced its third seven-year plan for 1987 to 1993, which targeted an annual increase in industrial growth of 10%. The plan also called for increased allocations to agricultural production, fueling speculation that there were food shortages. In any case, the plan period spanned three watershed events that helped set the economy on its downward course. First was the ROK's successful hosting of the 1988 Olympics, which left the DPRK increasingly isolated due to its own refusal to co-host any events and instead to boycott the games. Second was the breakup of the Soviet Union in 1991, cutting off the DPRK's main source of trade and aid. Third was the admission of the ROK and the DPRK to the UN in 1991 as separate states, unblocked by a veto from either Russia or China. On 8 July 1994, Kim Il Sung died, throwing the society into mourning, but also, it was hoped, opening up opportunities for economic reform. In October 1994, the so-called Agreed-Framework was put together, whereby a consortium of the United States, the ROK, and Japan, organized as the Korean Peninsula Energy Development Organization (KEDO), would undertake the finance and construction of light-water nuclear reactors (LWRs)

to supply 2000 MW of power in 2003, plus an interim supply of 500,000 metric tons of fuel oil a year in exchange for the DPRK's freezing and eventually dismantling its heavy-water nuclear facilities that were readily convertible to weapons use.

In January 1995, the United States sent a first installment of 50,000 tons of fuel, but in 1995 and 1996, the North Korean population became victims of widespread malnutrition and famine, worsened by the government's rejection of outside observers and reluctance to admit the seriousness of the situation, despite its unprecedented appeal for foreign aid in 1995. Lacking money to fuel and repair tractors and to pay for fertilizer, the government called for, or allowed the cultivation of marginal land with a professed target of doubling food production. The counterproductive result was crop-destroying flooding in 1995 and 1996 when the country was hit by heavy rains and a typhoon; the removal of tree cover from hillsides through the cultivation of marginal land made flooding worse. Drought conditions that followed worsened not only the food shortage but also the energy shortage by reducing the output from hydroelectric facilities. By 1997, most North Koreans had come to depend on government rations, which were reduced to 3.5 to 5.3 oz per person a day. In 1997 construction began on what were to be two 1,000 MW LWRs, delayed many months by North Korean objections to the use of a South Korean firm for the job. Estimates are that in real terms, the DPRK economy contracted 6.8% in 1997 and another 1.1% in 1998. In 1999, there were signs of positive growth, though small and from a low base, and due mainly to government construction projects.

The Bank of Korea, the most reliable source of economic data on the DPRK, estimates that the economy expanded 1.3% in 2000 and 3.7% in 2001. In 2002, a series of unannounced market-oriented reforms were undertaken. Refugees reported wage increases of 10% to 20% that partly reflected the higher prices in the unofficial "farmer's markets" and black markets, and that state rationing was being phased out. Three new special economic zones (SEZs) were announced, making a total of four (the first one was established in 1991), designed to attract foreign investment, particularly from China and South Korea. A defector reported a significant reduction in the party personnel attached to two major state corporations, the Musan Consolidated Mine Corp. and the Kimchak Consolidated Steel Corp. Whether such reforms were meant to appease the more confrontational Bush administration, which, in US president George W. Bush's State of the Union address in January 2002, had branded North Korea as part of an "axis of evil." In November 2002, the United States announced that it was suspending oil shipments and that the work on the LWRs was going to be deliberately slowed. In December 2002, the DPRK expelled the last IAEA inspectors and removed their monitoring devices. In February 2003, the IAEA referred the matter of the DPRK's nuclear program to the UN Security Council. The program of economic inducements has been transformed into a zero-sum confrontation.

In 2004, the GDP growth rate was 2.2%, up from 1.8% in 2003. There was no data available to highlight the inflation or unemployment rates, but it is expected the country is suffering from high levels of technical unemployment. Food shortages continue to be a problem, with large-scale military spending eating up much of the resources that could solve this problem. The government tried to respond by allowing private markets to sell a wider

range of goods, and by permitting private farming on an experimental basis. In 2005 however, some of these policies were restricted, and plans were made to expel all nongovernmental organizations by year's end.

## **2<sup>0</sup> INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005, North Korea's gross domestic product (GDP) was estimated at \$40 billion. The per capita GDP was estimated at \$1,800. The annual growth rate of GDP was estimated at 1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that in 2002, agriculture accounted for 30% of GDP, industry 34%, and services 36%. Foreign aid receipts amounted to about \$5 per capita.

## **2<sup>1</sup> LABOR**

The labor force was estimated at 9.6 million in 2001 (the latest year for which data was available). Approximately 36% of the labor force was engaged in agriculture, with the remainder in non-agricultural occupations. Unemployment data was unavailable.

There are no free trade unions in North Korea; instead, there is one labor organization controlled by the government, the General Federation of Trade Unions of Korea, of which virtually all industrial and office workers are members. There is no minimum wage; salaries in joint-venture and foreign-owned businesses were estimated at \$110 per month in 2002. The average salary in the public sector is not known. Labor conditions are governed by a national labor law of 1978. The eight-hour workday is standard but most laborers work 12–16 hours daily during production campaigns. Although children under the age of 16 are prohibited by law from working, school children work in factories or on farms to meet production goals. Office and shop workers spend Fridays in public works and urban maintenance projects. In addition, some work time is spent on mandatory study of the writings of Kim Il Sung and Kim Jong Il.

## **2<sup>2</sup> AGRICULTURE**

About 2.9 million hectares (7.2 million acres), or 24% of all land, can be classified as arable. Most of the agricultural land is concentrated in the west coast provinces of North and South P'yongan and North and South Hwanghae. Irrigation, land reclamation, and flood-control projects have been carried out, especially in rice-growing areas; about one-half of the arable land is irrigated.

Rice is the principal crop, occupying 20% of all farmland in 2003. Total rice production was 2,370,000 tons in 2004, compared to 5,600,000 tons in 1985. Improved rice yields have been achieved through the use of "miracle" rice strains, intensive application of fertilizer, and mechanization. In 2003 there were some 211,576 tractors in use, or about one for every 14 hectares (34 acres) of cultivated land. Double-cropping of rice is not possible because of the climate, but double-cropping of other grains has been maximized through the use of cold-bed seeding and new seed varieties, so that an estimated half of all cultivated land yields two harvests. The leading grains after rice are corn, wheat, millet, and barley. Other important crops include soybeans, potatoes, sweet potatoes, pulses, oats, sorghum, rye, tobacco, and cotton. The Democratic Peo-

ple's Republic of Korea (DPRK) long claimed to be self-sufficient in grain products, with total production (including rice) increasing from seven million tons in 1974 to 13.6 million tons in 1985, but falling to 4.3 million tons in 2003. Heavy rains in 1995 caused severe flooding in the DPRK, affecting over 5.2 million people and damaging crop production. Since 1996, there have been reports of widespread food shortages and famine in the DPRK.

The country's farms were collectivized after the Korean War. The movement began late in 1953, and the process was completed by August 1958, when all of the DPRK's 1,055,000 farm families became members of over 16,000 cooperatives. In order to establish larger and more efficient operating units, the cooperatives were merged in the autumn of 1958 into approximately 3,800 units with about 300 families each. Produce is delivered to the government, which controls distribution through state stores. Most farm workers retain small private plots (less than 100 sq m/1,100 sq ft) and can sell produce from them to the state or in peasant markets.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

Since the 1950s, a major effort has been made to increase corn and fodder supplies, to improve breeding practices, and to raise sharply the numbers of livestock in all categories. In 2005, livestock totals were estimated as follows: cattle, 578,000 head; hogs, 3,200,000; sheep, 172,000; goats, 2,750,000; and horses, 48,000. Livestock raising is generally associated with the state farms. Meat produced in 2005 totaled 250,000 tons; milk, 94,000; and eggs, 136,000.

## **2<sup>4</sup> FISHING**

The catch from the sea and from freshwater aquaculture includes mackerel, anchovy, tuna, mullet, rainbow trout, squid, kelp, sea urchin eggs, pollack eggs, and shrimp. The FAO estimated production for 2003 was 712,995 tons. Over 98% of fishing activity is marine, concentrated in the Sea of Japan. Much of the annual catch is now used for export.

The fishing industry is entirely socialized, with some 230 maritime cooperatives and more than 30 state-run fishery stations. The main fishing ports are on the east coast.

## **2<sup>5</sup> FORESTRY**

Forests and woodland comprised about 8,210,000 hectares (20,287,000 acres) in 2000. There are rich stands of coniferous forests in the northern provinces. Predominant trees include oak, alder, larch, pine, spruce, and fir. Timber production was estimated at 7.2 million cu m (255 million cu ft) in 2004. About 80% of the timber cut was used for fuel. Sawn wood production in 2004 was 280,000 cu m (9.9 million cu ft); wood pulp, 56,000 tons; and paper and paperboard, 80,000 tons. The Ministry of Forestry, created in 1980, promotes development of forest industries.

## **2<sup>6</sup> MINING**

The Democratic People's Republic of Korea (DPRK) has known deposits of coal, copper, fluorspar, gold, graphite, iron ore, lead, limestone, magnesite (magnesium carbonate), pyrite, salt, silver, tungsten, and zinc. Of these, the country has large reserves of coal, iron ore, limestone, and magnesite.

Gross weight of marketable iron ore and concentrate produced in 2004 was 4.58 million tons. High-grade iron ore deposits lay

off the coast of Unryul County, South Hwanghae Province. Outputs of other minerals included: crude magnesite, 1.2 million tons, up from 1 million tons in 2003; graphite, 25,000 metric tons, unchanged since 2001; mine copper (metal content), 12,000 metric tons; mined zinc, 62,000 metric tons; mined lead, 20,000 metric tons; mined gold, 6,000 kg; mined silver, 20 metric tons, unchanged since 2001; sulfur, 42,000 tons; phosphate rock, 300,000 metric tons, unchanged since 2002; and mined tungsten, 600 metric tons, unchanged since 2002. North Korea also produced barite, hydraulic cement, fluorspar, nitrogen, salt, and pyrophyllite soapstone, and presumably produced varieties of stone, sand, and gravel. As North Korea began emerging from its isolation, mineral trade with the Republic of Korea increased, with the DPRK exporting coal, gold, steel, and zinc to the South. Since the collapse of the Soviet Union, North Korea has faced shortages of raw materials, in addition to shortages of fuel, food, and electricity. Molopo Australia NL had four gold projects in North Korea—Big Boy, Changjin, Danchon, and Hambung—and successfully processed 625 g of gold from a gravity separation plant in Changjin.

## 27 ENERGY AND POWER

North Korea has no known reserves of petroleum or natural gas but does have recoverable reserves of coal.

Imports of crude oil and refined petroleum products in 2002 averaged 24,070 barrels per day, of which demand averaged 24,530 barrels per day in that same year. Refinery output that same year averaged 12,080 barrels per day. There were no known imports or output of natural gas in 2002.

Coal is by far the most important component of energy production. The major coal-producing center is in South Pyongan Province, where the Anju, Sunchon, Tokchon, Pukchang, and Kaechon coal-producing complexes are located. In 2000, coal accounted for 86% of primary energy consumption. Estimated coal production in 2002 was 31,912,000 million short tons. Domestic consumption that year came to 31,986,000 short tons.

North Korea's electric power capacity in 2002 came to 9,500 million kW, of which conventional thermal plants accounted for 4,500 million kW of capacity and hydroelectric accounted for 5,000 million kW. Electric power output in 2002 totaled 19.122 billion kWh, of which Hydropower accounted for 10.514 billion kWh and conventional thermal power 8.608 billion kWh. Consumption of electricity in 2002 was 17.783 billion kWh. Although engineers and technical advisers from the United States assisted with the installation of windmills in coastal villages in the P'yongyang region, in 1998; there is no recorded output of wind-generated electricity for 2002.

Although North Korea has a nuclear energy program, it is not directed toward the production of electric power, but to build nuclear weapons. In 1994, the United States and North Korea negotiated an Agreed Framework, by which North Korea agreed to give up its nuclear ambitions in exchange for the construction of two safer light water nuclear reactors and shipments of oil from the United States. In 2002, it was revealed that North Korea was engaged in pursuing a program of enriching uranium—enriched uranium is used for the production of nuclear weapons. In January 2003, North Korea pulled out of the Nuclear Nonproliferation Treaty, and later admitted it was pursuing the reprocessing of plutonium, which also can be used in the building of nuclear weapons.

In April 2003, North Korea stated it possessed nuclear weapons. In August 2003, six-nation talks—between the United States, China, South Korea, Japan, Russia, and North Korea—began to address the nuclear situation. As of early 2006, the issue of North Korea's nuclear program had yet to be resolved.

## 28 INDUSTRY

Under Japanese rule, northern Korea was regarded mainly as a supplier of war materials, while manufacturing and processing branches were neglected. The Communist regime, however, emphasized the development of manufacturing. By 1963, the metal-fabricating, textile, and food-processing industries accounted for 33%, 18.6%, and 13.7% of industrial output, respectively. By the late 1980s, heavy industry (including metal fabricating and textile production) accounted for 50% of total industrial production. Private enterprise in industry declined from 27.6% of total output in 1946 to only 2% in 1956, and the private sector was said to have disappeared by 1959. About 90% of all industry is state-owned, and 10% is owned by cooperatives.

Under the second seven-year plan (1978–84), industrial output was scheduled to grow at an average annual rate of 12.2%; however, Western estimates put annual growth at 2% or 3% by the early 1980s. In the mid-1980s, the government became involved in clandestine missile production and supply. The Democratic People's Republic of Korea (DPRK) had obtained the technology for producing HY-2 Silkworm and Scud (short-range) missiles in the 1970s and early 1980s. In 1985, the DPRK reached a bilateral accord with Iran, then in the midst of its war with Iraq, whereby North Korea would supply production technology and missiles in exchange for payments to finance engineering of the Scud-B missiles (a more accurate version of the original Scuds) and help in covert procurement of other necessary technologies. Ironically, because it became a matter of international security concern, the missile program is better documented than other aspects of the DPRK's secretive economy.

In 1987, Scud-B production facilities were established near P'yongyang. In June 1987, North Korea delivered 90 to 100 Scud-B missiles, 12 launchers, and an undetermined number of HY-2 Silkworm missiles to Iran as part of the two countries' \$500 million military assistance agreement. In the meantime, the DPRK established its own Scud-B regiment and began work on an upgraded model, the Scud-C, with double the range (595 km/372 mi). Iran was being supplied "knock-down kits" for assembly at its ballistic missile plant in Isfahan. Iran continued, in exchange, to finance the DPRK's weapons program as it began work on an intermediate-range ballistic missile (IRBM) at Nodong that would give it its name.

In June 1990, the DPRK conducted the first successful test of the Scud-C, and in November concluded a second series of agreements with Iran believed to have covered the purchase of DPRK Scud-Cs and the conversion of an Iranian missile-maintenance facility into a production facility. In December 1990, during the run-up to the Persian Gulf War, the DPRK also agreed to sell Scud-B and Scud-C missiles to Iraq, but in February 1991, despite a personal visit from Iraq's deputy foreign minister, the DPRK backed out of the deal because of Iraq's inability to pay cash. Syria, having received \$2 billion for participating on the side of the coalition, used some of it to purchase more than 150 North Korean Scud-C

missiles for an estimated \$500 million. In March 1991, in a third agreement with Iran, the DPRK signed a five-year contract for the supply of 20,000 barrels of oil per day.

Pakistan, which North Korea had been supplying with conventional arms since the war over East Pakistan in 1971, helped with the secret deliveries of Scud-Cs to Iran. During the two tenures of Pakistani prime minister Benazir Bhutto (1988–90 and 1993–96), the cooperation with the DRPK was extended to include the training of Pakistani scientists and engineers in North Korea, the training of North Korean scientists and engineers at the Pakistan uranium enrichment plant at Kahuta, and the supply of Nodong missiles to Pakistan.

On 27 March 1992, the United States announced the imposition of sanctions on the DPRK and Iran for missile technology proliferation. In the mid-1990s, the DPRK recruited an estimated 160 Russian strategic weapons specialists to help with the DPRK's missile and nuclear programs. On 12 March 1993 North Korea announced its withdrawal from the Nuclear Nonproliferation Treaty (NPT) because of the International Atomic Energy Association's (IAEA's) efforts to conduct a special inspection of its nuclear facilities. During the spring of 1993, the successful launch of four missiles, one of which hit a target at 500 km (300 mi), raised international alarm to a new level. All the while, the DPRK representative to the UN denied that the government had ever supplied missiles to Iran.

In August 1993, a defector reported that two additional long-range missile bases had been built in the DPRK, one at Chunggang and the other at Wonsan. In a report issued in 1996, the South Korean Unification Ministry estimated that arms exports constituted about 30% of DPRK exports from 1980 to 1993, that annual Scud missile sales totaled about \$500 million, and that the DPRK had a production capacity of about 100 Scud-B and Scud-C missiles a year.

The consequence of the DPRK's role as arms supplier to the Middle East was increasing isolation elsewhere. Japan banned the export of missile-related technology to the DPRK in 1988. In 1991, when the Soviet Union collapsed, North Korea lost its main source of fuel and fertilizer, as well as its main markets. As a result, the DPRK's nonmilitary industries atrophied while the government continued to build its military industry, developing nuclear ambitions.

At the end of its third seven-year plan, the government, admitting for the first time that targets had not been met, announced another three-year period of adjustment including a promised attention to light industry, as well as agriculture and foreign trade. In March 1994, however, it was confirmed that the government was building two new medium-range missiles—the Taepodong-I, with a range of more than 1,600 km (1,000 mi) and the Taepodong-II, with a range of more than 3,200 km (2,000 mi).

Manufacturing output fell an estimated 17.8% in 1992 and continued to fall by 1.9% in 1993, 3.8% in 1994, and 5.3% in 1995. In 1995, manufacturing accounted for an estimated 26.9% of GDP, of which heavy industry accounted for 20.5% and light industry 6.4%.

Only rough production estimates are available for a few key industries. These include the iron and steel manufactures, which reportedly amounted to 6.6 million tons of pig and conversion pig iron and 8.1 million tons of steel (including rolled steel) in 1995.

Major iron and steel works are located at Ch'ŏngjin, Kimch'aek, Kangso, Namp'o, and Kaes'ŏng. Industrial plants produce sophisticated machinery, including generators, bulldozers, high-speed engines, and diesel locomotives. Other plants produce cement (17 million tons in 1995), refined lead (80,000 tons), and zinc (200,000 tons), metal cutting lathes, tractors, and trucks. The chemical industry produced an estimated 1.2 million tons of chemical fertilizers and 56,000 tons of synthetic fibers in 1994. The petrochemical industry is centered in the H'ungnam area. Oil refining capacity was recorded at approximately 71,000 barrels per day in 2000. Textiles production increased rapidly in the 1970s; North Korea also produces clothing, jackets, and shoes.

After a series of negotiations in 1994, the so-called Agreed Framework was signed in October. It was essentially an attempt to use economic incentives to induce the DPRK to give up its nuclear weapons ambitions. In exchange for a freeze on its graphite-moderated reactors, the United States undertook to arrange for the provision of a 2,000 MW light water reactor (LWR). In the contract, concluded in 1996 with the Korea Electric Power Company (KEPCO), the DPRK was to acquire two 1,000 MW LWRs. The Korea Peninsula Energy Development Organization (KEDO) was established to carry out the arrangements. Ground was broken for the construction of the LWRs in August 1997. While the DPRK's nuclear program apparently remained frozen, the government continued to develop its delivery systems and to export weapons and weapons technology.

In April 1998 the US government reported that Korea had helped develop Pakistan's 1,500-km (940-mi) Ghaury intermediate-range ballistic missile (IRBM). Exports of Scuds continued to Iran, Syria, Pakistan, Egypt, and Libya. On 31 August 1998, North Korea test-launched a Taepodong-I missile with a range of up to 2,000 km (1,243 mi) over Japan, claiming it was a satellite launch. In February 1999, US CIA director George Tenet warned that the DPRK was developing a new generation of missiles capable of delivering payloads to the United States. In March 1999, the Republic of Korea (ROK) reported that the DPRK had as many as 8 missile factories and 12 missile bases, with production capacity of about 100 Scud-like missiles a year. In mid-July, intense pressure from the United States, the ROK, and Japan dissuaded the DPRK from test-launching a Taepodong-II missile, believed to have a range of more than 6,000 km (3,728 mi). In September 1999, the United States and the DPRK reached an agreement on a moratorium on additional long-range missile testing, but an agreement on a wider freeze on its indigenous missile program and weapons exports was not completed as of early 2003.

In 2002, industry made up 34% of the economy, with services accounting for 36%, and agriculture for 30%; 36% of 9.6 million workers were engaged in agriculture, while 64% were employed by nonagricultural sectors. By 2004, the industry's share in the GDP rose to 41%. However, the country's industrial stock is suffering from underinvestment and spare part shortages, and is considered to be beyond repair.

## 29 SCIENCE AND TECHNOLOGY

In 1970, the Fifth Party Congress called for the education of one million new technicians and specialists to aid economic modernization and development. By the mid-1990s, the government claimed that there were agricultural specialists on most rural co-

operatives, although severe economic deprivation has curtailed the Democratic People's Republic of Korea (DPRK) agricultural output. Throughout this period, Russian and Chinese technicians helped train DPRK workers, and the DPRK actively sought to acquire advanced foreign technology through the importation of entire petrochemical and other manufacturing plants from Japan, France, Sweden, and other developed nations. In the 1990s, its nuclear energy program—with both peaceful and military applications—gained international attention.

The principal scientific and technical institutions are the Academy of Sciences (founded in 1952), the Academy of Agricultural Science (founded in 1948), the Academy of Fisheries (founded in 1969), the Academy of Forestry (founded in 1948), the Academy of Medical Sciences, the Academy of Light Industry Science (founded in 1954), and the Academy of Railway Sciences. All of these academies are located in P'yongyang, and each has numerous attached research institutes.

By 1994, Kim Il Sung University in P'yongyang (founded in 1946) included faculties of computer science, chemistry, biology, atomic energy, geology, mathematics, and physics. Also in P'yongyang are the Kim Chaek University of Technology, the P'yongyang University of Agriculture, and the P'yongyang University of Medicine.

### **30 DOMESTIC TRADE**

Wholesale and retail trade is almost entirely in state and cooperative hands. In 1946, private trade accounted for 96.5% of total business volume. By 1960, private merchants had been entirely eliminated, and 78.8% of trade was conducted by the state, 20.4% by cooperatives, and 0.8% by farmers' markets. In 2000, 90% of the economy was in the state's hands.

Wholesale distribution is administered by the state ministries and enterprises under the general jurisdiction of the Ministry of Material Supply. Most retail shops are run by the People's Service Committee, established in 1972. There are several state-run department stores in P'yongyang, and there is at least one in each provincial capital. All-purpose stores, cooperatives, factory outlets, and special stores for the military and for railroad workers also play an important part in retailing.

Normal business hours are from 9 AM to noon and 1 to 6 PM, Monday through Friday. Saturday is a "study" day.

Since the mid-1990s, the domestic economy has remained stifled as the government refuses to give up state control of industry. Though agriculture accounted for 30% of the GDP and 36% of the workforce in 2001, there were frequent food shortages. Improvements in industry and infrastructure have been slow, as the government continued to dedicate a large portion of funds to military, rather than social or domestic concerns. With the decay of the formal economy, black market activity has rapidly grown throughout the country, with the underground economy replacing formal domestic trade throughout much of the DPRK.

### **31 FOREIGN TRADE**

The Democratic People's Republic of Korea's (DPRK) principal exports include rice, pig iron, rolled steel, cement, machinery of various types, chemicals, magnetite, textiles, armaments, and gold. Imports include petroleum, coking coal, wheat, cotton, and machinery. A steep drop in the DPRK's trade earnings in the early

1990s was primarily a result of a policy shift by Russia and the CIS countries requiring trade to be denominated in hard currency at world prices, ending a previous goods exchange arrangement much more favorable to the DPRK.

With the change in Russian–North Korean trade relations, China took the lead as the DPRK's largest trading partner in 1992, followed by Japan and Russia. Inter-Korean trade expanded particularly rapidly after 1988. By 1992, the Republic of Korea (ROK) became the DPRK's fourth-largest trading partner, behind China, Japan, and Russia. Total trade between the two countries was reported to have reached \$199 million, 90% of which consisted of exports from north to south. However, after tensions flared in the late 1990s, inter-Korean trade slowed.

As the DPRK economy has deteriorated, smuggling activity across the Chinese border has increased. An estimated 100,000 people are involved in illegal trade across the border, which may be worth as much as \$30 to \$300 million per year.

In 2004, exports reached \$1.3 billion (FOB—Free on Board), while imports grew to \$2.8 billion (CIF—Cost and Freight). The bulk of exports went to China (45.6%), South Korea (20.2%), and Japan (12.9%). Imports included minerals, machinery and electronic goods, textiles, and chemicals, and mainly came from China (32.9%), Thailand (10.7%), and Japan (4.8%).

### **32 BALANCE OF PAYMENTS**

During the late 1970s, the Democratic People's Republic of Korea (DPRK) enjoyed consistent trade surpluses, due in part to increasing shipments of agricultural products, gold and silver, and armaments in exchange for hard currencies. Despite the improving trade picture, the DPRK had still not emerged from the shadow of foreign debt left over from the mid-1970s. Declining prices for precious metals in the early 1980s made it difficult for the nation to meet its debt obligations, even after repeated rescheduling. In 1987, a new rescheduling agreement was reached after Western banks threatened to freeze the DPRK's bank assets if it failed to service bank loans. External debt was estimated at \$12 billion in 1996. In the early 2000s, the government focused on attracting foreign aid and earning hard currency without introducing market reforms. Desperately needed food and fuel aid from donor countries declined in 2002/03, due in part to the government's threats of nuclear weapons capabilities.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of North Korea's exports was \$826 million while imports totaled \$1.874 billion resulting in a trade deficit of \$1.048 billion.

Exports of goods and services totaled \$1.278 billion in 2004, up from \$1.066 billion in 2003. Imports grew from \$2.049 billion in 2003, to \$2.279 billion in 2004. The resource balance was consequently negative, and on a downward path—from -\$983 million in 2003 to -\$1 billion in 2004.

### **33 BANKING AND SECURITIES**

The Central Bank, established in 1946, is the sole recipient of national revenues and the repository for all precious metals. It supplies basic operating funds to various sectors of the economy and is subordinate to the Ministry of Finance. The Central Bank is also an administrative organ that executes the fiscal policies of the State Planning Commission. It supervises the Foreign Trade Bank,

established in 1959, and the Industrial Bank, established in 1964. The latter provides loans and credits to farm and fishing cooperatives and has an extensive system of branches that help to manage the financial operations of all cooperatives.

The Kumgang Bank is a specialized bank that handles transactions of foreign trade organizations dealing with exports and imports of machinery, metals, mineral products, and chemical products. The Daesong Bank handles transactions of the Daesong Trading Co. and other trading organizations. There were also three joint-venture banks, as of 1994. As of 1997, the Central Bank had a network of 227 local branches. Another state bank is the Changgwang Credit Bank, founded in 1983. A consortium of 60 Western countries (including Russia) filed suit in 1996 in a US district court against the Democratic People's Republic of Korea's (DPRK) Foreign Trade Bank for a total of \$1.4 billion in principal and accumulated interest.

There are savings facilities at all post offices, in industrial enterprises, and in the "trust" sections in the agricultural cooperatives. Through the latter, large farm and fishing cooperatives perform local banking functions, especially the raising and allocation of capital for local needs.

There are no securities exchanges in the DPRK.

### **34 INSURANCE**

The State Insurance Bureau and the Korea Foreign Insurance Co. carry fire and natural disaster insurance and, as appropriate, livestock, marine, and passenger insurance on a compulsory basis. Individuals may take out various types of property, life, and travel insurance, all provided by the government.

### **35 PUBLIC FINANCE**

The annual state budget is approved at regular sessions of the Supreme People's Assembly (SPA). In April 1995, the government failed to announce its 1995/96 budget at the annual meeting of the SPA, which exacerbated the economic stagnation. Foreign aid, important after the Korean War, has not appeared as budgetary income since 1961.

The US Central Intelligence Agency (CIA) estimated that North Korea's total external debt was \$12 billion in 1996.

### **36 TAXATION**

All direct taxes were abolished in 1974; the Democratic People's Republic of Korea (DPRK) thus became the first country in the world to abolish income taxes collected from its citizens. As a result, the population is dependent on the government for many services. The government collects a percentage (turnover tax) on all transactions between producers and state marketing agencies. Fees are charged to farmers for seeds, fertilizer, irrigation water, and equipment. Consumers pay a tax for the use of water and certain other household amenities. The tax on collective farms is 15% of the harvest, paid in kind. Refugees from North Korea report that a similar in-kind tax was being assessed on the private plots that proliferated during the 1990s, but there is no official confirmation of this assessment.

All foreign-invested enterprises are subject to income, property, turnover, and local taxes. In the four special economic zones established by the government, one in 1991 and three in 2002, the tax on profits for most enterprises is set at 14%; for enterprises

involving high technology, infrastructure construction, or light industry, the tax rate is 10%. Resident aliens in the DPRK must pay personal income taxes; the rate varies from 4% to a top rate of 20%.

### **37 CUSTOMS AND DUTIES**

No information is available.

### **38 FOREIGN INVESTMENT**

In 1984, the Joint Venture Act permitted foreign direct investment (FDI) for the first time. Investment mainly came from Soviet-bloc countries, however, as both the United States and South Korea were closed to products from the Democratic People's Republic of Korea (DPRK). Companies found it difficult to do business in North Korea because of limits on equity ownership and a suffocating bureaucracy. In any case, the law was abruptly withdrawn in 1985, reinforcing perceptions of an unstable atmosphere for business.

In 1991, faced with the collapse of the Soviet bloc, the president announced plans to establish a multinational special economic zone (FETZ) in the Tuman River estuary region. On 11 December 1992, the Supreme People's Assembly passed three laws relating to foreign investment—the Foreign Investment Law, the Foreign Enterprise Law, and the Joint Venture Law. The laws allowed 10% foreign ownership and loosened government control over employee layoffs. Three types of enterprises were distinguished: contractual joint ventures, equity joint ventures, and "foreign enterprises." Citizens of the Republic of Korea (ROK) are treated as foreigners under the investment laws. Foreigners are prohibited from establishing a "technologically backward" enterprise, or one that threatens DPRK national security. In practice, the most suspect categories are those involved in publishing, the press, broadcasting, and telecommunications. Also not permitted are businesses that do not conform with the "ideological emotions of the people."

Most trade with ROK enterprises is conducted in the contractual joint-venture mode in which, typically, the DPRK partner takes responsibility for production and management while the ROK partner supplies both advanced technology and access to export markets. Most meetings between North and South Korean partners are held outside both countries. Applications for investment have remained limited; most have come from Japan-based Korean investors. As of 2002, the FETZ could not be rated very successful. The investment attracted a total of about \$140 million. The main investors included the Emperor Group with a \$60 million hotel project, and Loxley Pacific, with a \$29 million investment telecommunications infrastructure.

In 2002 the DPRK formally established three more special economic zones: a mainly tourist zone at Mt. Kumgang, an industrial zone near Kaesong, and a special autonomous region (SAR) modeled on Hong Kong in the northwest city of Sinuiji on the Chinese border. In all three, free enterprise was officially guaranteed with a land lease period of 50 years with the possibility of extension. The Mt. Kumgang and Kaesong zones were mainly aimed at attracting South Korean investment, whereas Sinuiji is designed to attract Chinese participation.

The Mt. Kumgang zone is a direct descendant of a money-losing tourism enterprise initiated by the ROK conglomerate Hyundai Group in 1999. Tours peaked at about 212,000 in 2000, the year

of the historic 13 June handshake between the leaders of the two Koreas, but had fallen to 56,680 by 2001. As of 2002, the Hyundai Group had lost about \$400 million on the operation.

The Kaesŏng industrial zone also got its main impetus from firms connected with the Hyundai Group. Though the official decree establishing a 66-sq-km (25-sq-mi) "international industrial, trade, commercial, financial and tourist" zone was made law on 28 November 2002, its roots are in an agreement between the Hyundai Group and the DPRK government in August 2000 to open an expanded industrial zone. Kaesŏng is connected to P'yŏngyang by railway and expressway. To make it a viable investment venue, the rail and highway connections to South Korea must be restored. In late December 2002, however, the third session of talks on the restorations of connections was called off, with no further discussions scheduled.

Much more devastating to hopes for increased foreign investment, however, has been the rapid escalation of tensions after October 2002, when a US State Department envoy asserted that the North Koreans had admitted to conducting a secret nuclear program. In November 2002, the United States announced that there would be no more oil supplied through the Korea Peninsula Energy Development Organization (KEDO). The United States also achieved an agreement to slow down the construction of the light water reactors (LWRs), which were already years behind schedule. In apparent retaliation, a letter from a North Korean bank was circulated to foreign missions and businesses stating that as of 1 December 2002, US dollars would not be accepted at North Korean shops and hotels.

### 39 ECONOMIC DEVELOPMENT

Until the 1990s, the economy operated on a planned basis, with priority given to the development of industry, particularly heavy industry. Planning began in 1947, when the economy operated first under two consecutive one-year plans (1947 and 1948), followed by a two-year plan (1949–50), which was interrupted by the Korean War in June 1950. After the war, economic reconstruction followed the terms of a three-year plan (1954–56) and a five-year plan (1957–61). The industrial goals of the five-year plan were fulfilled in just half the allotted time, so 1960 was set aside as a year of adjustment. An ambitious seven-year plan was then launched in 1961, with the general objectives of a 220% increase in industrial output and a 150% rise in grain production. This plan had to be extended until 1970, however, before its targets were fulfilled. In 1975, the Democratic People's Republic of Korea (DPRK) announced completion of its six-year plan (1971–76) one year ahead of schedule, although certain outputs fell somewhat short of projected levels. Industrial growth slowed in 1976. A second seven-year plan (1978–84) called for a 12% annual industrial growth rate. Although the government claimed that its goals had been met or exceeded, neither the actual results nor a new plan was announced during the following three years. During this period the DPRK experienced the double trauma of ballooning international debt (to more than \$5 billion, nearly \$2 billion owed to Communist creditors), and watching South Korea's per capita income soar past its own. By 1980, per capita income in the DPRK was about a third of that in the Republic of Korea (ROK). (By 2002 the gap

had widened such that the ROK's per capita income was 20 times greater in nominal terms.)

In 1982, the president announced a new economic policy giving priority to increased agricultural production through land reclamation (taken as a sign that food shortages had appeared), development of the country's infrastructure, a greater reliance on indigenously produced capital equipment, and an emphasis on light industry. In 1984, the government issued the Joint Investment Law in its first opening to foreign direct investment (FDI), designed to secure technology and outside capital. The law was abruptly withdrawn the next year, however, having attracted little investment.

There was a three-year hiatus, before the government set forth the third seven-year plan (1987–93), which would turn out to be the last multiyear plan issued by the government as of 2003. (The death of President Kim Il Sung on 8 July 1994 marked the end of multiyear planning.) Annual growth of 10% was targeted under the third seven-year plan, part of which would be derived from missile production and export. Its stated targets were a 90% increase in industrial output, 40% in agricultural production, and 70% in national income. The DPRK government publishes no official economic data, but estimates by the ROK Bank of Korea, the most reliable source of information on the North Korean economy, suggest that actual performance fell far short of these targets, in some areas by as much as 50%, and that overall industrial output decreased. The plan period spanned the breakup and economic liberalization of the Soviet bloc in 1991. President Kim Il Sung made a gesture at keeping up with the trends, decreeing the establishment of the Rajin-Sonborg Free Economic and Trade Zone (FETZ). However, the lack of infrastructure and low investor confidence in the regime made the FETZ ineffective in attracting investments.

In late 1993, statements released by the Korean Workers' Party Central Committee for the first time admitted to the overall failure in achieving the goals of the economic plan. Another three-year period of adjustment was announced during which, again, agricultural production, light industry, and infrastructure projects were to be prioritized.

A serious problem the DPRK had in meeting its public goals, however, was that the international trade it had actually been fostering was clandestine. In the mid-1980s North Korea had become a prime source of missiles, missile technology, and nuclear technology for countries of the Middle East and Pakistan. The most fully developed relationships were with Iran's missile program and Pakistan's missile and nuclear programs. The weapons trade was estimated to have been worth roughly \$500 million a year, a figure equal to between 30% and 100% of estimated exports.

When Kim Il Sung died in July 1994, this was not one of the aspects of the economy that was radically affected since his son and successor, Kim Jong Il, had been in charge of the military.

As of 1994, total development assistance outside the Soviet bloc amounted to \$6 million. Famine struck the country in 1995 and 1996, and output contracted from 1995 to 1998 an estimated 46.8% (from \$23.5 billion GDP to \$12.5 billion GDP). No economic plan was issued by the government in the 1990s, a decade that was dominated from 1994 by an international effort to stop the regime's apparent nuclear ambitions with positive economic incentives.

The so-called Agreed Framework of October 1994 embodied the offer to replace the DPRK's heavy-water nuclear facilities (suitable for producing weapons-grade fuel) with light-water reactors (LWRs, not as suitable), with construction and financing arranged by the United States. An annual supply of 500,000 metric tons of heavy oil would be donated by a consortium of 17 countries. In exchange the DPRK committed to freeze and eventually dismantle its heavy-water facilities. The Korea Peninsula Energy Development Corporation (KEDO) was created to administer the agreement. Besides maintaining the freeze, the DPRK was also dissuaded in 1999 from test-firing its most advanced missile, the Taepodong-II, which has a range of over 6,000 km (3,728 mi).

The Agreed Framework began to unravel in early 2002, after US president George W. Bush, in his State of the Union address, branded North Korea as part of an "axis of evil." In July 2002, the DPRK introduced a number of market-based economic reforms. Three special economic zones were officially established in 2002, including a special autonomous region (SAR) in Sinuiji to attract Chinese investment, and zones at Mt. Kumgang and near Kaesŏng to attract South Korean investment. The government also announced it would be presenting a formal economic plan in 2003. These gestures were overwhelmed by increased tensions following the October 2002 announcement from the US State Department that the DPRK regime had admitted it was pursuing a secret nuclear weapons program. Oil shipments through KEDO were stopped after November 2002, and by the end of December, North Korea had expelled all IAEA inspectors and removed their monitoring devices. In February, the IAEA referred North Korea's nuclear program to the UN Security Council. In April 2003, Kim Jong Il asked for a nonaggression pact with the United States, arguing that the United States was planning to overthrow his regime. No economic plan had been issued.

The way North Korea guards the access to indicators that might highlight its level of economic health prevents any solid analysis of economic growth perspectives. It is believed however that the country still suffers from food shortages, and it lacks a coherent future development strategy. In June 2005, the United States committed to sending 50,000 metric tons of food aid.

#### 40 SOCIAL DEVELOPMENT

All men and women of working age are required to work, and all economic activity is run by the state. The government provides any medical, pension, or other welfare program to the workers. The country relies heavily on international aid for basic subsistence.

Although the constitution grants equal rights for women, few women have reached high levels in the government. The state provides nurseries and day-care centers, and large families are encouraged. Like men, women are obligated by law to work, although few occupy high official positions. Women with large families are entitled to shorter work hours. Female workers are legally guaranteed five weeks of maternity leave. A UNICEF official reported that some 20% North Korean children were suffering from malnutrition and about 80,000 were in danger of dying from hunger and disease.

The government rejects international human rights standards, and human rights organizations are not permitted to operate. Dissent is not tolerated, and capital punishment is meted out for a wide variety of offenses, including attempted defection.

The government classifies all citizens into three groups: core, wavering and hostile. These security ratings reflect the perceived degree of loyalty exhibited by citizens. These ratings may be taken into account in the allocation of housing, employment, medical care, and other benefits. All citizens are subjected to extensive indoctrination. Listening to foreign broadcasts or possession of banned reading materials are punishable by death. Travel within the country is also strictly controlled. Travel passes must be requested for intervillage travel.

#### 41 HEALTH

The Ministry of Public Health is responsible for all national health services, including disease prevention and sanitation. All of the population has access to health care. Estimated immunization rates for children up to one year old were as follows: diphtheria, pertussis, and tetanus, 37%, and measles, 34%. Polio has been nearly eradicated. In 2004, there were an estimated 297 physicians and 180 nurses per 100,000 people. Western medicine is used alongside traditional Eastern medicine (*tonguihak*). In 1997, there were 176 cases of tuberculosis per 100,000 people. Cancer is now the leading cause of death, followed by heart disease and hypertension.

The total fertility rate has decreased from 5.8 in 1960 to 2.1 children per woman in her childbearing years, as of 2000. Average life expectancy in 2005 was 71.37 years. The infant mortality rate was 24.04 per 1,000 for that year. The HIV/AIDS prevalence rate was estimated at less than 0.10 per 100 adults.

#### 42 HOUSING

A serious housing shortage resulted from the government's early stress on industrial rather than residential construction. The housing deficit was aggravated by the Korean War, which demolished about one-third of the country's housing. Since then, residential housing has received serious attention. About 886,000 new units were completed under the 1971–76 economic plan. Construction levels of 200,000–300,000 units a year were targeted for 1978–84, and 150,000–200,000 units a year were projected for 1987–93. Available figures for 1980–88 show a total housing stock of 4,566,000 with 4.5 people per dwelling. The government reported that the catastrophic floods in August 1995 caused 500,000 residents to become homeless.

#### 43 EDUCATION

Both primary and secondary education are free and compulsory for 10 years, beginning at age five. Children ages one through five are cared for in nursery schools, followed by one year of kindergarten, four years of primary school, and six years of secondary school.

According to UNESCO's EFA 2000 Assessment Report, North Korea has 14,167 two-year kindergartens (with 748,416 pupils), 4,886 four-year primary schools (with 1,609,865 pupils), 4,772 six-year senior middle schools (with 2,181,524 pupils), and over 300 colleges and universities. In the 1990s, the school curriculum was balanced between academic and political subject matter. Subjects such as the Korean language, mathematics, and physical education accounted for most of the instructional time in the classroom; however, more than 8% of instructional time was spent on the "Great Kim Il Sung" and "Communist Morality."

Kim Il Sung University (founded in 1946) in P'yŏngyang had about 16,000 full-time and part-time students and about 3,000 faculty, including teachers and research staff, as of the early 1990s. Admission to the university is gained by intensely competitive examination. Song Kyun University of Koryo was founded in 1992, along with three medical schools. Other institutions of higher learning include the Kimch'aek Polytechnic Institute, P'yŏngyang Agricultural College, and P'yŏngyang Medical School. In 1987 there were 220,000 students attending two- or three-year higher specialized schools and 301,000 students attending four- to six-year colleges and university courses. A system of adult schools, correspondence courses, and workplace schools makes higher education widely available. There are over 100 schools offering specialized workers' training.

The adult literacy rate was reported to be 99% in 2002.

#### 44 LIBRARIES AND MUSEUMS

The Democratic People's Republic of Korea (DPRK) has more than 200 public libraries, the largest being the Grand People's Study House in P'yŏngyang (also serving as the national library), with 20 million volumes. Also in Pyongyang, there is a fairly new German library holding 4,000 scientific books in natural and social sciences, plus leading German newspapers and magazines. This is the first public institution to allow citizens to freely read foreign books. In addition, there are research libraries at the academies of sciences and social sciences and at Kim Il Sung University.

Museums include the Korean Central Historical Museum, the Memorial Museum of the War of Liberation, the Korean Art Gallery, the Ethnographic Museum, and the Korean Revolutionary Museum, all in P'yŏngyang. There is a large museum at Mangyongdae, Kim Il Sung's birthplace, near the capital.

#### 45 MEDIA

Postal, telephone, and telegraph services are operated by the government. Telephones are believed to be used primarily for government business. Private lines are for local calling only; international phone lines are available only under very restricted circumstances. In 2003, there were an estimated 41 mainline telephones for every 1,000 people.

The Korean Central Broadcasting Station in P'yŏngyang has a 1,500-kW transmitter. Broadcasts reach to every corner of the country through a system of more than one million loudspeakers, as well as through private radios. In addition, news is broadcast to other countries in English, Russian, French, and Spanish. There are two radio networks (Korean Central Radio and Radio P'yŏngyang) and two television networks (Korean Central TV and Mansudae TV). Radios and televisions are pretuned to respond to these government stations. In 2003, there were an estimated 154 radios and 160 television sets for every 1,000 people. Internet access is only permitted to foreign visitors and high-ranking government officials.

All newspapers and periodicals in the Democratic People's Republic of Korea (DPRK) are published by government, party, or front organizations; each edition is subjected to prepublication review and censorship. As of 2002, there were four daily newspapers in publication. The leading national newspapers and their publishers are: *Rodong Sinmun* (Central Committee of the Korean Workers' Party, circulation 1,500,000); *Minju Choson* (Presidium of the

Supreme People's Assembly and the cabinet, circulation 200,000); *Joseon Immingun* (Korean People's Army Daily); and *Rodong Chongnyon* (Kim Il Sung Socialist Youth League). Each province has a newspaper, and other mass organizations have their own publications. A state news service, the Korean Central News Agency, is the sole organ for the gathering and dissemination of news.

Though there are articles of the constitution that provide for freedom of speech and the press, in practice the government prohibits the exercise of these rights, controlling all information. The receiving of foreign broadcasts is illegal, as is any criticism of the government in any media.

#### 46 ORGANIZATIONS

Mass organizations established for specialized political, economic, or cultural purposes include the powerful Democratic Front for the Reunification of the Fatherland, commonly known as the Fatherland Front. Among its constituent members are the Kim Il Sung Socialist Youth League (formerly known as the Socialist Working Youth League), under the direct guidance of the Korean Workers' Party Central People's Committee; the Young Pioneer Corps, open to children ages 9–15; and the Korean Democratic Women's League. Also important is the Korean Agricultural Workers' Union. There are a number of sports associations and clubs throughout the country. There is a national chapter of the Red Cross Society.

#### 47 TOURISM, TRAVEL, AND RECREATION

Most sightseeing takes place in the capital city of P'yŏngyang. Travel outside P'yŏngyang is closed to individual tourists but available to groups. Nampo, the port city for P'yŏngyang, has a beach resort area. The two most outstanding tourist sites outside the capital are the Kumgang (Diamond) Mountains in the southwest and Packdu Mountain on the Chinese border. Wrestling, tug-of-war, chess (with pieces different from the European form), and kite fighting are traditional sports. All visitors need valid passports and visas secured in advance. Tourists from the United States and the Republic of Korea may need an invitation to travel to the Democratic People's Republic of Korea.

In 2003, the US Department of State estimated the daily cost of travel in P'yŏngyang and other areas was \$271.

#### 48 FAMOUS KOREANS

Among the many historical figures of united Korea are Ulchi Mundok, a Koguryo general of the early 7th century AD; Kim Yŏsin (595–673), a warrior and folk hero in Silla's struggle to unify the peninsula; Wang Kon (877–943), the founder and first ruler of the Koryo Dynasty; Yun Kwan (d.1111), a Koryo general who repulsed Chinese invaders; Kim Pu-sik (1075–1151), a scholar-official who wrote the great *History of the Three Kingdoms*; Yi Song-gye (1335–1408), a general and founder of the Yi (or Li) Dynasty; King Sejong (1397–1450), who called for the invention of Han'gul and was Korea's greatest monarch; Yi Hwang (1501–70) and Yi I (1536–84), Neo-Confucianist philosophers and officials; Yi Sun-sin (1545–98), an admiral who invented the "turtleboat," the first ironclad ship, and defeated the Japanese in every naval engagement of the Hideyoshi invasions, dying in the climactic battle; Chong Yag-yong (1762–1836), a pragmatic scholar-official and prolific writer; and Yi Ha-ung (1820–98), known as the

Taewon'gun (Prince Regent), the regent for his son, Kojong, and the central political figure of the late 19th century.

The preeminent political figure of the Democratic People's Republic of Korea (DPRK) is Kim Il Sung (1912–94), the leader of the nation from 1948 until his death. Other influential figures have included Kim Il (1910–84), a prominent officeholder since 1954; Kim Jong Il (b.1941), the son of Kim Il Sung, who succeeded him; Nam Il (1914–76), a chief of staff who became well known as an armistice negotiator at P'anmunjom (1951–53), and Marshal O Jin U (1918–95), head of the army from 1976 until 1993.

#### **49 DEPENDENCIES**

The DPRK has no territories or colonies.

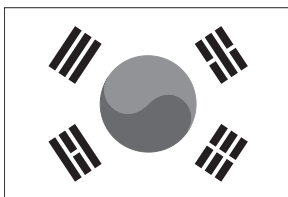
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# KOREA, REPUBLIC OF (ROK)

Republic of Korea  
*Taehan Min-guk*



**CAPITAL:** Seoul

**FLAG:** The flag, called the T'aegukki, shows, on a white field, a central circle divided into two parts, red on top and deep blue below, in the shape of Chinese yin and yang symbols. Broken and unbroken black bars in each of the four corners are variously arranged in sets of three, representing divination diagrams.

**ANTHEM:** *Aegukka (The Song of Patriotism)*, officially adopted on 15 August 1948.

**MONETARY UNIT:** The won (w) is the national currency. There are notes of 500, 1,000, 5,000, and 10,000 won. w1 = \$0.00099 (or \$1 = w1,015) as of 2005.

**WEIGHTS AND MEASURES:** Both the metric system and ancient Korean units of measurement are used.

**HOLIDAYS:** New Year's Days, 1–3 January; Independence Movement Day, 1 March; Labor Day, 10 March; Arbor Day, 5 April; Children's Day, 5 May; Memorial Day, 6 June; Constitution Day, 17 July; Liberation Day, 15 August; Armed Forces Day, 1 October; National Foundation Day, 3 October; Han'gul (Korean Alphabet) Day, 9 October; Christmas, 25 December.

**TIME:** 9 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Occupying the southern 45% of the Korean Peninsula in East Asia, the Republic of Korea (ROK), also known as South Korea, has an area of 98,480 sq km (38,023 sq mi), extending 642 km (399 mi) NNE–SSW and 436 km (271 mi) ESE–WNW. Comparatively, the area occupied by South Korea is slightly larger than the state of Indiana. Bounded on the N by the Democratic People's Republic of Korea (DPRK), on the E by the Sea of Japan (known in Korea as the East Sea), on the S by the Korea Strait, and on the W by the Yellow Sea, the ROK has a total land boundary length of 238 km (148 mi) and a coastline of 2,413 km (1,508 mi). A demilitarized zone (DMZ), 4,000 m (13,100 ft) wide, covering 1,262 sq km (487 sq mi) and located north and south of the 38th parallel, separates the ROK from the DPRK, which comprises the northern part of the Korean Peninsula.

Over 3,000 islands, most of them off the southern and western coasts and belonging to the ROK, add another 8,600 km (5,350 mi) of coastline.

The ROK's capital city, Seoul, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

Elevations in the southern part of the Korean Peninsula are generally lower than those in the north. Only about 30% of the Republic of Korea (ROK) consists of lowlands and plains. The principal lowlands, all bordering the Yellow Sea along the west coast, include the Han River Plain, near Seoul; the Pyongtaek and Honam plains, south of the capital; and the Yongsan Plain in the southwest. Mt. Halla (1,950 m/6,398 ft), on volcanic Cheju Island, is the

nation's highest point, while Mt. Chiri, or Chii (1,915 m/6,283 ft), is the highest point on the mainland.

Principal rivers of the ROK include the Han (514 km/319 mi), with Seoul near its mouth; the Kum (401 km/249 mi) and Yongsan (116 km/72 mi), which water the fertile plains of the southwest; and the Somjin (212 km/132 mi), in the south. The longest river in the ROK is the Nakdong (521 km/324 mi), which waters the southeast. Yellow Sea tides on the west coast rise to over 9 m (30 ft) in some places, while Japan Sea tides on the east coast rise only about 1 m (3 ft).

## <sup>3</sup>CLIMATE

The average January temperature ranges from -5°C (23°F) at Seoul to -2°C (28°F) at Pusan and 4°C (39°F) on Cheju Island. In the hottest part of the summer, however, the regional variation in temperature is not nearly so marked, with average temperatures ranging from 25°C to 27°C (77–81°F) in most lowland areas. Average rainfall is 100 to 150 cm (40 to 50 in). Nearly all the rainfall occurs in the April–September period, especially during the rainy season, late June to early August. From one to three mild typhoons normally strike the south in the early fall, with a severe one occurring every two or three years. Days free of frost number about 240 in the southern regions.

## <sup>4</sup>FLORA AND FAUNA

The Korean Peninsula is rich in varieties of plant life typical of temperate regions. More than 3,000 species, some 500 of them unique to Korea, have been noted by botanists. Warm temperate vegetation, including camellias and other broad-leaved evergreens, predominate in the south and on Cheju Island. Zoologists have identified more than 130 freshwater fishes, 112 breeding birds, 49 mammals, and 14 reptiles and amphibians on the pen-

insula. Bear, wild boar, deer, and lynx still are found in the highlands, but the shrinking of the forested area has reduced the animal population in recent years. Migratory water fowl, cranes, herons, and other birds are visible on the plains. Noxious insects and household pests infest the warmer regions, and aquatic life is generally infected with parasites.

## 5 ENVIRONMENT

Efforts to control the detrimental effects of rapid industrialization, urbanization, and population growth focus on the Office of Environment, established in 1980 to control air, water, and land pollution and manage solid wastes. The Environmental Preservation Law, revised in 1979, covers air, water, and noise pollution, soil preservation, and disposal of solid wastes.

The nation has 65 cu km of renewable water resources with 63% used for agriculture and 11% used for industrial purposes. The purity of the nation's water is threatened by agricultural chemicals. Air pollution, associated mainly with the use of coal briquettes for home heating and the increase in automobile traffic, is also severe, with smog a common problem in Seoul. In the mid-1990s, South Korea had among the world's highest level of industrial carbon dioxide emissions, which totaled 289.8 million metric tons per year, a per capita level of 6.56 metric tons per year. In 1996, the total rose to 408 million metric tons. In 2000, the total of carbon dioxide emissions was at 427 million metric tons.

In 2003, about 6.9% of the total land area was protected by the state. There are three Ramsar wetland sites in the country. Although 28 species of birds and 8 species of mammals—chipmunk, wild boar, squirrel, raccoon dog, badger, hare, river deer, and roe deer—are still classified as game species, hunting was banned by the government from August 1972 through December 1981, except in such game preserves as that of Cheju Island. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species include 12 types of mammals, 34 species of birds, 1 species of amphibian, 7 species of fish, and 1 species of invertebrate. Endangered species in the Republic of Korea (ROK) include the Amur leopard, Oriental white stork, Japanese crested ibis, and Tristram's woodpecker. The Japanese sea lion has become extinct.

## 6 POPULATION

The population of South Korea in 2005 was estimated by the United Nations (UN) at 48,294,000, which placed it at number 25 in population among the 193 nations of the world. In 2005, approximately 9% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.5%, a rate the government viewed as too low. The projected population for the year 2025 was 49,836,000. The population density was 486 per sq km (1,260 per sq mi).

The UN estimated that 80% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.65%. The capital city, Seoul, had a population of 9,714,000 in that year. Other large urban areas and their estimated populations were Pusan, 3,527,000; Inch'on, 2,642,000; Taegu, 2,510,000; Taejon, 1,464,000; Kwangju, 1,448,000; Suwŏn, 1,168,000; Ulsan, 1,060,000; and Pun'ch'on, 745,000.

## 7 MIGRATION

During the Japanese occupation (1910–45), some three million Koreans emigrated to Manchuria and other parts of China, 700,000 to Siberia, approximately three million to Japan, and about 7,000 to the United States (mostly to Hawaii). The great majority of those who went to Japan were from the populous southern provinces, and large numbers (1.5–2 million) of them returned home following the end of hostilities in 1945. In addition, from 1945 through 1949, at least 1.2 million Koreans crossed the 38th parallel into the Republic of Korea (ROK), refugees from Communism or from the Korean War. Under the Emigration Law of 1962, the ROK government encouraged emigration to South America (especially Brazil), Germany, the Middle East, and elsewhere. Most of the emigrants are workers who remit earnings back home. A total of 409,922 Koreans emigrated during the 1962–80 period; emigration peaked at 48,270 in 1976 but had declined to 27,163 by 1990. In addition, Koreans have emigrated permanently to the United States in large numbers since 1971; the population in the United States of Korean origin was 798,849 as of 1990 (72.7% foreign born). Migration within South Korea, mainly from the rural areas to the cities, remains substantial despite government efforts to improve village living conditions. Remittances in 2002 were \$25.8 million.

In 1993, South Korea developed two programs allowing employers to hire migrant workers: the industrial trainee system and the work permit program. The training program was undercut by the fact that as unauthorized workers, trainees could earn a higher wage, even with expenses. According to *Migration News*, in 2004, industrial trainees numbering 50,357 ran away from their assigned employers. In November 2004, a total of 186,000 of the 422,000 foreigners in Korea were illegal. Employers realize fines of up to 20 million won (\$19,080) and up to three years in prison for hiring illegal foreigners. Since August 2004, foreigners can enter Korea as workers under the Employment Permit System. This system benefits the employers as the workers are not quitting their jobs.

As of March 1997, 1,400 boat people who had been granted temporary refugee status were resettled to third countries. In 2004, South Korea hosted 44 refugees and 247 asylum seekers. In 2005, the net migration rate was estimated as zero per 1,000 population.

## 8 ETHNIC GROUPS

The Koreans are believed to be descended primarily from Tungusic peoples of the Mongoloid race, who originated in the cold northern regions of Central Asia. There is scant evidence of non-Mongoloid admixture. There are about 20,000 Chinese; however, the Republic of Korea (ROK) has no sizable ethnic minority.

## 9 LANGUAGES

The Korean language is usually held to be a member of the Altaic family; there are only slight differences among the various dialects. Korean is written in a largely phonetic alphabet called *Han'gul*, created in 1443. The Korean alphabet originally consisted of 14 consonants and 10 vowels; since then, 5 consonants and 11 vowels have been added. *Han'gul* letters are combined into syllables by clustering, in imitation of Chinese characters. Republic of

Korea (ROK) governments have launched several “language beautification” drives designed to purge Korean of borrowings from Japanese and other languages, but more than half of the vocabulary consists of words derived from Chinese.

English is widely taught in junior high and high school.

## 10 RELIGIONS

Most South Koreans are quite eclectic in their religious beliefs, the majority subscribing to varying mixtures of Taoism, Confucianism, Buddhism, Christianity, Ch'ondogyo (Religion of the Heavenly Way, an indigenous sect originating in 1860), and local animism. Shamanism, especially its aspect of exorcism of evil spirits, survives in some rural areas of the Republic of Korea (ROK). Geomancy is also used in matters such as the selection of auspicious building and tomb sites.

About 49% of the population practice Christianity (including 8,760,336 Protestants and 2,950,730 Roman Catholics); 47% practice Buddhism; 3% Confucianism; and 1% folk religion (shamanism), Ch'ondogyo (Religion of the Heavenly Way), and other faiths. Over 21 million people claimed that they did not practice any religion. Of those who claimed a specific religious affiliation, about 41.7% reported that they are active weekly participants in religious services; 26.9% reported attendance of only once a year.

Protestant denominations include Methodist, Lutheran, Baptist, Presbyterian, and Anglican, and the Korean Gospel Church Assembly. Other religions with significant popular followings include Taejongyo, based on the worship of a trinity of ancient deities, and Soka Gakkai, a Buddhist sect of Japanese origin. There are also practicing Muslims, members of the Unification Church, Mormons, and Jehovah's Witnesses.

The constitution provides for freedom of religion, and this right is generally respected in practice. The Religious Affairs Bureau of the Ministry of Culture and Tourism sponsors such groups as the Korea Religious Council and the Council for Peaceful Religions in an effort to promote interfaith understanding.

## 11 TRANSPORTATION

The Republic of Korea's (ROK) railway system in 2004 totaled 3,472 km (2,159 mi) of standard gauge track, most of which was government controlled. The Seoul subway system opened in 1991. Construction of Pusan's first subway line was completed in 1985.

The ROK road system carries 90% of the country's transportation. In 2003, the ROK had 97,252 km (60,491 mi) of roadway, of which 74,641 km (46,426 mi) were paved, including 2,778 km (1,728 mi) of expressways. There were 10,278,900 passenger automobiles, and 4,308,400 commercial vehicles in 2003. Bus transportation networks of varying quality serve most of the rural towns.

Maritime shipping expanded rapidly during the 1970s. By 2005, the ROK had a merchant fleet of 601 vessels of 1,000 gross registered tonnage (GRT) or more, accounting for a total of 6,992,656 GRT. Pusan is the country's chief port. Other major ports include Inch'on (the port for Seoul), Kunsan, and Mokp'o. As of 2004, South Korea had 1,608 km (1000 mi) of navigable waterways, most of which were accessible only by small craft.

There were an estimated 179 airports in 2004. As of 2005, a total of 70 had paved runways, and there were 537 heliports. Major airports include Cheju International at Cheju, Kimhae International at Pusan, and Kimp'o International at Seoul. Civil aviation in the



LOCATION: 33°7' to 38°38' N; 124°36' to 130°56' E. BOUNDARY LENGTHS: North Korea, 240 kilometers (149 miles); total coastline, 1,318 kilometers (819 miles). TERRITORIAL SEA LIMIT: 12 miles.

ROK in 2003 amounted to 8,312 million freight ton-km of service and about 33.334 million passengers were carried on scheduled domestic and international flights. Korean Air Lines (KAL), privately owned since 1969, grew rapidly during the 1970s and now ranks as a major world carrier. On the morning of 1 September 1983, a KAL jetliner en route from New York to Seoul via Anchorage, Alaska, strayed over airspace of the former USSR and was shot down by Soviet interceptors, reportedly because they thought it was a military aircraft engaged in espionage; all 269 persons on board were killed, and worldwide protest followed. In November 1983, 115 people were killed when a bomb was detonated aboard a KAL jet en route to Seoul.

## 12 HISTORY

[For Korean history before 1948, see Korea, Democratic People's Republic of.]

The Republic of Korea (ROK), headed by President Syngman Rhee (Rhee Syngman), was proclaimed on 15 August 1948 in the southern portion of the Korean Peninsula, which had been under US military administration since 8 September 1945. Like the Democratic People's Republic of Korea (DPRK), established in the north on 9 September 1948 with Soviet backing, the ROK claimed to be the legitimate government of all Korea. The ROK was recognized as the legitimate government by the United Nations (UN) General Assembly.

At dawn on 25 June 1950, following a year and a half of sporadic fighting, the well-equipped People's Army of the DPRK struck across the 38th parallel. Proclaiming that the war was for national liberation and unification of the peninsula, the DPRK forces advanced rapidly; Seoul fell within three days, and the destruction of the ROK seemed imminent. At US urging, the UN Security Council (with the Soviet delegate absent) branded the DPRK an aggressor and called for the withdrawal of the attacking forces. On 27 June, US president Harry S. Truman ordered US air and naval units into combat, and three days later, US ground forces were sent into battle. The United Kingdom took similar action, and a multinational UN Command was created to join with and lead the ROK in its struggle against the invasion. Meanwhile, DPRK troops had pushed into the southeast corner of the peninsula. At that juncture, however, UN lines held firm, and an amphibious landing at Inchon (15 September 1950) in the ROK under General Douglas MacArthur brought about the complete disintegration of the DPRK army.

MacArthur, commanding the UN forces, made a fateful decision to drive northward. As the UN forces approached the Yalu River, however, China warned that it would not tolerate a unification of the peninsula under US/UN auspices. After several weeks of threats and feints, "volunteers" from the Chinese People's Liberation Army entered the fighting en masse, forcing MacArthur into a costly pell-mell retreat down the peninsula. Seoul was lost again (4 January 1951) and then regained before the battle line became stabilized very nearly along the 38th parallel. There it remained for two weary years, with bitter fighting but little change, while a cease-fire agreement was negotiated.

On 27 July 1953, an armistice agreement finally was signed at P'anmunjom in the DPRK. The Korean War was ended, but it had brought incalculable destruction and human suffering to all of Korea (some 1,300,000 military casualties, including 415,000 combat deaths, for the ROK alone), and it left the peninsula still more implacably divided. A military demarcation line, which neither side regarded as a permanent border, was established, surrounded by the DMZ. The international conference envisioned in the armistice agreement was not held until mid-1954. This conference and subsequent efforts failed to reach an agreement on unification of the North and South, and the armistice agreement, supervised by a token UN Command in Seoul and by the Military Armistice Commission and the Neutral Nations Supervisory Commission, both in P'anmunjom, remains in effect.

In 1954, the United States and ROK signed a mutual defense treaty, under which US troops remained in the country. Financial assistance throughout the 1950s was provided by the United

States, averaging \$270 million annually between 1953 and 1958, and by other nations under UN auspices. Syngman Rhee ran the government until 1960, when his authoritarian rule provoked the "April Revolution," the culmination of a series of increasingly violent student demonstrations that finally brought about his ouster. The Second Korean Republic, which followed Rhee, adopted a parliamentary system to replace the previous presidential system. The new government, however, was short-lived. Premier Chang Myon and his supporters were ousted after only 10 months by a military coup in May 1961 headed by Maj. Gen. Park Chung-hee. The military junta dissolved the National Assembly, placed the nation under martial law, established the Korean Central Intelligence Agency (KCIA) as a means of detecting and suppressing potential enemies, and ruled by decree until late 1963 through the Supreme Council for National Reconstruction. General Park created a well-organized political party—the Democratic-Republican Party (DRP)—designed to serve as a vehicle for the transition from military to civilian rule, and in October 1963, under a new constitution, he easily won election as president of the Third Republic.

During the summer of 1965, riots erupted all over the ROK in protest against the ROK-Japan Normalization Treaty, which established diplomatic relations and replaced Korean war-reparation claims with Japanese promises to extend economic aid. The riots were met with harsh countermeasures, including another period of martial law and widespread arrests of demonstrators. Further demonstrations erupted in 1966, when the ROK's decision to send 45,000 combat troops to Vietnam became known. Park was elected to a second term in May 1967, defeating his chief opponent, Yun Po-sun, and the DRP won a large majority in the National Assembly. In 1969, Park pushed through the National Assembly a constitutional amendment permitting him to run for a third term. He defeated Kim Dae Jung, leader of the opposition New Democratic Party (NDP), in the elections of April 1971, but Kim's NDP made significant gains in the National Assembly elections that May.

Student demonstrations against the government in the fall of 1971 prompted Park to declare a state of national emergency on 6 December. Three weeks later, in a predawn session held without the knowledge of the opposition, the National Assembly granted Park extraordinary governmental powers. These failed to quell mounting opposition and unrest, and in October 1972 martial law was declared. A new constitution, promulgated at the end of the month and ratified by national referendum in November 1972, vastly increased the powers of the presidency in economic as well as political affairs. Under this new document, which inaugurated the Fourth Republic, Park was elected for a six-year term that December, with a decisive legislative majority for his DRP. Soon the economy began to expand at a rapid rate. But Park's regime became increasingly repressive. Typical of its heavy-handed rule was the abduction by KCIA agents of Kim Dae Jung from a Japanese hotel room back to Seoul, an incident that provoked considerable friction between Japanese and Korean officials. On 15 August 1974, a Korean gunman carrying a Japanese passport and sympathetic to the DPRK attempted to assassinate the president but killed Park's wife instead. Park responded by drafting a series of emergency measures; the harshest of these, Emergency Measure No. 9, issued in May 1975, provided for the arrest of anyone

criticizing the constitution and banned all political activities by students.

Park was reelected for another six-year term in July 1978, but the NDP, now led by Kim Young Sam, made major gains in the National Assembly. In October 1979, Kim was expelled from the legislature after calling for governmental reform. Riots protesting Kim's ouster were reported in several major cities. On 26 October 1979, in what may have been an attempted coup, Park was assassinated by KCIA director Kim Jae-gyu, who was later executed. Martial law was again imposed, and a period of relative calm followed as some of the more restrictive emergency decrees were lifted by Park's constitutional successor, the prime minister, Choi Kyu-hah, who promised a new constitution and presidential elections.

In December 1979, Maj. Gen. Chun Doo Hwan led a coup in which he and his military colleagues removed the army chief of staff and took effective control of the government. Demonstrations led by university students spread during the spring of 1980, and by mid-May, the government had once more declared martial law (in effect until January 1981), banned demonstrations, and arrested political leaders. In the city of Kwangju, more than 200 civilians were killed in what became known as the Kwangju massacre (these numbers may be conservative). Choi Kyu-hah was pressured to resign and Chun Doo Hwan, now retired from the military, was named president in September 1980. Chun Doo Hwan came to power under a new constitution inaugurating the Fifth Republic. A total of 567 political leaders, including Kim Dae Jung and Kim Young Sam, were banned from political activity. Kim Dae Jung, arrested several times after his 1973 kidnapping, was originally sentenced to death but allowed to go to the United States in 1982. All existing political parties were dissolved and all political activity banned until three months before the 1981 elections.

Twelve new parties (reduced to eight) were formed to enter the 1981 elections, in which Chun Doo Hwan was elected to a seven-year presidential term by a new electoral college and his Democratic Justice Party (DJP) secured a majority in the reconstituted National Assembly. Despite harsh controls, opposition to Chun continued. In 1982, 1,200 political prisoners were released, and in early 1983, the ban on political activity was lifted for 250 of the banned politicians. On 9 October 1983, Chun escaped an apparent assassination attempt in Yangon (Rangoon), Burma, when an explosion took the lives of 17 in his entourage, including four ROK cabinet ministers. Chun subsequently blamed the DPRK for the bombing. In 1984, under increasing pressure for political reforms prior to the 1985 parliamentary elections, the government lifted its ban on all but 15 of the 567 politicians banned in 1980. In 1985, the ban was lifted on 14 of the remaining 15. Kim Dae Jung was allowed to return from exile in the United States in 1984 but was rearrested. He remained banned from all political activity because of his conviction for sedition in 1980.

Opposition groups quickly formed the New Korea Democratic Party (NKDP) to challenge the DJP in the 1985 election; the new party became a strong minority voice in the National Assembly. The issue of constitutional reforms, particularly changes in the way in which presidents are elected and the way in which "bonus" seats in the legislature are distributed, became prominent, especially after Chun reaffirmed a commitment to step down in February 1988 and, in April 1986, dropped his long-standing opposition to any

constitutional changes prior to that date. Demonstrations against Chun continued and became violent at Inch'on in May 1986 and at Konkuk University that fall. Opposition groups began collecting signatures on a petition demanding direct (instead of indirect) election of the president. In April 1987, as demonstrations became increasingly violent, Chun banned all further discussion of constitutional reform until after the 1988 Olympic Games in Seoul. The ban, which could have guaranteed the election of a hand-picked DJP successor, set off violent antigovernment demonstrations throughout the nation. In June 1987, the DJP nominated its chairman, Roh Tae Woo, a former general and a close friend of Chun, as its candidate for his successor. When Roh accepted opposition demands for political reforms, Chun announced in July that the upcoming election would be held by direct popular vote. On 8 July, 100,000 people demonstrated in Seoul in the largest protest since 1960 and, on the same day, the government restored political rights to 2,000 people, including the longtime opposition leader, Kim Dae Jung.

In the elections, held on 16 December 1987, Roh Tae Woo, as the DJP candidate, won a plurality of 37%, defeating the two major opposition candidates, Kim Young Sam and Kim Dae Jung, who had been unable to agree on a single opposition candidacy and split 55% of the total vote. Two minor candidates divided the remainder. A reported 89% of all eligible voters participated. The two leading opposition candidates charged massive fraud, and a series of demonstrations were held to protest the results. However, no evidence of extensive fraud was produced, and the demonstrations did not attract wide support. Roh Tae Woo was inaugurated as president in February 1988 when Chun Doo Hwan's term expired.

In the elections for the National Assembly, held on 26 April 1988, President Roh Tae Woo's party, the DJP, won only 34% of the vote. This gave the DJP 125 seats in the assembly, while Kim Dae Jung's Peace and Democracy Party (PDP) gained 70 seats, Kim Young Sam's Reunification Democratic Party (RDP) won 59 seats, 35 seats went to the new Democratic Republican Party (NDRP), and 10 to independent candidates. Thus, for the first time in 36 years, the government did not have a controlling vote in the National Assembly, which quickly challenged President Roh's choice for head of the Supreme Court and by year's end forced the president to work with the assembly to pass the budget.

In the fall of 1988, the National Assembly audited the government and held public hearings on former President Chun's abuses of power. In November, Chun apologized to the nation in a televised address, gave his personal wealth to the nation, and retired into a Buddhist temple. Following the revision of the constitution in 1987, South Koreans enjoyed greater freedoms of expression and assembly and freedom of the press, and in 1988, several hundred political dissidents were released from prison.

Unrest among students, workers, and farmers continued, however, and beginning in April 1989, the government repressed opposition. In October 1989, the government acknowledged making 1,315 political arrests so far that year. The National Assembly became less of a check on President Roh after two opposition parties (RDP, NDRP), including that of Kim Young Sam, merged with Roh's DJP, forming a new majority party, the Democratic Liberal Party (DLP) in January 1990. Kim Dae Jung was then left as the leader of the main opposition party (PDP).

There were continuing demonstrations into 1990 and 1991, calling for the resignation of President Roh and the withdrawal of US troops. In May 1990, 50,000 demonstrators in Kwangju commemorated the 10th anniversary of the massacre, resulting in clashes with police which lasted several days. The United States agreed to withdraw its nuclear weapons from the ROK in November 1991. And, on the last day of the year, the ROK and the DPRK signed an agreement to ban nuclear weapons from the entire peninsula.

In the presidential election on 19 December 1992, Kim Young Sam, now leader of the majority DLP, won with 41.9% of the vote, while Kim Dae Jung (DP) took 33.8%. Inaugurated in February 1993, Kim Young Sam began a new era as the first president in 30 years who was a civilian, without a power base in the military. President Kim granted amnesty to 41,000 prisoners and instituted a series of purges of high-ranking military officials, including four generals who had roles in the 1979 coup. Among political and economic reforms was a broad anticorruption campaign, resulting in arrests, dismissals, or reprimands for several thousands of government officials and business people. In March 1994, a former official of the National Security Planning Agency made public President Roh Tae Woo's authorization of a covert program to develop nuclear weapons at the Daeduk Science Town through 1991.

South and North Korea continued to have a rocky relationship. On three successive days in April 1996, North Korean troops violated the 1954 armistice that had ended the Korean War by entering P'anmunjom. The soldiers, who were apparently conducting training exercises, withdrew after a few hours on all three occasions. In September of the same year, a small North Korean submarine was grounded off the eastern coast of South Korea and 26 crew members fled into the interior of South Korea. The ship appeared to be carrying a team of North Korean spies who intended to infiltrate South Korea to carry out what remain unknown missions against South Korean targets. Twenty-four of the crewmen were killed, one escaped, and one remains at large. In a surprise move, the North Korean government apologized in February of 1997 for the incursion.

Meanwhile, domestic events inside South Korea were equally tumultuous. In August of 1996, former President Chun Doo Hwan and his successor, Roh Tae Woo, were tried and found guilty of treason and mutiny for the 1980 coup that brought them to power, and the subsequent Kwangju massacre, in which troops killed more than 200 prodemocracy demonstrators (those numbers may be conservative). The court gave Chun a death sentence (extremely rare in Korea) and sentenced Roh to 22.5 years in prison. An appellate court later reduced Chun's sentence to life imprisonment and Roh's sentence to 17 years. When Kim Dae Jung was inaugurated as president in 1998, both leaders were released from prison under Kim's grant of amnesty.

On 11 April 1996, legislative elections took place amid allegations of corruption that reached the inner circle of President Kim Young Sam and his New Korea Party (NKP). During the preelection campaign, Kim promised to launch an anticorruption effort if his party gained power; in a major upset, the NKP captured 139 of the 299 seats, while the main opposition party (National Congress for New Politics—NCNP) of Kim Dae Jung won only 79 seats. Kim Dae Jung lost his own seat in the legislature. Several important New Korea Party officials and even Kim Young Sam's son were implicated on charges of taking or giving millions of dol-

lars in bribes to arrange loans to Hanbo Steel Industry Co., which eventually went bankrupt under \$6 billion of debt. Some of those officials were indicted in February of 1997, but Mr. Kim's son, Kim Hyun Chul, was cleared. However, in May of the same year, Kim Hyun Chul was arrested on bribery and tax-evasion charges unrelated to the Hanbo scandal.

By 1997, many of the large *chaebols* (business conglomerates) were reporting serious problems with debt. A portion of the Kia Group, a major manufacturer of automobiles, was nationalized to prevent bankruptcy. Increased domestic economic instability coupled with economic crisis swept through Asia, leading to a severe decline in the value of the currency. The ensuing financial panic coincided with presidential elections on 18 December 1997, the month that negotiations with the International Monetary Fund (IMF) began. In the 1997 presidential elections, South Koreans elected former political exile Kim Dae Jung, who became the country's first opposition candidate to win a presidential election. In the election, Kim Dae Jung narrowly defeated the ruling party's candidate, Lee Hoe Chang, by 40.3% to 38.7%. Kim Dae Jung pledged to adhere to IMF conditionality and reform government-business relations in South Korea by increasing transparency. In 1998 and 1999, the government reduced the role of government intervention in the domestic economy despite numerous strikes by workers protesting layoffs.

By mid-2000, Kim Dae Jung had managed to steer Korea's economy out of the worst of the crisis. The economy started to grow in 1999 and topped 10% in 2000, although economic growth stabilized at 4.4% by 2004. South Korea faced a steady unemployment rate of 3.6% between 2000 and 2005. In April 2000, the legislative elections improved the position of Kim's party, renamed the New Millennium Party (NMP), to 115 seats. However, the Grand National Party (GNP), successor to the NKP, obtained 133 seats and the United Liberal Democrats, allied with the GNP, won 17. Thus, Kim's objective to continue economic reform was imperiled.

In June 2000, Kim Dae Jung traveled to P'yongyang, the capital of the Democratic People's Republic of Korea (North Korea) for a historic meeting with his counterpart, Kim Jong Il. The two agreed to pursue further cooperation in the future. This summit marked the high point of what became known as Kim Dae Jung's "sunshine policy" of rapprochement toward the North. He was awarded the Nobel Peace Prize in 2000 for his commitment to democracy and human rights in Asia.

Roh Moo Hyun was elected president in the December 2002 election, taking 49% of the vote; he was inaugurated in February 2003. While campaigning, Roh stated he would continue Kim Dae Jung's "sunshine policy" toward the North, but prior to his election, it was revealed that North Korea was secretly developing a program to enrich uranium for use in nuclear weapons. Relations between North Korea and the United States were tense in 2002 and 2003, as the United States maintained North Korea should not be allowed to develop nuclear weapons, and the North asserted it had the right to do so to provide for its defense and security. Roh took the position that North Korea's move to develop nuclear weapons and export missiles could only be countered by dialogue. This put him at odds with some in the Bush administration, who held that the United States would not be "blackmailed" into negotiating with the North. In June 2003, the United States announced it would redeploy some of its 37,000 troops in South Ko-

rea to positions south of the DMZ, in an effort to create more agile and mobile forces. South Korea is also an integral part of the six-state team that meets periodically to assess North Korean nuclear ambitions. Roh's attempts to engage North Korea came under increasing attack since North Korea admitted to having a uranium-enrichment program as well as nuclear reactors.

Relations between the two countries warmed slightly in 2005 due to an increase in joint sports matches. Growing cultural contacts helped improve P'yongyang's image in the South. The younger generation in South Korea does not hold as stringent anticommunist ideals as the older generation and there is growing public support to provide economic aid to North Korea.

A major fund-raising scandal that implicated both major parties in 2003 delayed Roh's ability to advance several bills through parliament as the majority of parliament was concerned with investigating the scandal. This was particularly embarrassing to Roh, who, during his campaign, had pledged to end corruption within the government.

Roh faced a major crisis in 2004 when opposition parties brought about a parliamentary vote to impeach him. However, South Koreans supported Roh and his party, the Uri Dang Party, and voted a majority into parliament in 2004. Roh was allowed to resume the presidency after a parliamentary vote to overturn the impeachment but Roh's aggressive political style and staunch alliance with the United States continued to divide the populace.

Of major importance to contemporary South Korea is the stance of Japan regarding their military activities during World War II. South Korea often criticizes the Japanese educational system for overlooking Japan's military aggression in Asia during World War II, and is in continual negotiations with Japan over this topic. Of immense intensity is South Korean animosity concerning South Korean women taken as sex slaves by the Japanese Imperial Army during World War II. Although the Japanese government admitted deception, coercion, and official involvement in the recruitment and kidnapping of South Korean women in 1995, there has been no official apology and there is much tension in South Korean-Japanese relations. Japanese prime minister Junichiro Koizumi further inflames this animosity by making a yearly visit to the Yasukuni Shrine, which is dedicated to the Japanese war dead; Japan regards all World War II compensation claims to be settled per treaties signed in 1964. South Korea also contests Japanese claims to Liancourt Rocks (Tok-do/Take-shima), occupied by South Korea since 1954.

### 13 GOVERNMENT

The Republic of Korea's (ROK) first constitution was adopted on 17 July 1948. Through repeated revisions, power remained concentrated in the hands of the president until the most recent revision, adopted by 93.1% of the vote in a popular referendum on 28 October 1987. Under the new constitution, which took effect in February 1988, the president is elected by direct popular vote, rather than indirectly as before, for a single term of five years. There are also a prime minister and two deputy prime ministers, who head the State Council (the cabinet). In an extremely tight presidential race, Roh Moo Hyun was elected president on 19 December 2002 with 49% of the vote over Lee Hoi Chang, with 47%, for a five-year term beginning on 25 February 2003. In the elec-

tions of 2004, the Uri Dang, or "Our Party," won a narrow victory in parliament with 38.3% of the vote.

The ROK legislature is the unicameral National Assembly (Kuk Hoe); its next election was scheduled to be held in 2008. It has 299 seats: 243 in single-seat constituencies, 56 by proportional representation. During the first four decades of the ROK, the National Assembly had little authority. The 1987 constitution strengthened the National Assembly, giving it power to audit government activities and removing the president's power to dissolve the Assembly. Suffrage is universal at age 20.

### 14 POLITICAL PARTIES

From 1948 to 1988, politics in the Republic of Korea were dominated by the executive arm of the government with military backing. Despite this, there were active opposition parties and, with the implementation of the revised 1987 constitution, political parties have had a greater governmental role. In the presidential election of December 1987, the governing Democratic Justice Party (DJP), with Roh Tae Woo as its candidate, won 37% of the vote; the Reunification Democratic Party (RDP), with Kim Young Sam, won 28%; the Peace and Democracy Party (PDP), with Kim Dae Jung, won 27%; and the New Democratic-Republic Party (NDRP), with Kim Jong Pil, won 10%. In a crucial election for the National Assembly in April 1988, the DJP gained only 34% of the popular vote, allowing the opposition parties to control the assembly. This was the first time since 1952 that the government party did not have a majority in, and hence control of, the National Assembly.

In a surprise move in January 1990, the DJP merged with two of the opposition parties, the RDP and the NDRP, to form a new majority party, the Democratic Liberal Party (DLP). In July of that year, two opposition parties, the PDP and the Democratic Party (DP) merged, retaining the latter's name. In September 1991, the DP agreed to merge with another opposition party, the New Democratic Party (NDP), then led by the veteran oppositionist, Kim Dae Jung, forming a new DP.

The National Assembly election on 24 March 1992 saw 38.5% of the vote go to the DLP; 29.2% to the DP; 17.3% to the Unification National Party, which later changed its name to the United People's Party (UPP); and 15% to other parties. The actual distribution of seats in the National Assembly shifts as members frequently switch among parties. In the presidential election on 18 December 1992, 41.5% of the vote went to Kim Young Sam of the DLP; 33.8% to Kim Dae Jung of the DP; 16.3% to Chung Ju Yung of the UPP; and 8% to candidates of various smaller parties.

Following the 1992 elections, Korea's largest political parties began a period of reorganization. The DLP transformed into the New Korea Party (NKP), while Kim Dae Jung formed a new opposition party, the National Congress for New Politics (NCNP). In the National Assembly election on 11 April 1996, the NKP won 139 seats; the NCNP, 79 seats; the ULD, 50 seats; and the DP, 15 seats. The remaining 16 seats were won by independents. The surprise of the election was the success of the ULD, a conservative party led by former premier Kim Jong Pil.

In the presidential election of 18 December 1997, Kim Dae Jung won 40.3% and Yi Hoe Chang of the Grand National Party (GNP) won 38.7%. In January 2000, Kim reorganized his cabinet; his party, the National Congress for New Politics, assumed a new name, the Millennium Democratic Party (MDP).

The 13 April 2000 election involved Kim Dae Jung's MDP, which captured 115 seats; the former governing party, Grand National Party (formerly the New Korea Party), obtained 133 seats; and a minor party, the United Democratic Liberal Party captured 17 seats. Two seats were held by the Democratic People's Party, one seat was held by the New Korea Party of Hope, and five seats went to independents. The 15 April 2004 election showed a surprise outcome of the Uri Dang party, a liberal party, overtaking the Grand National Party with 152 seats; the Grand National Party retained 121 seats and the MDP came in fourth place with only 9 seats.

## 15 LOCAL GOVERNMENT

The Republic of Korea (ROK) is divided into is divided into one special city (*teukbyeolsi*), six metropolitan cities (*gwangyeoksi*), and nine provinces (*do*). These are further subdivided into a variety of smaller entities, including cities (*si*), counties (*gun*), wards (*gu*), towns (*eup*), districts (*myeon*), neighborhoods (*dong*), and villages (*ri*). Between 1961 and March 1990, there were no local elections.

In late April 2005, the governing Uri Dang Party and leading opposition parties agreed to a sweeping change in the country's local administration. This reform, tentatively slated to take place in 2010, would replace the three-tier system with a two-tier system. The existing provinces and metropolitan cities would be eliminated. The current *gu*, *si*, and *gun* units would be reorganized into about 60 "metropolitan cities" with a population of roughly one million each. Beyond this, the details of the reform were not decided at that time.

## 16 JUDICIAL SYSTEM

The highest judicial court is the Supreme Court, under which are five intermediate appellate courts. Lower tribunals include district courts, of which there are 15, and a family and administrative court. There are 103 municipal courts in South Korea. Since 1988, constitutional challenges go to the Constitutional Court.

The president, with the consent of the National Assembly, appoints the chief justice, the other 13 justices of the Supreme Court, and the Constitutional Court. The chief justice, in consultation with the other justices of the court, appoints lower court justices.

The constitution provides for a presumption of innocence, protection from self-incrimination, the right to a speedy trial, protection from double jeopardy, and other procedural due process safeguards.

The constitution provides for an independent judiciary. There are no jury trials. The legal system combines some elements of European civil law systems, Anglo-American law, and classical Chinese philosophies. Laws concerning detention are often vague—in particular, the National Security Law, which authorizes the detention of South Koreans who may be engaged in espionage or otherwise supportive of North Korea. Because South Korean citizenship is based on parentage instead of birthplace, there are many nonethnic Koreans who face extreme difficulties in procuring employment and are banned from civil service work. Rape, domestic violence, and sexual harassment are also punished leniently and many grassroots organizations have been formed to promote the legitimacy of these issues. As of 2005, there was a growing move-

ment against the mandatory military conscription for South Korean males.

## 17 ARMED FORCES

The Republic of Korea (ROK) in 2005 had 687,700 personnel on active duty in its armed forces. Of that total, 560,000 were in the Army, 63,000 in the Navy and Marines, and 64,700 in the Air Force. An additional 4.5 million were in the reserves. Paramilitary forces included 3.5 million in the Civilian Defense Corps and an estimated 4,500 personnel in the Maritime Police. The Army's equipment roster included 2,330 main battle tanks, 40 armored infantry fighting vehicles, 2,480 armored personnel carriers, over 10,774 artillery pieces, and 60 attack helicopters. Major naval units included 20 tactical submarines, 6 destroyers, nine frigates, 28 corvettes, 80 patrol/coastal vessels, and 15 mine warfare ships. The Air Force had 540 combat-capable aircraft, including 210 fighters and 283 fighter ground attack aircraft. The ROK in 2005 provided support for peacekeeping and UN missions in seven countries or regions. The United States maintained a military presence of over 40,000 personnel in the ROK. The defense budget in 2005 totaled \$20.7 billion.

## 18 INTERNATIONAL COOPERATION

The Republic of Korea (ROK) became a member of the United Nations on 17 September 1991 and participates in ESCAP and several nonregional specialized agencies, such as the FAO, UN-SECO, IFC, IMF, the World Bank, ILO, UNIDO, and the WHO. The ROK participates in the African Development Bank, Asian Development Bank, APEC, the ASEAN Regional Forum, the Colombo Plan, the European Bank for Reconstruction and Development, the Latin American Integration Association (LAIA), and OECD. The country is a dialogue partner in ASEAN, a partner in the OSCE, and an observer in the OAS.

The UN Commission on the Unification and Rehabilitation of Korea was dissolved in 1973, but the UN Command originating from the Korean War continues to supervise implementation of the 1953 armistice agreement. The ROK pursues a vigorous international diplomacy, and in recent years has modified both its militant anticommunist stance and its close alliance with the United States. By 1986, the ROK was recognized by 122 nations, 67 of which also had diplomatic relations with the Democratic People's Republic of Korea (DPRK). The demilitarized zone that separates North and South Korea has been in place since 1953, though both governments claim a desire for reunification. The nation is a guest in the Nonaligned Movement.

The ROK is part of the Australia Group, the Zangger Committee, the Nuclear Energy Agency, the Nuclear Suppliers Group (London Group), and the Organization for the Prohibition of Chemical Weapons. In environmental cooperation, the nation is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 1<sup>9</sup> ECONOMY

Under a centralized planning system initiated in 1962, the Republic of Korea (ROK) was one of the fastest-growing developing countries in the postwar period, shifting from an agrarian to an industrial economy to a high-tech "new economy" in the course of only a few decades. In 1996, the ROK was officially admitted to the 30-member Organization for Economic Cooperation and Development (OECD) of advanced industrialized countries. In 2005, industry contributed 41.4% of gross domestic product (GDP) compared to 16.2% in 1965, while agriculture, forestry, and fishing accounted for 3.8%, down from 46.5%. Much of this industrialization was fueled by the government's stimulation of heavy industry, notably steel, construction, shipbuilding, and automobile manufacture, as well as its support of technological advances in communications and information technology (CIT). To finance industrial expansion, the ROK borrowed heavily up until the mid-1980s. By the end of 1986, its foreign debt equaled about 52% of gross national product (GNP), making the country one of the world's four most deeply indebted developing economies. Steady current account surpluses allowed the ROK to reduce this figure, but in 1998, in the wake of the Asian financial crisis, the external debt/GDP ratio again ballooned, reaching an average 46.9% in 1998. Financial and corporate structural reforms helped bring this ratio down to 26.1% at the end of 2004.

The average annual rate of GDP growth declined from an average of 9.5% between 1965–80 and 9.7% between 1980–90 to 6.57% 1991–2000 as export growth slowed, labor costs rose, and the won steadily appreciated against the US dollar. However, Korea's economy started to grow once again at the phenomenal rate that it saw in the 1970s and 1980s in the later 1990s. The economy grew by 9.1% in 1995 and 9.1% in 1996. However, after June 1997, when Hong Kong reverted to Chinese rule, South Korea became engulfed in the Asian financial crisis. GDP growth averaged only 5% in 1997, and then turned negative (-6.6%) in 1998, in the country's first economic contraction since the Korean war. Export value fell 25% in 1998 despite a 19.6% increase in volume, due to depreciating currencies. Before the end of 1997, a \$58 billion international support program had been arranged, anchored in a three-year standby arrangement with the International Monetary Fund (IMF) running from 4 December 1997 to 3 December 2000, and a one-year arrangement under the IMF's Supplemental Reserve Facility (SRF) with an additional \$14 billion line of credit. South Korea's economy made a strong recovery in 1999 and 2000, with GDP growth rates of 10.9% and 9.3%, respectively, while inflation, which had reached 4% in 1998, was held to 1.9% in 1999 and 2.8% in 2000. The recovery was sharply interrupted, however, by the collapse of the dot.com boom in early 2001, the decline in international investment in the aftermath of the 11 September 2001 terrorist attacks on the United States, and the slowdown in the global economy.

One problem South Korea faces is that it has not yet developed a strong and diverse local economy, despite its skilled workforce and large middle class. It has relied upon increasing exports, which benefit a few huge conglomerates (*chaebol*), in ways that stifle domestic demand. Real GDP growth dropped to 3.23% in 2001, stood at 6.27% in 2002, and fell again to 2.7% in 2003. In 2005, the real GDP growth rate was estimated at 3.7%, and was forecast to pick up in 2006 to 4.8%, reflecting a strengthening of

domestic demand, before easing back to 4.1% in 2007. However, further rises in global oil prices in 2006–07 could slow the economic recovery.

## 2<sup>0</sup> INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 South Korea's gross domestic product (GDP) was estimated at \$983.3 billion. The per capita GDP was estimated at \$20,300. The annual growth rate of GDP was estimated at 3.7%. The average inflation rate in 2005 was 2.8%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3.8% of GDP, industry 41.4%, and services 54.8%.

According to the United Nations, in 2000, remittances from citizens working abroad totaled \$63 million or about \$1 per capita. Worker remittances in 2001 totaled \$49.20 million. Foreign aid receipts amounted to about \$2 per capita.

The World Bank reports that in 2001, per capita household consumption (in constant 1995 US dollars) was \$6,907. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period, private consumption grew at an annual rate of 4%. Approximately 18% of household consumption was spent on food, 7% on fuel, 5% on health care, and 14% on education. The richest 10% of the population accounted for approximately 24.3% of household consumption and the poorest 10% approximately 2.9%. It was estimated that in 2001, about 4% of the population had incomes below the poverty line.

## 2<sup>1</sup> LABOR

The South Korean labor force in 2005 was estimated at 23.65 million. In 2004, it was estimated that 8% were engaged in agriculture, 19% in industry, and 73% in the services sector. The unemployment rate in 2005 was estimated at 3.7%.

Before 1987, the labor movement was heavily controlled by the government, but since 1991, democratic reform has brought some changes. With the exception of public-sector employees, workers enjoy the right to join unions, even with as few as two members. All unions must register with the Labor Ministry, although unions not formally recognized by the ministry have generally not been interfered with by the government. In 2005, about 11% of the workforce belonged to a union. Unions often exercise the right to strike, and collective bargaining is prevalent.

Children under the age of 15 are generally prohibited from working, and those under 18 must obtain written approval from their parents. In July of 2004, the five-day, 40-hour workweek was adopted, applicable to certain types of companies with 1,000 or more employees. In other areas, employees can work up to 44 hours per week, during certain weeks, so long as the average over two weeks is 40 hours per week. Overtime pay is mandatory for extended hours. In 2005, the minimum wage was \$2.92 per hour. Health and safety standards are regulated by the government, although they are not stringently enforced due to lack of inspectors.

## 2<sup>2</sup> AGRICULTURE

Some 18.7% of the Republic of Korea's (ROK) land area is arable, with about 70% of it sown in grain, rice being the chief crop. In 1965, agriculture (including forestry and fishing) contributed nearly 50% to gross national product (GNP), but by 2005 only accounted for 3.8%. Double-cropping is common in the southern provinces. Rice production in 2004–05 was 5,000,000 tons. Barley production in 2004 stood at 260,000 tons; potatoes, 550,000 tons; and soybeans, 139,000 tons. Despite increased yields due to mechanization, the use of hybrid seeds, and increased employment of fertilizers, the ROK runs a net deficit in food grains every year. In 2004, imports of cereals, mostly from the United States, amounted to \$2.2 billion, consisting almost entirely of wheat and corn. Virtual self-sufficiency has been attained in rice production, but at a cost of nearly \$2 billion per year in direct producer subsidies. In 2004, the ROK's agricultural trade deficit was \$8.4 billion, fifth highest in the world.

Hemp, hops, and tobacco are the leading industrial crops. The ROK was the world's second-leading producer (after China) of chestnuts in 2004. The orchards in the Taegu area are renowned for their apples, the prime fruit crop; output in 2004 was 60,000 tons. Pears, peaches, persimmons, and melons also are grown in abundance. About two-thirds of vegetable production is made up of the *mu* (a large white radish) and Chinese cabbage, the main ingredients of the year-round staple kimchi, or Korean pickle.

Until the Korean War, tenant farming was widespread in the ROK. The Land Reform Act of June 1949, interrupted by the war, was implemented in 1953; it limited arable land ownership to three hectares (7.4 acres) per household, with all lands in excess of this limit to be purchased by the government for distribution among farmers who had little or no land. By the late 1980s, farms averaged 0.5–1 hectare (1.2–2.5 acres). The New Village (Saemaul) Movement, initiated in 1972, plays a major role in raising productivity and modernizing villages and farming practices.

The ROK has one of the most protected agricultural economies of the world, with high production costs supported by government purchases, and high tariffs protecting domestic producers from import competition. In 2004, a free trade agreement with Chile became effective, whereby trade duties were lifted on many of Chile's agricultural goods. The agreement was strongly opposed by the ROK's agricultural sector. The government has agreed to a farm support program worth \$100 billion during 2004–11, whereby farmers will receive compensation for the anticipated losses caused by Chilean imports.

## 2<sup>3</sup> ANIMAL HUSBANDRY

The raising of livestock, traditionally a supplementary occupation among Republic of Korea (ROK) farmers, expanded rapidly during the 1970s and 1980s. In 2005, 2.3 million head of cattle were raised; pigs totaled 9 million and chickens, 110 million. Production in 2005 included (in thousands of tons): beef, 229; pork, 1,050; chicken, 402; eggs, 598; milk, 2,237; and butter, 5.3. The silkworm industry has declined radically since the mid-1970s. Although the dairy industry has been protected by import restric-

tions, an incremental lifting of such trade constraints is under way, which will eventually include livestock imports.

## 2<sup>4</sup> FISHING

Korean waters are some of the best fishing grounds in the world. The Sea of Japan off the east coast provides deep-sea fishing, with an average water depth of 1,700 m (5,600 ft). Warm and cold water alternate each season; the area is known for its Alaskan pollock, cod, squid, king crab, hairy crab, turban shell, and abalone. Off the west coast, the Yellow Sea has an average depth of 44 m (144 ft); major species include corker, hairtail, mackerel, surf clam, large clam abalone, lobster, Japanese paste shrimp, and blue crab. Off the south coast, the warm Pacific Ocean currents move toward the northeast, bringing diverse species such as anchovy, mackerel, oyster, mussels, shellfish, octopus, beka squid, laver, and sea mustard.

Industrialization and urbanization have led to a dramatic reduction in the number of families directly involved in fishing; from 1980 to 2000, the number of fishing families declined from 157,000 to 82,000. The fishing fleet consisted of 91,608 vessels in 2004, with a capacity of 724,979 gross tons. The size of the fleet has decreased by 4% in vessels and 22% in capacity since 2001. The depletion of fish resources in adjacent waters and the enforcement of the Exclusive Economic Zone has caused the ROK's domestic fishery production to decline since 2001.

According to the government, the total catch in 2004 was 2.52 million tons. Mackerel and anchovies account for about half the coastal fish landings; oysters are the principal aquacultural species; Alaskan pollack and tuna provide 80% of the deep-sea fish catch. Korean fishing bases have been established in Western Samoa and Las Palmas, and cuttlefish caught in waters off the Falkland Islands are now available. Since the declaration of 200 mi economic sea zones by many nations in the 1970s, the ROK has negotiated fishing agreements with several coastal nations to secure fishing rights in their waters. Seaweed is another important aquacultural product, with 560,642 tons harvested in 2004. Production of processed fishery products in 2004 totaled 1,528,795 tons, with frozen seafood accounting for 69%; canned seafood, 10%; ground fish meat, 6%; and other products, 25%.

The ROK exports seafood to about 65 countries throughout the world. Fishery exports typically include tuna, shellfish, frozen/canned products, and seaweed. Japan is the largest destination for exports, annually accounting for about 75% of ROK seafood exports by value. In 2004, fisheries exports were valued at \$1,278,638,000. In 2004, China, Russia, and Japan were the origin for 60% of the ROK's fishery imports; Japan, China, and the European Union were the destination for 80% of the ROK's fishery exports. The rate of fish consumption in the ROK was 45.5 kg (100 lb) per person in 2002. Although domestic consumption is still largely tied to local production, the ROK imported \$2,261,356,000 of fish products in 2004.

## 2<sup>5</sup> FORESTRY

Forests cover 6.2 million hectares (15.4 million acres), or about 63% of the Republic of Korea's (ROK) total area, but wood supplies are grossly inadequate to meet the needs of the fast-growing plywood and paper industries. The total commercial forest area covers 4,930,000 hectares (12,182,000 acres). Most of the origi-

nal forests were destroyed during the Korean War and have been transformed into pine forests under a massive government reforestation program. Conifers now account for 45% of the forest; broad-leaved species (such as oak), 28%; and mixed forests, 27%. About 21% of all forested land is nationally owned and is the focus of extensive reforestation efforts. The government supported local efforts to invest in forest development projects abroad. According to the Food and Agriculture Organization, estimated production of roundwood in 2004 was 4,136,000 cu m (146 million cu ft); sawnwood, 4,380,000 cu m (154 million cu ft); and wood-based panels, 3,720,000 cu m (131.8 million cu ft). Softwoods (mostly red pine and larch) accounted for about 80% of production; hardwoods (mainly oak), 20%. Because of low quality, domestic roundwood is mainly used for chopsticks, crates, match wood, and wood chips. Whereas plywood and wood pulp were once traditional export items, the role of forestry products in generating export earnings is now shrinking. The ROK now imports about 95% of its forest products. Imports of forest products amounted to nearly \$3.7 billion in 2004 (primarily from Indonesia, Malaysia, and the United States). Imports have been boosted by a growing demand for single and multifamily wood frame houses.

## 26 MINING

The Republic of Korea (ROK) does not have significant natural resources, and its limited supplies of iron ore, coal, copper, lead, and zinc have to be supplemented by imports. In 2004, 496,000 metric tons of iron ore and concentrate (gross weight) were produced, up from 289,000 metric tons in 2003. Output of mined zinc in 2004 was 14 metric tons. There was no recorded mined zinc output in 2003. Lead mine output was 40 metric tons in 2004. As with zinc, there was no recorded mined lead output in 2003. No mined copper was produced in 2004. The ROK also produced the metals bismuth, cadmium, gold, nickel, and silver. Among industrial minerals, the ROK produced barite, hydraulic cement, diatomaceous earth, feldspar, graphite, kaolin, limestone, mica, nitrogen, quartzite, salt, sand (including glass sand), soda ash (manufactured), sulfur, and talc and pyrophyllite. No barite was produced in 1997–2000 or in 2004, and no fluorspar was produced in 1998–2000 or 2004. The production of chemicals and steel ranked third and fifth, respectively, among the country's leading industries in 2002. Steel ranked fourth among export commodities.

After four years of prospecting, Ivanhoe Mines Ltd. of Canada announced the discovery of two epithermal gold-silver veins near Haenam, Cholla Province, with potentially high-grade gold-silver mineralization. The government continued to support state-owned or privately owned enterprises that invested in such mineral-rich countries as Australia, Brazil, Canada, and Chile. The Korea Development Bank sold off the government's equity in Pohang Iron and Steel Co. Ltd. (POSCO), which had diversified interests and holdings, including a high-grade iron ore deposit in the Pibara region of Western Australia with proven reserves of 200 million tons. Two-way trade with North Korea continued to grow.

## 27 ENERGY AND POWER

South Korea has no known reserves of oil or natural gas, and must rely on imports to meet all its oil and natural gas needs. The country does have recoverable coal deposits, which are the country's primary source of domestic fossil fuel output, but the deposits

are small and South Korea must import the bulk of the coal it consumes.

South Korea produced 3,657,000 short tons of coal in 2002, all of it anthracite. However, with recoverable coal reserves estimated at only 86 million short tons as of 2000, demand for coal far exceeded output in 2002 at 79,710,000 short tons. Thus, imports made up the difference. In 2002, South Korea's coal imports came to 75,529,000 short tons. Most of the domestic coal is low-quality anthracite and is used mainly for home cooking and heating; imports of higher-grade coal are required for industry.

In 2004, petroleum product imports averaged an estimated 2.263 million barrels per day, while consumption that same year averaged an estimated 2.07 million barrels per day. Because domestic demand was less than the volume imported, South Korea was able to export an estimated average of 630,100 barrels per day in 2004.

Demand for natural gas in 2003 was estimated at 20.92 billion cu m, with imports that same year estimated at 21.11 billion cu m.

South Korea's electric power generating capacity came to 54.463 million kW in 2002. Of that total, conventional thermal fueled capacity accounted for 38.581 million kW, followed by nuclear power at 13.716 million kW, hydroelectric at 1.614 kW, and geothermal/other at 0.552 million kW. Electric power output in 2002 totaled 287.994 billion kWh, with conventional thermal fuel and nuclear plants producing 170.873 billion kWh and 113.148 billion kWh, respectively. Hydroelectric power output that same year came to 3.201 billion kWh, with 0.772 billion kWh produced by geothermal/other sources. Electric power consumption for 2002 came to 267.834 billion kWh. In 2003, electric power output rose to 322.5 billion kWh, while consumption rose to 293.6 billion kWh. Electricity demand is projected to rise 3.4% per year on average through 2015.

## 28 INDUSTRY

Until the 1960s, manufacturing was chiefly confined to production for domestic consumption, and a substantial proportion of the output was produced by handicraft methods in homes and small factories. While textiles, apparel, and footwear were the first modern industries to be developed, heavy industry grew rapidly over the next four decades, promoted by a series of development plans. In the 1980s, the manufacture of metals, machinery, and electronic and other equipment overtook textile production as the country's leading industries in terms of value, employment, and export earnings. In turn, in the 1990s, high-tech electronics became the leading sector as South Korea became the world's leading semiconductor manufacturer as well as the leading shipbuilder. Prosperity brought higher labor costs, and in the past decade, South Koreans have begun outsourcing production—particularly textiles and footwear but also more recently “commoditized” consumer electronics. During the past decade, increasing domestic production costs have encouraged the relocation of production plants in some industries—particularly textiles and footwear but more recently also consumer electronics—to overseas locations in Southeast Asia, Eastern Europe, China, Mexico, and Turkey. The Republic of Korea (ROK) now ranks as a major Asian producer of electronics, automobiles, chemicals, ships, steel, textiles, clothing, shoes, and processed food. In 2002, industrial production grew

7.3% (although excluding the 21.4% growth in semiconductors, it grew only 5.8%). Other high-value-added sectors showed above-average growth: Automobile production rose 8.1%; machinery equipment, 7.9%; and wearing apparel and fur articles, 7.4%. The lower-value-added sectors of textiles and basic metals showed the strains of global overcapacity and low-cost competition. Textiles declined 6.6% and basic metals increased a weak 4.6%. Long-term plans for the textiles and clothing sectors include a shift from the current mix of 5% clothing to 30% clothing by 2010 as part of the goal of doubling export value from the 2002 level of \$15.7 billion. In 2005, the industrial production growth rate stood at 3.9%.

Manufacturing in the ROK has been dominated by a few dozen vertically integrated industrial conglomerates, known as *chaebol*, which have privileged access to financing and set the standards for contracting and procurement throughout the country. In 1995, the 30 largest *chaebol* accounted for 16.2% of GNP (up from 13.5% in 1992). In 1999, the debts of the four biggest *chaebol* stood at approximately \$140 billion. However, many of the country's *chaebol* have racked up huge debts in order to finance industrial expansion, some more than five times their annual intake. Asset sell-offs by the four biggest *chaebol*, including Hyundai, Samsung, LG, and SK, amounted to \$15 billion in 1999. By 2005, the government had instituted a program of corporate restructuring designed to make the business activities of Korean companies, including the *chaebol*, more transparent and more accountable to shareholders, but this was still a work in progress. Due to reform measures and market realities, the sell-off of some *chaebol* constituent companies has weakened *chaebol* dominance in the economy at large. By 2005, approximately 12 of South Korea's top 30 *chaebol* prior to 1998 had ceased to exist as coherent entities.

Joint-venture production with major US and Japanese car companies, growing domestic demand, and successful penetration of overseas markets by Korean-owned corporations have fueled steady growth in automobile output. The production of passenger cars more than doubled from 1990 to 1995. Total vehicle production in 1995 was 2,526,400, or 5% of world output. Vehicle production in 1998 was about two million, or one-eighth of all Organisation for Economic Co-operation and Development countries. South Korea's automotive industry is dominated by Hyundai, which accounted for 48% of all passenger cars, trucks, and buses domestically produced in 1995. Kia accounted for 25% of production that year; Daewoo, 18%; and others, 9%. In 2004, South Korea manufactured 3.4 million automotive vehicles, making it the sixth-largest automobile manufacturer in the world, after the United States, Japan, Germany, China, and France. The total size of the automotive market in 2004 was \$32 billion, a 7.6% increase over 2003.

In 1998, the ROK was the second-largest world producer of new ships; in 2002, it was the world leader. In 2002, Korean shipbuilders got orders for 230 ships (2.6 million CGT), delivered 210 ships (6.8 million CGT), and had a backlog of 496 ships (17.1 million CGT).

Production of electronics has shifted from assembly of imported parts to the manufacture of competitive high-technology products, such as office automation systems, for both the international and domestic markets. Daewoo Electronics (the second-largest *chaebol*, with substantial debts), LG, and Samsung Electronics dominate the production of consumer electronics; the

televisions, videocassette recorders, stereos, refrigerators, washing machines, and microwave ovens produced by these companies are sold across the world. Daewoo Electronics also operates 36 overseas factories and planned to capture 10% of the world's market in consumer electronics by 2000. Samsung Electronics was the world's largest producer of computer memory chips by 1996. By 2005, South Korea's electronics industry accounted for 4% of world output. Components, and in particular semiconductors, accounted for 41% of the total. South Korea is also a major producer of radio communications, including cell phones; the sector accounting for 25% of domestic output. In 2005, South Korea was the world's leader in the production of thin film transistor liquid crystal displays (LCDs). Korean companies had a 46% share of the global LCD market in 2004, followed by Taiwan.

By 2002, the ROK had become the world's fifth-largest steel producer, up from 10th in 1989, accounting for 4.8% of the world total. Pohang Iron and Steel Co. (POSCO) produces about half of the nation's total steel output and is the world's second-largest steel mill, producing 27.4 million tons in 2002. There are about 200 steel companies in South Korea. From January to November 2005, South Korea's steel output was 43.6 million metric tons, up 0.4% from 2004.

## 29 SCIENCE AND TECHNOLOGY

The Republic of Korea (ROK) has often been compared to its powerful neighbor, Japan, but is said to be about 10 years behind that nation in scientific and technological innovation. However, in areas such as semiconductor memory chips, cars, and steel, Korean industries provide innovation equal to that in the United States and Japan.

In 2002, high-technology exports were valued at \$46.438 billion and accounted for 32% of all manufactured exports. Research and development (R&D) spending in 2002 totaled \$23,452.761 million, or 2.91% of GDP, with business accounting for the largest portion at 72.2%, followed by the government at 25.4%, higher education at 2%, and foreign sources at 0.4%. In that same year, there were 2,979 researchers per million people actively engaged in R&D.

Two organizations provide most of the main support for Korean science and technology. The Korean Institute of Science and Technology (KIST) was started in 1965 with the help of the United States. The Korean Advanced Institute of Science and Technology (KAIST), the leading university in scientific research, attracts researchers from all over the world and is considered one of the top universities in the world for electrical and molecular engineering and computer science. In 1987–97, science and engineering students accounted for 32% of college and university enrollments. In 2002, of all bachelor's degrees awarded, 37.3% were in the sciences (natural, mathematics and computers, and engineering).

## 30 DOMESTIC TRADE

The small family store, traditional in Korea, is giving way to chain stores and supermarkets. Large, modern department stores now operate in Seoul, Pusan and other major urban centers, although some trade in rural areas is still carried on by itinerant peddlers, mobile sidewalk stands, and periodic market fairs. Black markets offering all manner of foreign goods are much in use; haggling over prices is common. Seoul is the nation's wholesaling center.

Franchising has a firm ground in the restaurant and retail markets. Direct marketing, in particular door-to-door sales, is still fairly popular as well.

Most private offices are open from 9 AM to 6 PM weekdays. Some businesses are open from 9 AM to 1 PM on Saturdays, but Korean companies are moving toward the five-day workweek. Korean government offices keep similar hours. Banking hours are 9 AM to 5 PM, Monday through Friday. Department stores are open from 10:30 AM to 8 PM seven days a week, although typically one day a month (usually a Monday) department stores are closed (closings vary according to each store).

### 3<sup>1</sup> FOREIGN TRADE

Electric and electronic products, automobiles, various types of machinery, and chemicals are the Republic of Korea's (ROK) most important commodity exports. The ROK's other major exports include woven fabrics and ships. In percentage terms, in 2004 the primary exports were electric and electronic products (34.6% of all exports); passenger cars (9.7%); machinery and equipment (8.9%); and chemicals (8.1%).

Oil and related products, machinery, semiconductors, electronic machinery, and raw materials are major imports, as most raw inputs for the country's industrial sector are imported. A lack of small companies and technological research compels the ROK to import components and production machines for the cars, video-cassette recorders, computer chips, and ships that it manufactures. In percentage terms, in 2004 South Korea's primary imports were electric and electronic machinery (22.3% of all imports); crude petroleum (13.3%); machinery and equipment (12.6%); and semiconductors (10.5%).

The United States, China, and Japan continued to be the ROK's chief trading partners by far, although potential new markets in Eastern Europe and the rest of Asia are being explored. Saudi Arabia and Indonesia have been major providers of oil and liquefied natural gas. Australia is a leading supplier of iron ore, coal, and grains. In percentage terms, the leading markets for South Korea's goods in 2004 were China (19.6% of all exports); the United States (16.9%); Japan (8.5%); and Hong Kong (7.1%). The leading suppliers in 2004 were Japan (20.6% of all imports); China (13.2%); the United States (12.8%); and Saudi Arabia (5.3%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

Robust export performance turned the Republic of Korea's (ROK) overall balance-of-payments deficit into a \$1.7 billion surplus in 1986, which grew to \$12.1 billion in 1988. The balance-of-payments surplus later declined; in 1990, the balance of payments had a deficit of \$274 million because of declining exports, rising imports, and a current account deficit. The deficit grew to over 4% of GDP in 1996, before subsiding in 1997 due to a shrinking currency base.

At the end of 1998, South Korea had \$20.2 billion in net outstanding loans, but by the end of 1999, it had become a net creditor. By the end of April 2001, \$33.3 billion in outstanding loans were owed the country.

Merchandise export revenue in 2004 rose by 30.6% year-on-year to \$257.8 billion, and the value of merchandise imports increased by 25.2% to \$219.6 billion. The resulting merchandise trade surplus for 2004 was \$38.2 billion, an increase of \$16.2 bil-

lion compared with 2003. In 2005, the current account surplus was estimated at \$14.32 billion. The current account surplus was forecast to decline to an average of 1.3% of GDP in 2006–07 from an estimated 2.4% of GDP in 2005.

### 3<sup>3</sup> BANKING AND SECURITIES

In 2000, finance, insurance, real estate, and business services accounted for over half of GDP. The Bank of Korea serves as the central bank, the bank of issue, and the depository for government funds. It was established on 12 June 1950. The banking system is regulated by the Financial Supervisory Service. Other banking services are provided by the state-run Korea Development Bank, the Export-Import Bank of Korea, and nine state-run specialized banks. Commercial banking operations in 1999 were handled by 11 nationwide commercial banks, 10 provincial banks, and 42 for-

#### Principal Trading Partners – Korea, Republic of (ROK) (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	193,817.3	178,825.9	14,991.4
China	35,109.7	21,909.1	13,200.6
United States	34,368.7	24,934.8	9,433.9
Japan	17,276.1	36,313.0	-19,036.9
China, Hong Kong SAR	14,653.7	2,735.4	11,918.3
Other Asia nes	7,044.6	5,879.6	1,165.0
Germany	5,603.3	6,821.6	-1,218.3
Singapore	4,636.0	4,089.7	546.3
United Kingdom	4,094.2	2,703.2	1,391.0
Malaysia	3,851.8	4,249.1	-397.3
Indonesia	3,377.6	5,212.3	-1,834.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Korea, Republic of (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>12,321.0</b>
Balance on goods		22,161.0
Imports	-175,476.0	
Exports	197,637.0	
Balance on services		-7,611.0
Balance on income		596.0
Current transfers		-2,824.0
<b>Capital Account</b>		<b>-1,402.0</b>
<b>Financial Account</b>		<b>14,530.0</b>
Direct investment abroad		-3,429.0
Direct investment in Korea, Republic of		3,222.0
Portfolio investment assets		-4,333.0
Portfolio investment liabilities		22,653.0
Financial derivatives		-360.0
Other investment assets		-3,496.0
Other investment liabilities		274.0
<b>Net Errors and Omissions</b>		<b>342.0</b>
<b>Reserves and Related Items</b>		<b>-25,791.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

eign banks. Total assets of Korea's commercial banks at the end of 1998 were \$300 billion.

In 1986, as part of the government's economic stabilization program initiated in 1980, all of the five commercial banks previously under government control were denationalized. In 1993, the Korean government began a five-year financial-sector reform program, including the deregulation of interest rates and liberalization of foreign exchange. During the financial crisis of late 1997 and 1998, nonperforming loan levels skyrocketed. The credit hunger of South Korean corporations can be explained in part by the failure of the stock exchange to generate the equity capital they needed. On 25 June 1998, the Korean government ordered the takeover of five failing banks, and seven other banks were put on a warning list. Of the seven, five merged, and two continued operations. Banks directly affected by these measures included Shinhan Bank, the Housing and Commercial Bank, Kookmin Bank, KorAm Bank, Hana Bank, and Hanvit Bank, among others. In 1998, efforts continued to stabilize the banking sector by increasing the capital adequacy ratio to 8%, and the government encouraged lending to small and medium-sized companies as opposed to the large conglomerate *chaebol*. By 2003 the government had nationalized eight failing private banks, spending \$120 billion on bailouts. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$41.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$362.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.7%.

The Korean Stock Exchange (KSE), a share-issuing private corporation, functioned as the country's only stock exchange through 1998, when the Korea Securities Dealers Automated Quotations (KOSDAQ) began holding stock transactions for small and medium-sized firms. Direct access to the stock market by foreigners has been allowed since 1992, with Seoul implementing unrestricted foreign access in 1998 and international links established in 2000. As of 2004, a combined total of 1,573 companies were listed on the KSE and KOSDAQ, which had a combined market capitalization of \$428.649 billion that year. In that same year, the Korean Composite Stock Price Indexes (KOSPI) rose 10.5% from the previous year to 895.9.

### 34 INSURANCE

The insurance industry in the Republic of Korea is overseen by the Financial Supervisory Service. In 2003, there were us\$59.758 billion direct insurance premiums written, with us\$41.998 billion of the total life insurance and us\$17.760 billion nonlife insurance. In 2002, leading life insurance companies included Samsung Life, Korea Life, Kyobo Life, and Allianz. Leading nonlife insurance companies in 2003 included Samsung, Hyundai, Dongbu, LG, and Oriental. Workers' compensation, medical insurance, third-party automobile liability, nuclear and aviation liability, and unemployment insurance are all compulsory.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2005, South Korea's central government took in revenues of approximately \$184.0 billion and had expenditures of \$187.4 billion. Rev-

#### Public Finance – Korea, Republic of (2001)

(In billions of won, central government figures)

<b>Revenue and Grants</b>	<b>141,864</b>	<b>100.0%</b>
Tax revenue	95,793	67.5%
Social contributions	21,102	14.9%
Grants	...	...
Other revenue	24,969	17.6%
<b>Expenditures</b>	<b>125,406</b>	<b>100.0%</b>
General public services	31,635	25.2%
Defense	15,702	12.5%
Public order and safety	6,331	5.0%
Economic affairs	26,983	21.5%
Environmental protection	...	...
Housing and community amenities	2,740	2.2%
Health	555	0.4%
Recreational, culture, and religion	1,272	1.0%
Education	22,218	17.7%
Social protection	17,969	14.3%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

enues minus expenditures totaled approximately -\$3.4 billion. Public debt in 2005 amounted to 20.5% of GDP. Total external debt was \$188.4 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, central government revenues were w141,864 billion and expenditures were w125,406 billion. The value of revenues was us\$110 million and expenditures us\$97 million, based on a market exchange rate for 2001 of us\$1 = w1,290.99 as reported by the IMF. Government outlays by function were as follows: general public services, 25.2%; defense, 12.5%; public order and safety, 5.0%; economic affairs, 21.5%; housing and community amenities, 2.2%; health, 0.4%; recreation, culture, and religion, 1.0%; education, 17.7%; and social protection, 14.3%.

### 36 TAXATION

The principal sources of tax revenue are customs duties, corporate taxes, a defense tax surcharge imposed on corporations, a value-added tax (VAT) of 10%, personal income taxes, and excise taxes ranging from 5–20%. As of 2005, the rates for corporate taxation ranged from 13% on taxable income up to w100 million to 25% on income over w100 million. In addition, there is a resident tax surcharge of 10% and a special agriculture and fishery tax imposed on corporations having taxable income over w500 million. There is a 15% withholding tax on interest. Dividends are not subject to a withholding tax. Dividends paid to a domestic corporation by another domestic corporation are deductible from taxable income. However, foreign companies without a domestic business operation are subject to a 25% withholding rate on their dividends. Royalty payments are treated the same as dividends. Capital gains are treated as income and taxed at the corporate rate. Tax relief for up to five years, with a 50% exemption in the ensuing two years, is offered to new industries and corporations that are foreign exchange earners. Those in electronics receive seven years of exemption, and three years at 50%.

The personal income tax is graduated, with a top rate of 38.5%. Capital gains accrued to individuals are treated as income and are taxed at the same rate, although special rates can apply to certain gains on listed shares. Nonresidents declaring capital gains from securities are taxed at 11% of the sale price or 27.5% of the difference between the sale price and the original cost, whichever is the least. The VAT applies to most transactions; however, exports, international transport, services performed outside the country, fertilizers and agricultural equipment and machinery are zero rated. The leasing of real estate, unprocessed foodstuffs, financial and insurance services, and agricultural and livestock products are exempt.

### **37 CUSTOMS AND DUTIES**

As of 2000, South Korea had an average tariff of 7.9%. However, tariffs remain high on a number of agricultural and fishery products, at 30–100%. South Korea plans to further reduce tariffs in the future. Other import taxes include a value-added tax of 10% and excise taxes ranging from 15–100%. The special excise tax on consumer electronic goods and automobiles was cut by 30% in 1998. There were 57 items subject to quotas and 29 items subject to excise tariffs in 1999. The Information Technology Agreement (ITA) dropped most IT tariffs by 2000, with the remainder phased out by 2004.

### **38 FOREIGN INVESTMENT**

The Foreign Investment Promotion Act (FIPA) and related regulations have governed foreign investment in the Republic of Korea since May 1998, when a five-year liberalization plan was announced covering a total of 11 sectors, including real estate, financial services, and petroleum. The policy emphasis shifted from “control and regulate” to “promote and support.” Tax benefits and incentives were provided for foreign investors in high-tech and services sectors. In December 2000, the ceiling on foreign ownership was raised from 33% to 49% when Korea Telecom—now simply KT—was offered for privatization. KT was fully privatized in May 2002, albeit with SK Telecom as its largest shareholder. The Japanese share of foreign investments fell from about 50% in 1987 to 5.7% in 1998, as Japanese investors have been increasingly attracted to new centers of economic growth in Southeast Asia.

As of 2002, European Union (EU) countries had the largest cumulative investment in South Korea (\$22.8 billion), followed by the United States with \$21.8 billion. To facilitate further technology transfer, the government offers particular incentives to foreign companies in more than 500 categories of high-technology industries. Four free export zones geared toward highly technical business activities have been established at Masan (near Pusan), Iri (near Kunsan), Daebul, and Iksan, to provide additional incentives for investment in favored industries. Six industrial parks exist, which are for the exclusive use of Korean firms with heavy foreign investment.

In 1998, net foreign direct investment (FDI) was \$0.7 billion, the balance of inflows was \$5.4 billion and outflows \$4.7 billion. Net portfolio equity investment was a positive \$3.9 billion. In 1999 and 2000, FDI inflow was \$9.3 billion in both years, and net FDI was \$5.1 billion and \$4.3 billion, respectively. Net portfolio investment was \$11.8 billion in 1999 and \$12.6 billion in 2000. After the 11 September 2001 terrorist attacks on the United States, FDI in-

flow dropped 62% to \$3.5 billion, producing a net inflow of only \$1.1 billion. For 2002, net FDI inflow turned negative (-\$0.7 billion) and net portfolio investment was a low \$1.5 billion.

FDI inflow to South Korea accelerated to \$12.8 billion in 2004, twice the amount in 2003. The United States had the largest single-country share of FDI in the country, at \$32.3 billion, or about 31.1% of Korea's total stock of FDI since the 1960s. The EU (25 countries) had invested \$30.7 billion (29.5% of the total) by 2004, followed by Japan with \$15.5 billion (14.9%). Total cumulative stock of inward FDI as of 2004 amounted to \$103.9 billion. Overall, FDI increased 97.4% year-on-year in 2004, to \$12.8 billion, the fastest pace of inward FDI seen since 1999, just following the 1997–98 financial crisis. Total FDI outflow amounted to \$4.3 billion in 2004, approximately \$1.6 billion going to China and \$1 billion to the United States. Total cumulative stock of FDI outflow by 2004 amounted to \$38.7 billion.

### **39 ECONOMIC DEVELOPMENT**

The Republic of Korea (ROK) has a market economy in which both private enterprise and foreign investors play an important role. From 1962 to 1997, overall economic development was guided by the Economic Planning Board and a series of five-year plans. The Korean economy was devastated by the Korean War, even requiring foreign food aid. As late as 1965, per capita income was only \$88 a year. Since 1965, South Korea has been transformed from an underdeveloped agricultural economy to a leading newly industrialized country (NIC) to a leader in the new information technology (IT) economy. Nominal GDP was \$3 billion in 1965; in 2003, it was projected at \$514 billion, 171 times higher. In 2004, South Korea joined the trillion-dollar club of world economies.

The seventh five-year economic and social development plan for 1992–96 aimed at establishing the ROK as an advanced industrialized economy by the year 2000. More specific goals included improving social and economic equity, continued liberalization, improving industrial and export competitiveness, as well as strengthening the role of the private sector while reducing government intervention in economic management, especially in the financial sector. The plan targeted an annual GDP growth rate of 7% and a decline of consumer price inflation to 3%. The plan was overtaken by the Asian financial crisis. South Korea was assisted in weathering the crisis of confidence with a \$58 billion international support program mobilized through the IMF, the World Bank, and the Asia Development Bank (ADB). In May 1998, the government introduced a five-year liberalization program covering 11 economic sectors, including the previously closed petroleum, insurance and financial services sectors. The ROK's recovery from the Asian financial crisis was remarkably strong, aided by a show of international confidence and its government's embrace of trade and investment liberalization reforms. However, the collapse of the dot.com boom and the global economic slowdown that began in 2001, combined with the aftermath of the 11 September 2001 terrorist attacks on the United States, dealt serious blows to the economy's forward momentum. Progress in reducing the share of nonperforming loans (NPLs) in the financial sector and reducing dependency on foreign borrowing were brought to a halt. At the end of March 2001, total external liabilities were at a record \$137 billion. However, the ROK continued to maintain its net creditor position, as it has since September 1999. Foreign assets totaled

an estimated \$188 billion. Reserves of foreign exchange and gold amounted to \$220.1 billion in 2005. As of June 2005, external debt stood at \$188.4 billion.

The ROK government in 2003 announced that the four pillars of its development strategy were (1) consistently promoting technological innovation; (2) continued development of a fair and transparent market system; (3) social and cultural norms based on trust; and (4) peace and prosperity in East Asia. President Roh Moo Hyun, elected in 2003, campaigned on a proreform image and platform, but the *chaebol* (large conglomerates) have used their clout as exporters and investors to resist further reform. Major foreign acquisitions in the financial sector by 2006 prompted a backlash against further market opening, although this remains desirable, especially in the service sector. In order for the economy to grow at a faster rate in the long-term, South Korea, despite its skilled workforce and large middle class, must develop a strong and diverse local economy instead of relying disproportionately on exports for growth, which benefit the *chaebol* and stifles domestic demand.

#### 40 SOCIAL DEVELOPMENT

The devastation of the Korean War left 348,000 war widows, most of them with dependent children, and 100,000 war orphans. Some 595,260 homes were destroyed, 5,000 villages wiped out, and many large cities badly damaged. Military relief payments consist mainly of financial support to veterans and their families.

A social insurance system provides old-age, disability, and survivors' benefits to all residents ages 18–59. There is a separate system for public employees, school teachers, self-employed individuals, and military personnel. Workers and employers contribute 4.5% of earnings and payroll. Retirement is set at age 65 but is gradually increasing. Unemployment insurance covers all employees younger than 65 years of age.

Conservative Confucian tradition encourages married women to remain at home. Women continue to suffer legal and societal discrimination. Despite equal opportunity laws, very few women achieve high levels of professional success. The wage of the average female worker is roughly half that earned by a male counterpart. Violence against women, domestic abuse, and child abuse are prevalent. Prostitution is illegal but widespread. Divorce remains socially unacceptable in most sectors of Korean society, and this leads many women to remain in abusive marriages.

Korean citizenship is determined exclusively by genealogy, and as a result, many Chinese born and raised in Korea are deprived of citizenship rights. Human rights are generally respected by the government. Some abuses have been reported involving detainees, but these are declining.

#### 41 HEALTH

The substantial improvement in health care is directly related to improvement of diet, a rise in living standards, and the development of health and medical programs. Since the late 1970s, medical security, in the form of medical insurance and medical aid, has been expanded to cover a substantial portion of the population. The national medical insurance system was expanded in 1989, covering 94% of the population. About 5.4% of the GDP went to health expenditures. In the mid-1990s, there were 236 general hospitals, 351 hospitals, 6 dental hospitals, 12,629 clinics,

6,708 dental clinics, 269 maternity clinics, 53 herb doctor hospitals, and 4,062 herb doctor clinics. As of 2003, there were an estimated seven physicians per 100,000 people. Approximately 92% of the population had access to safe drinking water and 63% had adequate sanitation.

The fertility rate was 1.4 children per woman surviving her childbearing years. Approximately 4% of all births were of low birth weight. About 79% of married women (ages 15–49) used contraception. Immunization rates for children up to one year of age were tuberculosis, 72%; diphtheria, pertussis, and tetanus, 74%; polio, 79%; and measles, 93%. The 2005 infant mortality rate was 6.28 per 1,000 live births and the general mortality rate was 6 per 1,000 inhabitants.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 8,300 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

Leading causes of death were related to cardiovascular disease and deaths caused by traffic motor vehicle accidents. Life expectancy was 76.85 years in 2005.

#### 42 HOUSING

After liberation in 1945, southern Korea faced a housing shortage greatly compounded by high population growth rates. A housing shortage continues to plague the nation, especially in Seoul, Pusan, and other large cities, where shantytowns house many rural arrivals. The 1985 census counted 9,588,723 households but only 6,274,462 housing units, a deficit of 3,314,261. According to 2002 estimates, there were 11,892,000 housing units nationwide and 12,099,000 households. The same year, about 543,000 new housing units were built. Most new housing is in apartment buildings.

#### 43 EDUCATION

The Education Law of 1949 provided for a centralized system under the control of the Ministry of Education and made six-year elementary schools free and compulsory for children between 6 and 12 years of age. Children attend middle school for three years, and subsequently attend either general academic high school or vocational high school for the remaining three years. In 2001, about 80% of five-year-olds were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 87% of age-eligible students. It is estimated that about 97% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 31:1 in 2003.

The leading government university is Seoul National University. The principal private institutions, all of them in Seoul, are Korea, Sung Kyun Kwan, Yonsei, Hanyang, Chungang, and Ewha universities; the last named is one of the largest women's universities in the world. The country had a total of 121 colleges and universities in 1996, along with 335 graduate schools. In 2003, about 85% of the tertiary-age population were enrolled in some type of higher education program. It has been estimated that nearly all men attend some type of higher education program, while only about 64% of women enroll in a program. The adult literacy rate for 2002 was estimated at about 97.9%.

As of 2003, public expenditures on education were estimated at 4.2% of GDP, or 15.5% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

In 2002, the Central National Library, founded in 1923, had approximately 3.8 million volumes. Most other sizable libraries in the Republic of Korea (ROK) are found at universities. The largest academic collection is at the Seoul National University Library (2.2 million volumes).

The National Museum, with centers in Seoul, Kyongju, Kwangju, Puyo, Chinju, Chunju, Chongju, and Kongju, contains art objects reflecting more than 5,000 years of cultural history, including statutory pieces, ceramics, and painting. A major private museum is the Ho-Am Art Museum in Seoul. The National Museum of Modern Art in Seoul presents many special exhibits as well as a permanent collection. The National Science Museum of Korea, completed in 1990 in Daejeon, is one of the country's most recent cultural sites. The ROK also possesses collections of early printing, dynastic histories, and art in its palaces and Buddhist temples and in university, college, and public libraries.

#### 45 MEDIA

In 2003, there were an estimated 538 mainline telephones for every 1,000 people. The same year, there were approximately 701 mobile phones in use for every 1,000 people.

The Korea Broadcasting System operates two television and six radio networks. There are privately owned networks, including a few operated by religious organizations. As of 2004, there were 58 AM and 150 FM radio stations. Television broadcasting began in 1956. In 2004, there were 64 television stations, including the American Forces Network Korea, a station designed for US military but watched by many citizens. In 2003, there were an estimated 1,034 radios and 458 television sets for every 1,000 people. About 282.2 of every 1,000 people were cable subscribers. Also in 2003, there were 558 personal computers for every 1,000 people and 610 of every 1,000 people had access to the Internet. There were 894 secure Internet servers in the country in 2004.

Most of the leading newspapers are published in Seoul. The leading Korean-language newspapers, with their estimated daily circulations (in 2002), include *Dong-A Ilbo*, 2,150,000; *Joong-ang Ilbo*, 2,020,000; *Hankook Ilbo*, 2,000,000; *Choson Ilbo*, 1,960,000; *Kyung-hyang Shinmun*, 1,478,540; and *Seoul Shinmun*, 700,000.

Though most radio and television stations and newspapers are state supported, the government is said to have abandoned direct control over the news media, though some journalists report aggressive government lobbying to soften criticism.

#### 46 ORGANIZATIONS

Clan and county associations are a conspicuous aspect of Korean social life. A traditional type of organization with a primarily economic function is the key, a mutual loan association formed to provide funds for a specific and typically short-term purpose, such as to defray the expenses of a wedding or funeral. The National Agricultural Cooperative Federation comprises millions of farmers who work in cooperatives. The Korea Chamber of Commerce and Industry is based in Seoul. Other groups include the Agricultural and Fishery Marketing Corporation and the Federa-

tion of All Korean Trade Unions. The Consumers' Union of Korea is active.

There are a number of cultural and arts organizations, including the Academy of Korean Studies, the Korea Foundation, and the National Academy of the Arts. Organizations for advancement and research in science include the Korean Medical Association and National Academy of Sciences of the Republic of Korea.

National youth organizations include the Boy Scouts and Girls Scouts of Korea, Free Asian Youth Alliance, Korea Young Buddhists Federation, Korean 4-H, Junior Chamber, Korean Student Christian Federation, Korean World University Service, YMCA/YWCA, Seoul Association for Youth Service, and the Young Christian Workers of Korea. There are several sports associations throughout the country. Among the most notable are the base offices of the International Judo Federation and the World Tae Kwon Do Federation.

National organizations for women include the Korean Association of University Women, Korean Institute for Women and Politics, and the Korean Women's Institute.

The Korea Welfare Foundation works with children and youth, the handicapped, and the elderly. International organizations with active chapters within the country include Amnesty International, Habitat for Humanity, Caritas, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

Major tourist attractions include Seoul, the former royal capital of the Yi (or Li) Dynasty, and Kyongju, with its treasures from the ancient kingdom of Silla. Along the eastern coastline, from Hwajinpo to Busan, are popular resorts with skiing in the winter and swimming and water sports in the summer. Football (soccer) and baseball are the most popular modern sports. Traditional sports for men are wrestling, archery, kite fighting, and tae kwon do (a martial art). Popular games include paduk, the Korean name for Japan's board game go; changgi, or Korean chess, with pieces different from the European form; and yut, or Korean dice, played with four wooden sticks. Seoul hosted the 1988 Summer Olympic Games.

There were 4,753,604 foreign visitors in 2003. The number of hotel rooms totaled 56,196 in 2003, with a 51% occupancy rate. Tourist receipts reached \$6.9 billion that year. Visitors to the Republic of Korea must carry a valid passport and an onward/return ticket. Visas are not required for citizens of nations that have visa exemption agreements with the Republic of Korea. Visitors from the United States, Australia, Canada, and 60 other nations also not need visas.

In 2005, the US Department of State estimated the daily cost of staying in Seoul at \$308, and in Chinae, \$81.

#### 48 FAMOUS KOREANS (ROK)

The dominant political figures of the contemporary period in the Republic of Korea (ROK) have been Syngman Rhee (1875–1965), president from 1948 to 1960, and Park Chung-hee (1917–79), president from 1963 until his assassination in 1979. Chun Doo Hwan (Chon Du-hwan, b.1931) became president in 1981. Other well-known modern figures include Kim Chong-p'il (b.1926), prime minister, 1971–75; Bishop Daniel Chi (Chi Hak-sun, b.1921); and Kim Dae Jung (Kim Tae-jung, b.1925) and Kim Young Sam (Kim Yong-sam, b.1927), prominent opposition leaders during the

1970s and 1980s who both went on to become president. Kim Dae Jung won the 2000 Nobel Peace Prize for his policy of engagement with North Korea. Roh Moo Hyun (b.1946) became president in 2003. The Rev. Sun Myung Moon (Mun Son-myong, b.1920), a controversial evangelist and founder of the Tong-il (Unification) Church, and Kyung Wha Chung (Chung Kyung-wha, b.1943), a violinist, are both well known internationally.

#### **49 DEPENDENCIES**

The Republic of Korea has no territories or colonies.

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# KUWAIT

State of Kuwait

*Dawlat al-Kuwayt*



**CAPITAL:** Kuwait (Al-Kuwayt)

**FLAG:** The flag, adopted in 1961, is a rectangle divided equally into green, white, and red horizontal stripes, with a black trapezoid whose longer base is against the staff and equal to the breadth of the flag, and whose shorter base is equal to the breadth of the white stripe.

**ANTHEM:** National Anthem, melody only; no words.

**MONETARY UNIT:** The Kuwaiti dinar (KD) has 1,000 fils. There are coins of 1, 5, 10, 20, 50, and 100 fils, and notes of 250 and 500 fils and of 1, 5, 10, and 20 Kuwaiti dinars. KD1 = \$3.44828 (or \$1 = KD0.29) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but imperial weights and measures also are in use, and some US measures are recognized.

**HOLIDAYS:** New Year's Day, 1 January; Emir's Accession Day, 25 February. Movable religious holidays include Muslim New Year (1st of Muharram); Laylat al-Miraj; Milad an-Nabi; 'Id al-Fitr; and 'Id al-'Adha.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Kuwait is situated at the western head of the Persian (or Arabian) Gulf. Its area is estimated at 17,820 sq km (6,880 sq mi). Comparatively, the area occupied by Kuwait is slightly smaller than the state of New Jersey. Kuwait extends 205 km (127 mi) SE–NW and 176 km (109 mi) NE–SW. Islands that form part of Kuwait include Faylakah (an archaeological site that is the only inhabited island), Bubiyan, Maskan, 'Auha, Al-Warbah, Al-Kubr, Umm al-Maradim, Umm al-Nami, and Qaruh. Bounded on the E by the Persian Gulf, on the S and W by Saudi Arabia, and on the NW and N by Iraq, Kuwait has a total land boundary length of 462 km (287 mi) and a coastline of 499 km (310 mi).

Kuwait's boundary with Iraq remains unsettled. Following Kuwait's declaration of independence in June 1961, the emir requested assistance from the United Kingdom to ward off an Iraqi invasion; the British forces were later replaced by troops from Arab League states. The United Nations upheld Kuwait's sovereignty, and in October 1963, Iraq formally recognized Kuwait's independence. In March 1973, there were armed clashes on the Iraq–Kuwait border, but a settlement was announced in June 1975; negotiations to demarcate the border have continued intermittently. Again in August 1990, Iraq invaded Kuwait, asserting their right to reclaim it as their territory. US-led international forces responded with a massive air attack in January 1991, and Iraq was defeated. Some Iraqi officials continued to assert their claim to Kuwait, and relations between the two countries remained tense. On 27 May 1993, the UN Security Council reaffirmed the established border between the two nations. In 1994, Iraq formally accepted the UN-demarcated border but continues to periodically challenge the rhetoric of the agreement.

Kuwait's capital, Kuwait City, is located on the Persian Gulf coast.

## <sup>2</sup>TOPOGRAPHY

Kuwait consists almost entirely of flat rolling desert and mud flats. There is a 1,137-m (450-ft) ridge at Mina' al-Ahmadi and a 290-m (951-ft) prominence in the southwest corner. There are no permanent rivers or lakes, but there are some desert wadis that collect water during the rains.

## <sup>3</sup>CLIMATE

During the summer, which lasts roughly from May to October, the air generally is dry, but southeasterly winds often raise daytime humidity to 90% for a few weeks in August or September. Between November and April, the climate is pleasant, with cool nights and warm sunny days. In December and January, night temperatures occasionally touch the freezing point. Summer temperatures range from 29°C (84°F) in the morning to more than 49°C (120°F) in the shade at noon. Frost, almost unknown on the coast, is common in the interior. Annual rainfall, which averages less than 25 cm (10 in), comes in the form of showers or storms between October and April. Cloudbursts have amounted to as much as 6.4 cm (2.5 in) of rain in one day, and can heavily damage roads and houses. The prevailing northwest wind (shamal) is a cooling breeze in summer.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those common to the arid parts of Arabia. There is little vegetation except camel thorn in the desert and some shrubs along the coastal strip. Between October and March, however, when sufficient rain falls at intervals, the desert is trans-

formed: Grass and foliage are plentiful, flowers and plants appear in great variety, and in the spring truffles and mushrooms can be found.

The fox and jackal have decreased in numbers; other mammals found in Kuwait include gerbils, jerboas, and desert hares. Reptile species include various lizards, geckos, and snakes. Fish are plentiful. Among the species of migratory birds are swallows, wagtails, chiffchaff, skylarks, wrens, eagles, cormorants, hoopoes, and terns.

As of 2002, there were at least 21 species of mammals, 35 species of birds, and over 200 species of plants throughout the country.

## **5 ENVIRONMENT**

The Persian Gulf War of 1991 and its aftermath caused severe environmental problems for Kuwait, releasing large quantities of oil into the environment and threatening the water supply. Kuwait has no renewable water resources and must rely on wells and desalination of sea water. The nation has some of the largest and most advanced desalination plants in the world, which provide much of its water.

In 2003, only about 1.5% of the total land area was protected by the state. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species include 1 type of mammal, 12 species of birds, 1 type of reptile, and 6 species of fish. The slender-billed curlew and hawksbill turtle are on the endangered list. The Saudi gazelle has become extinct in the wild.

## **6 POPULATION**

The population of Kuwait in 2005 was estimated by the United Nations (UN) at 2,589,000, which placed it at number 136 in population among the 193 nations of the world. This number includes over one million nonnationals who live and work in the country. In 2005, approximately 2% of the population was over 65 years of age, with another 26% of the population under 15 years of age. There were 150 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 4,610,000. The population density was 145 per sq km (376 per sq mi). The vast majority of the population resides along the coast.

The UN estimated that 96% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 2.67%. The capital city, Kuwait (Al-Kuwayt), had a population of 1,222,000 in that year.

## **7 MIGRATION**

With the discovery of oil and the consequent rise in living standards, Kuwait acquired a large immigrant population, attracted by jobs, free education for their children, and free medical care. The number of foreign residents more than doubled during the 1970s, and in 1994 they accounted for an estimated 56.4% of the population. After the Persian Gulf war, Kuwait deported tens of thousands of foreign workers from countries whose leaders had backed Iraq in the conflict. Of the estimated 400,000 Palestinians living in Kuwait before the 1990–91 Gulf War, reportedly only about one-sixth were allowed to remain. Only about 120,000 of the 220,000 prewar Bedouins (mostly nomads from Syria, Jordan,

and Iraq) were allowed to stay. These stateless Arabs had remained in Kuwait under Iraqi occupation and were suspected of collaboration. Most other foreign workers were able to return to their home countries. By 1996, however, Egyptians, Pakistanis, Filipinos, and others had filled the void that the previous foreign workers had left behind. Kuwait carried out amnesty plans for illegal foreigners in 1988, 1996, and 2002.

In 2000, there were 1,108,000 migrants living in Kuwait. This accounted for 57.9% of the population. The number of refugees that year was 2,800. In 2004, there were 1,519 refugees and 157 asylum seekers. The number of persons of concern to the United Nations High Commissioner for Refugees (UNHCR) was 102,676, made up of 80,000 stateless Bedouins, 13,000 Iraqis, 6,000 Palestinians, and 2,000 Somalis. In 2005, the net migration rate was an estimated 14.96 migrants per 1,000 population. The government views the immigration level as too high.

## **8 ETHNIC GROUPS**

Ethnic Kuwaitis are mostly descendants of the tribes of Najd (central Arabia) but some descend from Iraqi Arabs. Still others are of Iranian origin. The number of non-Kuwaitis are divided roughly in half between Arabs and non-Arabs such as Iranians, Indians, Pakistanis, and Filipinos. According to the latest estimates, about 45% of the population are Kuwaiti, 35% are other Arab, 9% South Asian, 4% Iranian, and 7% other. It has also been estimated that over 100,000 people are considered to be bidoon residents, that is Arabs who have long-standing residency in the nation but no documented proof of nationality.

## **9 LANGUAGES**

Arabic is the official language. The Arabic spoken in Kuwait is closer to classical Arabic than to the colloquial Arabic spoken in many other parts of the Middle East. English is generally used by businesspeople, employees of oil companies, foreign residents, and students, and it is the second language taught in the schools.

## **10 RELIGIONS**

Islam is the state religion. According 2004 figures, Muslims represented about 64% of the total population, with a majority believed to be Sunni Muslim. About 30–35% of Muslim citizens were of the Shia branch. The Christian population includes between 250,000 and 500,000 people. Catholic groups include Roman Catholic, Maronite, Coptic, Armenian, Greek, Malabar, and Malankara congregations. Orthodox groups include the Greek, Armenian, Coptic, and the Indian Orthodox Syrian Church. The National Evangelical Church (Protestant) has about 20,000 members. Other Protestant groups include the Anglicans, Seventh-Day Adventists, Mormons, and Marthoma. Other religious groups include Hindus, Baha'is, Sikhs, and Buddhists.

The constitution provides for freedom of religion, but this right is limited in some cases by the government, in that religious practices are not permitted to conflict with public policy or morals. Blasphemy, apostasy (of Muslims), and proselytizing are illegal, with the exception of the Islam Presentation Committee, which encourages the conversion of non-Muslims to Islam. Family law is administered through the Islamic court system. Religious affairs are overseen by the Ministry of Awqaf and Islamic Affairs. Only four non-Muslim groups have the full legal recognition in

the government: the Roman Catholic Church, the Coptic Orthodox Church, the Anglican Church, and the National Evangelical Church. While these groups are offered a certain amount of freedom, there are quotas in place that limit the number of clergy and staff each group can have. Other groups are generally allowed to worship freely in private homes. Certain Muslim holidays are celebrated as national holidays.

## 11 TRANSPORTATION

Kuwait has a modern network of roads, with all-weather highways running north to Iraq and south to Saudi Arabia. Roadways extended 4,450 km (2,777 mi) in 2002, including 3,590 km (2,230 mi) of paved roads. In 2003, there were some 770,375 passenger cars and 200,315 commercial vehicles in use. Land transport accounts for a significant share of Kuwait's imports and exports. There are no railways.

Kuwait has five ports, including a cargo port at Ash-Shuwaykh, on Kuwait Bay, and an oil port at Mina' al-Ahmadi that is equipped with a huge pier at which eight large tankers can be loaded simultaneously. In 2005, Kuwait had 39 merchant ships in service of 1,000 GRT or more, with a capacity of 2,319,082 GRT. Kuwait has regular calls from ocean shipping, and local sailing craft carry goods between Kuwait and the neighboring sheikhdoms, Iraq, and Saudi Arabia. Sea transport accounts for most of Kuwait's foreign trade.

In 2004, there were an estimated seven airports. As of 2005, a total of four had paved runways, and there were also four heliports. The principal airport, Kuwait International Airport, is located south of the city of Kuwait. Air transportation is highly advanced, with Kuwait Airways providing service to and from the major Middle Eastern and European cities. In 2003, the airline carried about 2.198 million passengers on domestic and international flights.

## 12 HISTORY

The historical records of the Arab coast of the Persian Gulf are meager. Archaeological discoveries on Faylakah Island reveal an ancient civilization about 2800 BC that had trade links with the Sumerians. By the 6th century BC, this part of the Gulf was a principal supply route for trade with India. There is evidence of early migrations to the East African coast by the seafaring inhabitants. The historical turning point for the entire Arabian Peninsula was the conversion of the people to Islam in the 7th century AD, during the lifetime of Muhammad.

Kuwait's recent history starts in 1716, when several clans of the tribe of Aniza migrated from the interior of the Arabian Desert to a tiny Gulf coastal locality, later to be called Kuwait (a diminutive of the word *kut*, meaning "fort"). In 1756, the settled tribesmen rallied around the As-Sabah family and chose as their ruler Sheikh Sabah 'Abd ar-Rahim, founder of the present ruling dynasty. During the latter part of the century, raids by land and by sea resulted in the decline of Kuwait, but after the British suppression of piracy in the region, trading and shipbuilding prospered.

During the period in which Sheikh 'Abdallah as-Sabah ruled Kuwait (1866–92), a dynastic battle raged in Arabia between the rival houses of Ar-Rashid and As-Sa'ud. The Ottoman Turks, supporting Ibn Rashid, sought to extend their control over the coastal area to the south of Kuwait. Fearing that his territory would be



LOCATION: 28°32' to 30°6' N; 46°33' to 48°27' E. BOUNDARY LENGTHS: Persian Gulf shoreline, 499 kilometers (312 miles); Saudi Arabia, 222 kilometers (139 miles); Iraq, 242 kilometers (151 miles). TERRITORIAL SEA LIMIT: 12 miles.

lost to the Turks who considered it part of their province of Basra, Sheikh Mubarak as-Sabah (r.1896–1915) asked to be taken under British protection. The British were concerned not only because of the Turkish claims but also because the Russians were seeking to set up a coaling station in Kuwait, and both the Germans and the Turks had planned to make it a terminus of the Berlin–Baghdād railroad. In 1899, Sheikh Mubarak agreed not to alienate any of his territory or to receive representatives of any foreign power without British consent. In return, the British offered their services as well as an annual subsidy to support the sheikh and his heirs.

On 19 June 1961, the protective treaty relations with the United Kingdom were terminated by mutual consent, and Kuwait declared itself fully sovereign and independent. By this time, the sheikhdom had already become a major oil producer and had acquired a controlling interest in the petroleum industry. Iraq refused to recognize Kuwait's independence, asserting it had inherited the Ottoman claim to the territory. Baghdad's threat of an invasion was foiled by the dispatch of British troops and later the support

of the Arab League for Kuwait. Iraq then appeared to acquiesce in Kuwait's sovereignty, although border issues were never definitely resolved. During the next two decades, Kuwait succeeded in establishing an open and prosperous economy, based in large part on foreign, especially Palestinian and Egyptian, labor.

During the Iran-Iraq War, Kuwait, albeit technically neutral, rendered important assistance to Baghdad, including the transshipment of goods and the provision of over \$6 billion in loans. As a response, members of Kuwait's large Shia minority and other radical dissidents waged a war of terrorism against the government. Throughout the 1980s, there were bombings, assassination attempts, hijackings, and sabotage against oil facilities.

In 1987, Iranian attacks on Persian Gulf shipping led Kuwait to request US protection for its supertankers. Washington agreed, and when a "reflagged" Kuwaiti vessel was attacked, American forces retaliated against an Iranian offshore oil rig.

With the end of the war, Iraq-Kuwait relations were stable until 1990, when Saddam Hussein accused his neighbor of waging economic warfare against Iraq by illegally drilling oil from the shared Rumailia field, overproducing oil to drive down prices and unfairly demanding repayment of wartime loans. Tensions could not be defused by negotiations or mediation and on 2 August 1990, Iraqi forces invaded Kuwait, asserting that they were rightfully reclaiming their territory. Kuwaiti defense forces offered little resistance and most senior officials fled the country.

The United States led an international coalition of Arab and other nations to demand the withdrawal of Iraqi forces. After a lengthy buildup of forces, Iraq was assaulted by massive air and land forces; after six weeks, its defenses collapsed and Kuwait was liberated in February 1991. Kuwait's leaders returned to find a disgruntled population that resented their abandonment and demanded greater political participation. Enormous physical damage had been inflicted on the country, including over 700 oil well fires that did serious ecological damage before being extinguished after almost nine months' effort.

The regime, and many Kuwaitis, turned harshly against those suspected of collaboration with Iraq. As a consequence, much of the large Palestinian community was ejected from the country. Relations with Iraq naturally remained tense, with some Baghdad officials continuing to assert their claim to Kuwait. On 27 May 1993, the United Nations Security Council reaffirmed the decision of a Boundary Demarcation Commission establishing the border between the two nations. Kuwait's vulnerability to possible attack from Iraq or Iran drew the nation closer to the United States, which has been willing to offer enhanced security collaboration.

In October 1994, Iraq began moving 60,000 troops to within 32 km (20 mi) of the Kuwaiti border. The UN Security Council voted unanimously to condemn Iraq's actions, and the United States, the United Kingdom, and other countries came to Kuwait's assistance. Kuwait agreed to allow the United States to station a squadron of 24 warplanes there as part of a broad effort to curb Iraqi military power. The plan kept reserves of American warplanes and a division's worth of tanks and armor stationed in the region. On 10 November 1994, Iraq agreed to recognize the independence and current borders of Kuwait, a major step apparently aimed at allowing at least some UN sanctions against Iraq to be lifted. However, in August 1995, Iraqi troop movements along the Kuwaiti border caused alarm again, and the United States began sending ships

carrying equipment and supplies to the Persian Gulf. In April 1996, an international military exercise (involving forces of the United States, the United Kingdom, Russia, China, Italy, and other Arab nations) was held in Kuwait. The UN also renewed its multinational force of border observers in April 1996 to oversee the 14-km (9-mi) demilitarized zone that separates Kuwait from Iraq.

Although some of its neighbors in the Persian Gulf began to pursue a rapprochement with Iraq over the following years, Kuwait maintained its vigilance against the regime of Saddam Hussein. Early in 1998, it granted expanded staging areas to the United States in anticipation of possible military action in response to Iraq's failure to cooperate with UN weapons inspections. At the end of 1998, it supported NATO air strikes against Iraq over the same issue. In January 1999, Kuwait placed its military on full alert in response to renewed threats from Iraq. As of 2000, a special UN commission had awarded \$15.7 billion in reparations for damages suffered in Iraq's 1990 invasion of Kuwait. In January 2003, Iraqi and Kuwaiti officials resumed talks on the fate of people who had gone missing during the Iraqi occupation of Kuwait in 1990-91. Kuwait claims Iraq must account for more than 600 Kuwaitis who disappeared during the occupation. Iraq insists it holds no such detainees, and accuses Kuwait of failing to account for more than 1,000 Iraqis.

On 8 November 2002, the UN Security Council passed Resolution 1441, calling on Iraq to disarm itself immediately of weapons of mass destruction (chemical, biological, and nuclear weapons), to abide by all former UN resolutions regarding the country since the end of the 1991 Gulf War, and to allow for the reintroduction of UN and IAEA weapons inspectors (they were expelled from the country in 1998). The United States adopted a firm position toward Iraq's disarmament, which it disputed, and by March 2003, was preparing for war. Since Kuwait's liberation from Iraq in 1991, it has become the world's largest per capita defense spender. As of 2003, Kuwait had purchased Patriot antimissile batteries, F/A-18 warplanes, and Apache attack helicopters for a military force estimated at 15,500, with 23,700 in reserves. However, Kuwait was not expected to take part in the expected US-led invasion of Iraq; instead, its forces were to defend the country from retaliation or other forms of attack by Iraq. By early March 2003, nearly 140,000 US and British military personnel had arrived in Kuwait.

On 21 January 2003, a civilian contractor for the US military was killed and another wounded when their car was fired upon outside Kuwait City. A Kuwaiti man was arrested and claimed responsibility for the shooting, expressing support for Osama bin Laden's al-Qaeda organization. Kuwait is concerned about a rise in Islamic fundamentalism and anti-American sentiment.

On 19 March 2003, the United States launched air strikes on Baghdad, and the war in Iraq began. Iraq fired a number of missiles at Kuwait, and one struck a mall in Kuwait City but resulted in no deaths. Most of the missiles were destroyed by defensive Patriot missiles. The regime of Saddam Hussein was toppled on 9 April, and the military stage of the war ended soon after. Plans for the reconstruction of Iraq and for the establishment of a legitimate government were in the making in April, but it was acknowledged such progress could take years.

In May 1999, the emir of Kuwait dissolved the National Assembly in the wake of a long-standing political deadlock between government and opposition forces. However, the opposition gained

even more ground in national elections held in July, with both Islamists and liberals gaining additional seats. Among the matters awaiting parliamentary consideration was a controversial decree by the emir that would allow women to vote and run for office by the next election, scheduled for 2003. Parliament on 23 November 1999 voted against the emir's decree to grant full political rights to women.

Traditionally, the emir has appointed the crown prince as prime minister. In July 2003, he appointed Sheikh Sabah al-Ahmad al-Sabah prime minister, separating the post from the role of heir to the throne for first time since independence. In the legislative elections on 5 July 2003, 148 candidates ran for 50 places. Voter turnout was 81%, electing new candidates to half of the Assembly seats: pro-cabinet, 20 seats; Islamist, 16 seats; independents, 12 seats; and liberals, 2 seats. In May 2005, parliament approved constitutional amendments to give women full political rights. In June, the first woman cabinet minister was appointed. Women will be able to take part in parliamentary elections scheduled to take place in 2007 and local elections in 2009.

In January 2005, lethal gun battles erupted between suspected Islamist militants and police. In October 2005, the future leadership of Kuwait was brought into question as the aging leadership of the royal family, all in their late seventies, suffered from debilitating illnesses.

### <sup>13</sup> GOVERNMENT

According to the constitution of 16 November 1962, Kuwait is an independent sovereign Arab state under a constitutional monarch. Executive power is vested in the emir, who exercises it through a Council of Ministers. Succession is restricted to descendants of Mubarak as-Sabah; an heir apparent must be appointed within one year of the accession of a new ruler. The emir appoints a prime minister after traditional consultations and appoints ministers on the prime minister's recommendation. Emir Sabah as-Salim as-Sabah died in December 1977 after a reign of 12 years and was succeeded by Emir Jabir al-Ahmad al-Jabir as-Sabah. The as-Sabah family, advised by wealthy merchants and other community leaders, dominates the government.

The National Assembly (Majlis) consists of 50 elected representatives. Elections are held every four years among adult literate males who resided in Kuwait before 1920 and their descendants; candidates must be Kuwaiti males at least 21 years of age. As a result, the electorate only accounts for about 10% of Kuwait's total population. In 1996, naturalized citizens who did not meet the pre-1920 qualification but had been naturalized for 30 years became eligible to vote. The assembly may be dissolved at any time by the emir. It was dissolved in 1976, as part of a political crack-down that followed the government's announced support of Syrian intervention in Lebanon. Elections were held in February 1981 and a new assembly was convened after elections in 1985; it was dissolved once again in 1986 as a result of national tensions over the Iran-Iraq War. It remained suspended until elections in October 1992. In 1993, the new Assembly actively produced new legislation, including a national budget. The emir suspended the Assembly once again in 1999, but new elections were held within two months.

### <sup>14</sup> POLITICAL PARTIES

Political parties are prohibited, but opposition groups are active in the nation's political life. Several political groups act as *de facto* parties: Bedouins, merchants, Sunni and Shiite activists, and secular leftists and nationalists. Political opinions are freely expressed in informal gatherings in the homes of government officials and leading citizens.

Progovernment forces gained ground over Muslim fundamentalist candidates in the elections of 8 October 1996. Following the 1999 elections, the Assembly was split almost evenly among pro-government, liberal, and Islamic members. Progovernment forces held 13 seats, with the rest held by Islamic and liberal parties and unaffiliated independents.

The Islamists are divided between the Ikhwan, which traces its political antecedents to Egypt's Muslim Brotherhood, and two Salafi groups that draw inspiration from Saudi Arabia. Current political groupings include the Islamic Constitutional Movement (ICM) and the Islamic Popular Group (of the Salafi tendency), two Sunni organizations; the Islamic National Alliance, the main faction for Shia Muslims; the Kuwait Democratic Forum (KDF), a loose association of groups with Nassarist and pan-Arabist foundations; and the National Democratic Group, composed of generally secular progressives with liberal tendencies. The rest are independents or are tribal confederations.

### <sup>15</sup> LOCAL GOVERNMENT

There are five governorates (Ahmadi, Al-Jahrah, Al-Kuwayt, Hawalli, and Al-Farwaniyah), but political authority is highly centralized in the capital. A tradition of *diwaniyya*, or family or tribal gatherings, serves as a forum for debate in society, largely oriented around the proceedings of parliament.

### <sup>16</sup> JUDICIAL SYSTEM

The system of Muslim law (Shariah) was augmented by 1959 legislation that established courts of law, regulated the judicial system, and adopted modern legal codes. In each administrative district of Kuwait, there is a summary court composed of one or more divisions, each presided over by one judge. The summary courts deal with civil and commercial cases and leases. A tribunal of first instance has jurisdiction over matters involving personal status, civil and commercial cases, and criminal cases, except those of a religious nature and cases in which the amount involved exceeds KD1,000. The High Court of Appeals is divided into two chambers, one with jurisdiction over appeals involving personal status and civil cases, the other over appeals involving commercial and criminal cases. State security court decisions may be appealed to the Court of Cassation. Ordinary criminal cases may be appealed to the High Court of Appeals. The five-member Superior Constitutional Court is the highest level of the Kuwaiti judiciary. The Superior Constitutional Court interprets the constitution and deals with disputes related to the constitutionality of laws, statutes, and by-laws. A military court handles offenses committed by members of the security forces. Religious courts, Sunni and Shia, decide family law matters, but there is also a separate domestic court

for non-Muslims. There is no Shia appellate court. Shia cases are adjudicated by Sunni courts of appeals.

While the 1962 constitution guarantees an independent judiciary, the executive branch retains control over its administration and budget. The emir, after recommendation of the Justice Ministry, appoints judges in the regular courts. Kuwaiti nationals receive lifetime appointments; non-Kuwaiti judges receive renewable terms of one to three years.

The constitution gives the authority to pardon and commute sentences to the emir. The Special State Security Court was abolished in 1995.

## 17 ARMED FORCES

Kuwait's all-volunteer armed forces totaled 15,500 active personnel in 2005. The Army had 11,000 personnel and was equipped with 368 main battle tanks, up to 450 armored infantry fighting vehicles, 321 armored personnel carriers, and 218 artillery pieces. The Air Force numbered an estimated 2,500 and had 50 combat-capable aircraft, including 39 fighter ground attack aircraft, in addition to 16 attack helicopters. The Navy had an estimated 2,000 personnel, with major naval units including 40 patrol/coastal vessels. Paramilitary forces consisted of an estimated 6,600-member National Guard. The UN provided troops and observers in Kuwait. In addition, the United States maintained a military presence with 25,250 troops stationed in the country. The defense budget in 2005 was estimated at \$4.27 billion.

## 18 INTERNATIONAL COOPERATION

Kuwait was admitted to the United Nations (UN) on 14 May 1963 and is a member of ESCWA and several nonregional specialized agencies, such as UNESCO, UNIDO, IAEA, FAO, IFC, IMF, the World Bank, ILO, and WHO. It belongs to the Arab League, the Arab Bank for Economic Development in Africa, the African Development Bank, the Arab Monetary Union, the Council of Arab Economic Unity, the Central African States Development Bank (BDEAC), the Organization of the Islamic Conference (OIC), G-77, OPEC, WTO, and OAPEC; in 1981, it was a leader in forming the Gulf Cooperation Council with Saudi Arabia and four other Gulf states.

Kuwait played a key role in Operation Iraqi Freedom (2002–03) by offering land use and finances for the US-led coalition forces. The nation has also continued to support reconstruction efforts in Iraq. Kuwait is part of the Nonaligned Movement. In environmental cooperation, Kuwait is part of the Basel Convention, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 19 ECONOMY

The discovery of oil in 1934 transformed the economy. Kuwait's enormous oil reserve of 94 billion barrels and huge quantities of natural gas have provided the base for an economic presence of worldwide significance. The Kuwaiti standard of living was among the highest in the Middle East and in the world by the early 1980s. Oil wealth has stimulated trade, fishery development, and service industries. The government has used its oil revenues to build ports, roads, an international airport, a seawater distillation plant, and modern government and office buildings. The public has also been served by the large-scale construction of public works, free

public services, and highly subsidized public utilities, transforming Kuwait into a fully developed welfare state. Prudent management of budgetary allocations and development priorities, as well as substantial interest from overseas investment, helped cushion the adverse impact of the collapse of the Souk al-Manakh—an unregulated curbside securities market—in 1982, the collapse in world oil prices during the mid-1980s, and the 1980–88 Iran-Iraq War. In addition, acquisition of 5,000 retail outlets in Western Europe (marketed under the name “Q-8”) and expansion into the manufacture and sale of refined oil products have bolstered the Kuwaiti economy.

Oil extraction and processing accounts for about 50% of GDP, 95% of export earnings, and 75% of government revenues. Kuwait's economy suffered enormously from the effects of the Gulf War and the Iraqi occupation, which ended in February 1991 with the destruction of much of Kuwait's oil production capacity and other economic infrastructure. The damage inflicted on the economy was estimated at \$20 billion. Real growth in GDP was estimated at 9% in 1994. Economic improvement from 1994 to 1997 came largely from growth in the industrial and financial sectors. The Difficult Debts Law, which aided investors with losses incurred during the Iraqi invasion and an informal stock crash in the early 1980s, significantly improved investor confidence. Reversing this trend, GDP shrank 16% due to a large decline in world oil prices. The loss was more than restored by the recovery of oil prices beginning in the second half of 1999. GDP rose 17.22% in 1999, and then an extraordinary 26.88% in 2000. Inflation rose to 4.7% in 1999, but declined to 2.7% in 2000. GDP growth in 2001 was 5.43% and inflation was down to 2%. From 1999 to 2001, per capita GDP rose from \$13,082 to \$17,880. Kuwait's portfolio investments have generally served to double the income it receives from its basic oil industry.

While the GDP growth rate slumped in the negatives in 2001 and 2002 (–1.0% and –0.4% respectively), it quickly recovered, jumping to 9.9% in 2003, and 7.2% in 2004; in 2005, the economy was expected to expand by 4.0%. As a result of this boom, income per capita has also improved, reaching \$20,088 in 2004, and an estimated \$23,347 in 2005. Inflation and unemployment have been kept under control (reaching 1.2% and 2.2%, respectively, in 2004) and do not pose a major problem to the economy. Although Kuwait is a country with a high standard of living, it is still dependent on food and water imports. In the future, it plans to open up oil exploitations in the northern part of the country.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005, Kuwait's gross domestic product (GDP) was estimated at \$51.6 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$22,100. The annual growth rate of GDP was estimated at 4.5%. The average inflation rate in 2005 was 3.5%. It was estimated that agriculture accounted for 0.5% of GDP, industry 52.1%, and services 47.4%.

Foreign aid receipts amounted to \$4 million or about \$2 per capita.

The World Bank reports that in 2003, household consumption in Kuwait totaled \$20.70 billion or about \$8,637 per capita based on a GDP of \$41.7 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1980 to 1990, household consumption grew at an average annual rate of -1.4%.

## 21 LABOR

In 2005, Kuwait's labor force was estimated at 1.67 million workers, approximately 80% of whom were not Kuwaiti nationals. Although there was no data available on the occupational breakdown of the country's workforce, as of 2002, Kuwaiti nationals accounted for 93% those employed in the public/government sector. The government-owned oil industry dominates the economy. The unemployment rate was estimated at 2.2% in 2004.

Although workers are legally permitted to join unions, less than 5% of the labor force are union members. Virtually all are affiliated with the Kuwait Trade Union Federation, the only trade federation allowed by law. The government performs a pervasive supervisory role of all unions, both subsidizing union expenses and carefully monitoring union activities. The right to strike is severely limited, and strikes rarely occur. About 10% of union members are foreign workers, but foreign workers must be in Kuwait for five years before they can join a union and then may not vote in elections or hold official positions. The right to strike is limited.

In general, all workers are entitled to a 48-hour workweek, compensation for overtime, sick leave, termination pay, and access to arbitration for settlement of disputes. However, many laborers from developing countries are willing to tolerate poor or unhealthy working conditions in order to earn a wage that is significantly higher than in their own countries. The minimum working age is 18, although children who are at least 16 may work limited hours in nonhazardous occupations. Foreign workers must be at least 18 to work in Kuwait. In 2002, the public-sector minimum wage was about \$742 per month for citizens and \$296 per month for noncitizens. Health and safety standards are lax in regard to foreign workers.

## 22 AGRICULTURE

Only 1% of the total land area is utilized for the cultivation of crops; permanent pasture land amounts to 7.6% of total land area. Despite the absence of rivers and streams and the paucity of rain, the development of agriculture has been actively pursued. The government apportions arable land at nominal prices on a long-term basis among farmers to stimulate production of vegetables and other crops. It also provides farmers with long-term loans and low-cost irrigation. The state has supplied extension services and demonstration centers for new farming techniques in an attempt to increase agricultural production. Nevertheless, farming contributes less than 1% of the non-oil GDP. Agricultural output in 2004 included 185,620 tons of vegetables and melons and 16,900 tons of fruit.

## 23 ANIMAL HUSBANDRY

When the desert is green (from the middle of March to the end of April), about one-fourth of Kuwait's meat supply is provided lo-

cally. The 2005 livestock population included: cattle, 28,000; sheep, 900,000; goats, 150,000; and chickens, 32,500,000. Kuwait's poultry production has recovered from damages inflicted during the 1990 invasion. Production in 2005 was estimated at 80,535 tons, exceeding the previous high of 21,000 tons in 1989. A small number of Bedouins raise camels, goats, and sheep for meat and milk.

## 24 FISHING

Small boats catch enough fish to satisfy local demand. Species caught include sardines, mackerel, tuna, shark (for the fins exported to China), barracuda, and mullet. Crabs, crayfish, and oysters are plentiful, and undik and zubaidi (butterfish) are both tasty and very popular. Shrimp are produced for a growing export market. The fish catch in 2003 totaled 6,095 tons, down from 8,466 in 1993 but up from the low of 2,034 in 1991, the year of the Iraqi invasion.

## 25 FORESTRY

There are no natural forests in Kuwait. The government's afforestation projects cover an area of about 5,000 hectares (12,300 acres). Imports of forest products totaled \$108 million in 2004.

## 26 MINING

In addition to petroleum and natural gas, the country's main commodities, Kuwait produced caustic soda, chlorine, cement, clays, clay products, fertilizer, lime, salt, and sand and gravel. The cement and fertilizer production plants were damaged by retreating Iraqi troops during the 1991 Gulf War. Cement production in 2004 was estimated at 1.6 million metric tons, unchanged from 2003. Ammonia production (nitrogen content) in 2004 was 413,400 metric tons, and output of urea (nitrogen content) was 320,000 tons metric tons.

## 27 ENERGY AND POWER

The Persian Gulf is geologically unique. Sedimentary deposits are combined with large, relatively unbroken folding that results in underground oil reservoirs 16 to 240 km (10–150 mi) long, containing billions of barrels of oil. Kuwait's known petroleum deposits are among the world's largest. As of 1 January 2005, Kuwait's proven oil reserves came to an estimated 99 billion barrels. However, another 2.5 billion barrels are held in the Saudi-Kuwaiti neutral zone or "divided zone," thus putting Kuwait's proven oil reserves at 101.5 billion barrels. The neutral zone covers an area of 6,200 sq mi and holds an estimated 5 billion barrels of oil and 1 trillion cu ft of natural gas. Kuwait possesses about 8% of the known global resources of petroleum.

Although Kuwait's crude oil production capacity in 2005 was estimated at 2.5 million barrels per day (includes half of the neutral zone), as a member of the Organization of Petroleum Exporting Countries (OPEC) Kuwait's crude oil output is limited by a production quota. As of March 16, 2005, that quota was set at 2.207 million barrels per day. However, for the period January through May 2005, oil output was estimated at an average of 2.6 billion barrels per day, of which 2.5 billion barrels per day was crude oil. Domestic demand for oil was estimated for 2005 at 293,000 barrels per day. Crude oil refining capacity, as of 1 January 2005, was estimated at 889,200 barrels per day. Kuwait's cost of production is perhaps the lowest in the world because its vast pools of oil lie

fairly close to the surface and conveniently near tidewater. The oil rises to the surface under its own pressure and, owing to a natural gradient, flows downhill to dockside without pumping. Kuwait exports more than 60% of its oil to Asian countries, although exports are also sent to Europe and the United States.

Kuwait also has large reserves of natural gas. As of 1 January 2005, Kuwait's natural gas reserves were estimated at 55.5 trillion cu ft, which included 0.5 trillion cu ft in the neutral zone. In spite of its large natural gas reserves, production and domestic consumption are relatively modest. In 2002, output and demand for natural gas by Kuwait came to an estimated 293 billion cu ft each. The vast amount of this gas is found and produced along with oil. However, Kuwait is looking to expand its production and consumption of natural gas so as to free up more oil for export. The country is also hoping to cut the flaring or burning-off of natural gas.

All electric power is produced thermally from oil or natural gas. Generating capacity has grown dramatically during the past two decades and is estimated to have reached 9.4 million kW in 2002. Electric power production increased from 30.6 billion kWh in 2000, to an estimated 32.4 billion kWh in 2002. All electric power is generated by burning fossil fuels. Most of the country is provided with electrical service; electric refrigeration and air conditioning are widely available. An extensive diesel power generating system serves outlying villages.

## 28 INDUSTRY

Although oil extraction continues to be the economic mainstay, Kuwait has diversified its industry. Small-scale manufacturing plants produce ammonia, fertilizer, paper products, processed foods, and other consumer goods. In 2002, the food processing industry was expanding, with growth sectors including vegetable oils, beverage bases, breakfast cereals, poultry parts, cheese, frozen vegetables, and snack foods. In 2002, Kuwait had three oil refineries with a total refining capacity of 828,000 barrels a day, including 773,000 barrels per day of crude oil distillation, 41,000 barrels per day of catalytic cracking capacity, and 14,000 barrels per day of reforming capacity. The major refinery products were fuel oil, gas oil, naphtha, kerosene, and diesel fuel. Industrial products include desalinated water, chemical detergents, chlorine, caustic soda, urea, concrete pipes, soap, flour, cleansers, asbestos, and bricks. The construction industry is highly developed.

Manufacturing all but stopped during the Iraqi invasion due to shortages of inputs and looting of equipment. After liberation, the sector was hard hit by the departure of Palestinian skilled labor. Low international oil prices have cut down on the value of industrial exports, but increases from the latter half of 1999 have produced windfall returns. In 2000, industry accounted for 60% of GDP.

The share of the industry in the GDP remained relatively stable in subsequent years (although the industrial production growth rate slumped at -5% in 2002), reaching 60.5% in 2004; agriculture is virtually nonexistent in Kuwait, accounting for only 0.4% of the economy in 2004; services came in second with a 39.1% share in the GDP. Around 80% of the 1.42 million working people are represented by non-Kuwaitis.

## 29 SCIENCE AND TECHNOLOGY

High technology in Kuwait has been largely confined to the oil industry and has been imported, along with the scientists and technicians needed to install and operate oil refineries and related facilities.

The Kuwait Institute for Scientific Research, founded in 1967 at Safat, promotes and conducts scientific research in the fields of food resources, water resources, oil-sector support, and environmental studies. The Agriculture Affairs and Fish Resources Authority has an experimental research station in Safat.

Kuwait University, founded in 1962 at Safat, has colleges of science, engineering and petroleum, medicine, and allied health sciences and nursing. The College of Technological Studies, in Shuwaikh, was founded in 1976. The Telecommunications and Navigation Institute, at Safat, was founded in 1966.

In 1987–97, science and engineering students accounted for 29% of college and university enrollments. In 2002, research and development spending totaled \$73.448 million, or 0.19% of GDP. Of that total, 80% came from government sources, with the rest from business. In that same year, there were 73 researchers and 180 technicians per million people.

## 30 DOMESTIC TRADE

Until the early 1960s, the traditional small shop or market stall dominated retail trade. In recent decades, however, modern business centers with hundreds of new shops and offices have opened, and some smaller villages have developed retail stores with impressive stocks of foreign goods. Franchising is also becoming well established, though most of the franchise market is currently held by American fast-food and restaurant firms. The city of Kuwait is the distribution center for the emirate and serves the transit trade of nearby states.

Usual business hours in summer (May to October) are from 6 AM to 12 noon and from 4 PM to 6 PM; and during the rest of the year, from 7 AM to 12 noon and from 3 PM to 6 PM. Stores are closed Fridays.

## 31 FOREIGN TRADE

For many years, Kuwait maintained a boycott of imports from Israel. However, after liberation from Iraqi occupation in 1991, Kuwait relaxed its trade policies so that Israeli companies previously subject to boycott were permitted to do business in Kuwait. Kuwait also announced a trade embargo against the countries it regarded as having supported Iraq during the occupation—Jordan, Yemen, Tunisia, Sudan, Algeria, and Mauritania. Major export partners in 1997 were Japan (24%), India (16%), the United States (13%), South Korea (11%), and Singapore (8%). Imports came primarily from the United States (22%), Japan (15%), the United Kingdom (13%), Germany (8%), and Italy (6%).

The export of fuels sustains Kuwait, accounting for the vast majority of commodity exports (91%). Kuwait is the source of 3.3% of the world's crude petroleum exports. Polymers are another important export (4.8% of Kuwait's exports).

In 2004, Kuwait's exports grew to \$27.4 billion (FOB—Free on Board), while its imports were more than half that, at \$11.1 billion (FOB). The bulk of exports went to Japan (20.5%), South Korea (13.7%), the United States (12.4%), Singapore (11.3%), Taiwan

**Principal Trading Partners – Kuwait (2001)**

(In millions of US dollars)

Country	Exports	Imports	Balance
World	16,164.5	7,869.0	8,295.5
Areas nes	7,358.6	...	7,358.6
Japan	3,275.6	752.2	2,523.4
United States	1,777.1	834.6	942.5
Netherlands	895.0	125.7	769.3
Other Asia nes	621.7	91.1	530.6
Singapore	351.7	64.7	287.0
Korea, Republic of	330.4	215.1	115.3
Sa'udi Arabia	163.9	508.7	-344.8
France-Monaco	159.1	282.8	-123.7
United Arab Emirates	129.6	282.1	-152.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

(9.9%), Pakistan (3.3%), and the Netherlands (3.3%). Imports included food, construction materials, vehicles and parts, and clothing and mainly came from the United States (12.9%), Germany (11.9%), Japan (7.9%), the United Kingdom (5.5%), Saudi Arabia (5.5%), Italy (5%), France (4.5%), and China (4.1%).

**32 BALANCE OF PAYMENTS**

Kuwait enjoys a highly favorable payments position because of its huge trade surpluses. The Kuwaiti dinar is completely covered by the country's reserve fund, 50% of which must be in gold.

The US Central Intelligence Agency (CIA) reported that in 2001, the purchasing power parity of Kuwait's exports was \$16.2 billion, while imports totaled \$7.4 billion, resulting in a trade surplus of \$8.8 billion.

**Balance of Payments – Kuwait (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>7,567.0</b>
Balance on goods	11,261.0	
Imports	-9,698.0	
Exports	20,959.0	
Balance on services	-4,641.0	
Balance on income	3,326.0	
Current transfers	-2,379.0	
<b>Capital Account</b>		<b>1,429.0</b>
<b>Financial Account</b>		<b>-11,332.0</b>
Direct investment abroad	4,990.0	
Direct investment in Kuwait	-67.0	
Portfolio investment assets	-13,379.0	
Portfolio investment liabilities	336.0	
Financial derivatives	...	
Other investment assets	-2,812.0	
Other investment liabilities	-399.0	
<b>Net Errors and Omissions</b>		<b>511.0</b>
<b>Reserves and Related Items</b>		<b>1,824.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

The International Monetary Fund (IMF) reported that in 2001, Kuwait had exports of goods totaling \$16.2 billion and imports totaling \$6.93 billion. The services credit totaled \$1.79 billion and debit \$5.34 billion.

Exports of goods reached \$30.2 billion in 2004 and were expected to grow to \$43.4 billion in 2005. Imports were expected to reach \$11.8 billion in 2005, up from \$10.9 billion in 2004. Kuwait has thus managed to keep both a positive resource balance (\$19.3 billion, and \$31.6 billion, respectively), and a positive current account balance (\$18.8 billion in 2004, and an expected \$31.1 billion in 2005). Foreign exchange reserves (excluding gold) reached \$8.2 billion in 2004, covering almost 10 months of imports.

**33 BANKING AND SECURITIES**

The Central Bank of Kuwait, established in 1969, formulates and implements the nation's monetary policy, regulates the currency, and controls the banking system. There are seven commercial banks with 96 branches in Kuwait, of which one is a single-branch operation belonging to a joint-venture bank (the Bank of Bahrain and Kuwait). Apart from this special case, foreign banks are not permitted to operate within Kuwait or to own shares in Kuwaiti banks. Kuwaiti bank shares are typically closely held, either by the government and its agencies or by the merchant families who founded them. The preeminent bank is the National Bank of Kuwait, which at the end of 1999 accounted for one-third of all Kuwaiti bank branch assets.

The Central Bank of Kuwait only took on a serious regulatory role in 1984, after a debt crisis engulfed commercial banks, all of which had exposure to the collapsed informal stock market. However, the Central Bank's powers are limited, and, although it considers some of the banks to be too weak to be competitive, so far it has been unable to force mergers.

There are three specialized banks, one of which, Kuwait Finance House, operates as a commercial bank restricted to Islamic financial transactions. The other two, Industrial Bank of Kuwait and Kuwait Real Estate Bank, were created to provide long-term credit at a time when the supply of fresh capital from the public sector was not constrained. In the more austere environment since the war, they function like a US investment bank. The idea of establishing more Islamic banks has been welcomed. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$5.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$30.0 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.62%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.25%.

Kuwait's official securities exchange, the Kuwait Stock Exchange (KSE), first introduced in 1962, was founded in 1977 and handles only government bonds and securities of Kuwaiti companies. An unofficial and unregulated securities exchange, the Souk al-Manakh, listing the stocks of 45 Gulf companies outside Kuwait and considered highly speculative, collapsed suddenly in August 1982. At the time of the crash, some 6,000 investors and \$94 billion in postdated checks drawn in anticipation of future stock price increases were said to be involved. In order to limit the effect of the collapse on the Kuwaiti economy, the government created

a special rescue fund to pay compensation to small investors for validated claims. All trading operations of the KSE were suspended on the Iraqi invasion of Kuwait on 2 August 1990. The KSE recommenced trading on 28 September 1992. On the exchange, 1995 was a banner year. The combined effect of rapidly expanding credit and privatization resulted in a 36% increase in the stock price index and a 226% increase in trading volume. By the end of 2001, 88 companies were listed with a total capitalization of KD26.7 billion (\$86.9 billion) and a trading value of KD11.7 billion (\$38 billion). Only Gulf Cooperation Council (GCC) citizens are permitted to buy shares in Kuwaiti companies.

### 3<sup>4</sup> INSURANCE

The insurance sector is closed to foreign institutions. As of 2000, the insurance sector was dominated by three companies: Ahlia Insurance, Gulf Insurance, and Kuwait Insurance Co. Marine, fire, accident, and life insurance policies constitute the bulk of all policies issued. Third-party liability insurance for motor vehicles is compulsory. In 2003, the value of all direct premiums written totaled \$320 million, of which nonlife premiums accounted for \$240 million. In 2002, Al-Ahleia was the top nonlife insurer, with gross written nonlife premiums of \$45.9 million. In that same year, Gulf was the country's top life insurer, with gross written life premiums of \$35.6 million.

### 3<sup>5</sup> PUBLIC FINANCE

Much of the recent improvement in public finances has been the result of higher oil prices and production rather than government reforms. In 1994, the Kuwaiti government began to consider various austerity measures, which became a source of debate in parliament. Several plans called for reductions in government subsidies and welfare benefits, increases in taxes, privatization of state-owned businesses, and banking-sector reforms. Subsidies are one of the most contentious and politicized austerity measures; in 1995, the Ministry of Finance stated that the country annually spent \$1.8 billion on utility subsidies and free health care. The Kuwaiti cabinet passed a reform package in 1999, including a reduction in subsidies and increasing taxes on luxury goods. A government surplus of about 15% of GDP in 2000 was reduced to a deficit of over 2% in 2001 as a result of soft world oil prices.

The US Central Intelligence Agency (CIA) estimated that in 2005 Kuwait's central government took in revenues of approximately \$47.2 billion and had expenditures of \$20.7 billion. Revenues minus expenditures totaled approximately \$26.4 billion. Public debt in 2005 amounted to 17.6% of GDP. Total external debt was \$14.93 billion.

The International Monetary Fund (IMF) reported that in 1999, the most recent year for which it had data, central government revenues were KD3,063 million and expenditures were KD3,930 million. The value of revenues was US\$9,324 million and expenditures US\$11,963 million, based on an official exchange rate for 1999 of US\$1 = KD0.32850 as reported by the IMF. Government outlays by function were as follows: general public services, 13.2%; defense, 17.3%; public order and safety, 9.4%; economic affairs, 9.9%; housing and community amenities, 4.8%; health, 7.2%; recreation, culture, and religion, 3.1%; education, 14.8%; and social protection, 20.4%.

#### Public Finance – Kuwait (1999)

(In millions of dinars, central government figures)

<b>Revenue and Grants</b>	<b>3,063</b>	<b>100.0%</b>
Tax revenue	116	3.8%
Social contributions	189	6.2%
Grants	...	...
Other revenue	2,758	90.0%
<b>Expenditures</b>	<b>3,930</b>	<b>100.0%</b>
General public services	518	13.2%
Defense	679	17.3%
Public order and safety	369	9.4%
Economic affairs	390	9.9%
Environmental protection	...	...
Housing and community amenities	187	4.8%
Health	281	7.2%
Recreational, culture, and religion	123	3.1%
Education	582	14.8%
Social protection	801	20.4%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

### 3<sup>6</sup> TAXATION

Companies that are registered in Kuwait or in countries that are members of the Gulf Cooperation Council (GCC) and are wholly owned by Kuwaiti and/or citizens of GCC countries are not subject to income tax. However, foreign companies carrying on trade or business in Kuwait are subject to varying corporate tax rates based on defined income levels and where the operations are located. Operations on the Kuwaiti mainland are subject to tax rates contained in the Amiri Decree No. 3 of 1955, which range from 0–55%, covering 11 income levels. Operations located on the islands of Kubr, Qaru, and Umm Al Maradim are subject to the tax rates contained in Law No. 23 of 1961, which has two income levels and rates of 20% and 57%. Foreign companies doing business in the portion of the offshore area of the partitioned neutral zone that is under Saudi Arabian administration are subject to a tax of 50% of what they would pay under Amiri Decree No. 3 of 1955. Capital gains derived from the sale of assets and shares are treated as normal business profits subject to the appropriate tax rate. Other taxes include social security levies of 10.5% on employers; a 1% levy on a shareholding company's profit, payable to the Kuwait Foundation for Scientific Research; and a 2.5% employment tax on net annual distributable profits. Kuwaiti citizens are exempt from paying taxes. The government passed a law to introduce limited taxation in 2000, in the form of sales taxes.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Customs duties are generally 5% ad valorem, but many goods are admitted duty free. The tariff on cigarettes was increased to 100% (from 70%) as of July 1997. Imports of liquor are prohibited by law. Protective tariffs may be levied at up to 25%.

### 3<sup>8</sup> FOREIGN INVESTMENT

Through tax concessions, Kuwait welcomes foreign investment in heavy and light industries but continues to resist foreign invest-

ment in the oil sector. In May 2000, the government passed the Indirect Foreign Investment Law, allowing the purchase of up to 100% of the stock of companies listed on the Kuwait Stock Exchange, except for banks. In March 2001 the government passed a liberalized Foreign Investment Law that, together with a five-year privatization plan announced July 2001, expected to substantially increase foreign investment in Kuwait. Previously, foreign investment was not permitted in certain sectors, such as banking or insurance, and was restricted to less than 49% of ownership shares in permitted areas. Foreign investors are no longer required to have a Kuwaiti sponsor but are subject to a 55% corporate tax that Kuwaiti companies do not pay. Major foreign investors in Kuwait as of 2001 included Japan's Arabian Oil Co. and US-owned Texaco. In July 1995, the Union Carbide Corp. and Kuwait's Petrochemical Industries Co. began construction of a \$2 billion petrochemical plant, the biggest joint venture involving a foreign company to date in Kuwait. Foreign investment totaled \$110 million in 1995. Foreign direct investment (FDI) has historically been low and not encouraged by a government concerned with the "Kuwaitization" of the economy. In 1997, FDI was reported at \$20 million, rising to \$59.1 million in 1998, and reaching \$72.3 million in 1999. However, FDI inflow fell to \$16.3 million in 2000, and then in 2001 turned into a net outflow of -\$39 million.

Low inward investment contrasts with remarkably high outward investment, though the government does not publish any statistics for these activities. Kuwaiti outward investment consists of portfolio investments held by the Kuwait Investment Authority (KIA), other direct investments by other government entities, and outward investments by private citizens. The KIA portfolio was estimated to have reached about \$60 billion in 2002. Entities like the Kuwait Petroleum Corp. have sizeable investments in production, refining and marketing activities abroad, but only the roughest estimates as to their value can be made. Investments by private citizens are thought to at least equal the government's holdings.

New estimates place outward public investments at around \$80 billion. At the same time, investments made outside Kuwait by the private sector are estimated to have grown to around \$100 billion.

### **39 ECONOMIC DEVELOPMENT**

Since the mid-1970s, Kuwait has restrained its spending on economic development and fostered a policy of controlled growth. From 1977 to 1982, allocations for development projects remained steady at \$1.7–2.5 billion annually, of which 76% was spent on public works, electric power plants, and desalination and irrigation projects. Development plans for the 1980s, stressing industrial diversification, included the expansion of local oil refineries and major projects in petrochemicals, electricity, water supply, highway construction, and telecommunications. Overseas, refining and marketing operations were stepped up.

Postwar economic planning was hampered by the expulsion of the mainly Palestinian middle-ranking civil servants in various government departments. The Industrial Bank of Kuwait played a major role in the industrial redevelopment of the emirate following the war. Diversification and privatization continue to be the strategic goals of the government to increase employment and counter the abrupt swings in the economy due to the heavy dependence on the oil sector. Increased foreign investment has come

to be seen as essential to these goals. In May 2000, the government passed the Foreign Investment Law, allowing foreign investors to buy up to 100% of companies listed on the Kuwait Stock Exchange (KSE), except for banks. The government, however, controls which companies are publicly traded. In March 2001, the Foreign Direct Investment Law was passed, allowing up to 100% ownership of a company operating in Kuwait, although with the disincentive that the profits of the foreign company would be subject to a 55% tax. In July 2001, the government announced a five-year privatization program.

Toward the end of 2005, plans were made to build one of the largest refineries in the region. The project, financed by state-owned Kuwait National Petroleum Co. (KNPC), will cost around \$6 billion and when completed will refine 615,000 barrels per day. The economy as a whole is expected to grow at steady rates in coming years (around 3.5% in 2006 and 2007), despite slumping government expenditures and possible constraints in the rate of expansion of the oil industry.

### **40 SOCIAL DEVELOPMENT**

Kuwait has a widespread system of social welfare that is operated on a paternalistic basis and financed by government oil revenues. Social insurance legislation provides for old-age, disability, and survivor pensions, for which the worker pays 5% of earnings, the employer pays 11% of payroll, and the government provides a subsidy. Retirement benefits ranged from 65–95% of earnings, depending upon the length of employment. The government pays for medical care in case of work injury.

Women are denied equal rights and legal protection under Kuwaiti law and do not have the right to vote. Women must first obtain their husband's permission before applying for a passport. Kuwaiti women married to foreign men suffer legal discrimination, are not entitled to government housing subsidies, and are required to pay a residency fee. Women (including foreign women) who wear Western clothing are often subject to harassment. Domestic abuse is common. Rape and abuse of foreign domestic workers is widespread. In 2004, it was still common for employers to confiscate and withhold the passports of domestic servants preventing them from leaving the country.

Bedouin minorities face considerable legal discrimination. They are not entitled to citizenship, but beginning in 2004, they were able to enroll their children in school, and health care became available in 2005.

### **41 HEALTH**

Kuwait has a highly advanced public health service that is extended to all Kuwaiti residents, regardless of citizenship. The entire population has access to health care services. Total health care expenditure was estimated at 3.3% of GDP. The urban population has access to safe water and adequate sanitation. As of 2004, there were an estimated 153 physicians, 391 nurses, 32 pharmacists, and 29 dentists per 100,000 people.

The incidence of typhoid fever and most infectious diseases is comparatively low; however, influenza is common and measles has resulted in a high fatality rate among children up to age five. Immunization rates for children up to one year of age were as follows: tuberculosis, 93%; diphtheria, pertussis, and tetanus, 98%; polio, 98%; and measles, 97%. The rates for DPT and measles were

94% and 95%, respectively. Common diseases were malaria and measles.

Life expectancy in 2005 was 77.03 years, and infant mortality was estimated at 9.95 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, 21.8 and 2.5 per 1,000 people, respectively. The total fertility rate in 2000 was 2.7 children per woman during childbearing years. In 2001, the HIV prevalence was estimated at 0.12 per 100 adults.

## 42 HOUSING

For centuries, housing in Kuwait consisted primarily of small cottages, mud huts, and a few larger dwellings built of coral and plastered with cement and limestone. However, improved housing for the general population has been a main government objective since 1970, and many of the traditional Arab houses have been replaced with new government model housing.

The National Housing Authority built about 50,000 dwelling units in 1977–85. Between 1989 and 1994, 25,213 applications were presented for the housing distribution program. According to the 1995 census, there were 255,477 households in Kuwait. The total number of dwellings that year was 251,682, of which 234,153 were private and 17,529 were collective dwellings. Including vacant dwellings and those under construction, the total number was 287,574 in 1995. About 50% of all housing units were apartments, 19% were villas, 15% were traditional dwellings, 10% were annexes, and 4% were shacks and other marginal dwellings. In 2000–01 there were 8,875 government housing projects and 3,118 new dwellings constructed.

## 43 EDUCATION

Kuwait offers its citizens free education, including free food, clothing, books, stationery, and transportation from kindergarten through the fourth year of college. Schools below university level are segregated by sex. Four years of primary school are compulsory. Students may then move on to four years of intermediate school and four years of secondary school. For the last two years of schooling, students may choose a specialized curriculum in science, arts, or religious studies. The Ministry of Education oversees all aspects of secondary education, both public and private, for general and Islamic schools. The school year runs from September to June.

In 2001, about 73% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 83% of age-eligible students. In 2001, secondary school enrollment was about 79% of age-eligible students. It is estimated that about 96% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 13:1 in 2003.

Kuwait University (opened in 1966) is the only university in the country. There are several colleges offering programs, as well as a Cadet Academy sponsored by the military. Kuwaiti students who complete their secondary school science courses in the upper 80% of their class and arts courses in the upper 70% are eligible to study abroad at government expense. In 1999, about 21% of the tertiary-age population were enrolled in some type of higher education program: 12% men and 32% women. The adult literacy

rate for 2004 was estimated at about 82.9%, with 84.7% for men and 81% for women.

As of 1999, public expenditures on education were estimated at 6.5% of GDP.

## 44 LIBRARIES AND MUSEUMS

The National Library of Kuwait has over 150,000 volumes, 90% of them in Arabic; it has established 22 branches throughout the country. The Kuwait University Library system has over 294,000 volumes. The Arab Planning Institute in Safat has a library of about 48,000 volumes. Other schools and oil companies maintain special libraries.

The Kuwait National Museum in Kuwait City displays ancient Kuwaiti artifacts (recovered from excavations on Faylakah Island), as well as exhibits concerning Islamic art, and local plant, bird, and animal life. The Kuwait Museum of Islamic Art in Kuwait City was founded in 1983. The Educational Science in Safat Museum was established in 1972 and features sections on natural history, space, oil, health, and meteorology.

## 45 MEDIA

The government administers telephone, television, radio, postal, and telegraph services. In 2003, there were an estimated 198 main-line telephones for every 1,000 people. The same year, there were approximately 578 mobile phones in use for every 1,000 people.

Government-controlled Kuwait Television operates three networks and Radio Kuwait offers one station, with programs in English, Urdu, Persian, and Arabic. There are private stations for both radio and television, including a private satellite television channel launched in 2004. In 2003, there were an estimated 570 radios and 418 television sets for every 1,000 people. The same year, there were 162.8 personal computers for every 1,000 people and 228 of every 1,000 people had access to the Internet. There were 52 secure Internet servers in the country in 2004.

As of 2002, Kuwait had eight daily newspapers. Major Arabic dailies (with estimated 2002 circulation) include *Al-Anbaa* (*The News*, 106,830), *Al-Rai al-'Amm* (*Public Opinion*, 86,900), *Al-Jameheer* (83,000), *Al-Qabas* (*Firebrand*, 79,700), *Al-Seyassa* (*Policy*, 70,000), and *Al-Watan* (*The Homeland*, 59,940). English-language dailies include the *Arab Times* (41,920), and *Kuwait Times* (28,000). The popular monthly magazine *Al-'Arabi* (350,000 in 1995), similar to the *Reader's Digest*, is widely read in Kuwait.

The constitution provides for freedom of speech and the press, and with a few exceptions, citizens are said to freely criticize the government in all media. A Press Law, revised in 2003, prohibits the publication of any materials that criticizes the emir or is deemed an insult to God or Islam.

## 46 ORGANIZATIONS

There is a chamber of commerce and industry in the capital. Workers are represented through a number of associations, including the Kuwait Trade Union Federation. The Ministry of Social Affairs and Labor encourages and supports cultural and recreational organizations and sponsors theatrical activities for youth. The Kuwait National Commission for Education, Science, and Culture is the primary organization for the advancement of science, art, and culture. Organizations such as the Kuwait Medical Association

promote research and education in specialized fields. The multinational Islamic Organization for Medical Sciences and the Arab Center for Medical Literature are in Kuwait. National youth organizations include the National Union of Kuwaiti Students and the Boy Scouts and Girl Scouts Associations. There is a national chapter of the Red Crescent Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

By 1992, the second anniversary of the Iraqi invasion, many of the physical scars of war and occupation had already been erased. The government has restored many of the country's extensive prewar accommodations and amenities. Kuwait City offers gardens and parks, along with landmarks such as the Kuwait Towers; Seif Palace was built in 1896 and boasts original Islamic mosaic tilework. A valid passport and visa are required of all visitors.

In 2001, a total of 2,069,051 foreign visitors arrived in Kuwait. Tourist receipts totaled \$328 million in 2003. Hotel rooms numbered 1,988 with 2,857 beds.

According to the US Department of State, the estimated cost of staying in Kuwait in 2004 was \$344 per day.

#### **48 FAMOUS KUWAITIS**

During the reign of Emir Sir 'Abdallah as-Salim as-Sabah (1870–1965), Kuwait attained a prominent position among the great oil-producing nations of the world, and the state adopted a social welfare program founded on a unique patriarchal system; the emir was revered as a man of simplicity, devotion, and deep concern for his people. He was succeeded as emir by Sabah as-Salim as-Sabah (1913–77), from 1965 to 1977; Jabir al-Ahmad al-Sabah (1926–2006), from 1977 to 2006; and Sabah IV Al-Ahmad Al-Jaber Al-Sabah (b.1929), who became emir in 2006.

#### **49 DEPENDENCIES**

Kuwait has no territories or colonies.

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# KYRGYZSTAN

Kyrgyz Republic  
*Kyrgyz Respublikasy*

**CAPITAL:** Bishkek

**FLAG:** Red field with a yellow sun in the center; in the center of the sun is a red ring crossed by two sets of three lines, a stylized representation of the vent in a Kyrgyz yurt.

**ANTHEM:** *Kyrgyz National Anthem.*

**MONETARY UNIT:** The som was established in May 1993; som1 = \$0.02492 (or \$1 = som40.13) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** Constitution Day, 5 May; Independence Day, 31 August; National Day, 2 December.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Kyrgyzstan is located in southern Asia, between China and Kazakhstan. Comparatively, it is slightly smaller than the state of South Dakota, with a total area of 198,500 sq km (76,641 sq mi). Kyrgyzstan shares boundaries with Kazakhstan on the n, China on the e, Tajikistan on the s, and Uzbekistan on the w. The country's boundary length totals 3,878 km (2,410 mi), and its capital city, Bishkek, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Kyrgyzstan features the peaks of Tian Shan, which rise to over 7,000 m (23,000 ft), and associated valleys and basins which encompass the entire nation. About 90% of Kyrgyzstan has an elevation exceeding 1,500 m (4,900 ft). Slightly over 5% of Kyrgyzstan's land is under irrigation.

Seismic activity continues along the Tian Shan as these mountains continue to be uplifted. As a result, frequent and sometimes devastating earthquakes occur within the region. These also trigger massive mudslides and avalanches that have been known to destroy villages. In August 1992, a 7.3 magnitude earthquake occurred near Jala-Abad, killing 75 people and leaving several thousand homeless.

## <sup>3</sup>CLIMATE

The country's climate is continental to polar in the Tian Shan Mountains. In the Fergana Valley the average temperature in July is 27°C (81°F). In January, the coldest temperatures are in the mountain valleys, with recorded lows below -30°C (-22°F). The climate is temperate in the foothill regions of the north.

## <sup>4</sup>FLORA AND FAUNA

The country's flora and fauna is similar to Tajikistan. There are several types of wildflowers in the valleys. Yak, mountain goats, and snow leopards can be found in the mountains. The country claims to have the world's largest natural-growth walnut forest. Numerous flocks of migrating birds pass through the country each year.

As of 2002, there were at least 83 species of mammals, 168 species of birds, and over 4,500 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Among Kyrgyzstan's most significant environmental issues are water pollution and soil salinity resulting from improper irrigation methods. The pollution of the nation's water causes health problems for 25% of its people, many of whom draw water directly from contaminated wells and streams.

In 2003, about 15% of Kyrgyzstan's total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 6 types of mammals, 4 species of birds, 2 types of reptiles, 3 species of invertebrates, and 1 species of plant. Threatened animal species include the great bustard, European bison, snow leopard, field adder, and tiger.

## <sup>6</sup>POPULATION

The population of Kyrgyzstan in 2005 was estimated by the United Nations (UN) at 5,172,000, which placed it at number 112 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.3%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 6,713,000. The population density was 26 per sq km (67 per sq mi).

The UN estimated that 57% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.45%. The capital city, Bishkek, had a population of 806,000 in that year. The second-largest city was Osh, with a population of 220,000.

## <sup>7</sup>MIGRATION

As of 1999, the total number of registered and unregistered refugees was estimated to be between 40,000 and 50,000 (1% of the

total population). There were about 13,000 officially registered refugees, mainly from Tajikistan, and about 700 from Afghanistan. The great majority of Tajik refugees were of ethnic Kyrgyz origin and desired to stay in Kyrgyzstan permanently. The government was working with the United Nations High Commissioner for Refugees (UNHCR) to implement an integration package to assist Tajik refugees in their transition to Kyrgyz citizenship. In the period 1989–95, some 296,000 Russians, 39,000 Ukrainians, and 3,000 Belarussians all departed from Kyrgyzstan. Also, 46,000 Germans (formerly deported under Stalin during World War II from Soviet and Volga regions) returned to Germany. In 2004, there were 3,753 refugees and 453 asylum seekers. Over 300 Kyrgyzstanis sought asylum in 2004 in Sweden and the Czech Republic. In 2005, the net migration rate was an estimated -2.47 migrants per 1,000 population, changed from -12.5 in 1990. The government viewed the immigration level as too high, but the emigration level as satisfactory. Remittances in 2003 were \$52.1 million.

## **<sup>8</sup>ETHNIC GROUPS**

According to the latest estimates, about 66.3% of the total population are Kyrgyz, 11.2% are Russian, 14% are Uzbek, 1.1% are Dungan (ethnic Chinese Muslims), 1% are Uighurs, and 6.4% other. About 420,000 ethnic Kyrgyz reside elsewhere in the former Soviet Union and 170,000 in China. Kyrgyz speak a Turkic language and most are Sunni Muslims. There are major ethnic and clan-based cleavages, including north–south clan and regional tensions that threaten fragmentation.

According to some reports, 10% or more of Russians left Kyrgyzstan during 1991 because of ethnic tensions. Ethnic Germans, deported to Kyrgyzstan by Stalin during World War II, are also leaving Kyrgyzstan. In June 1990, in the Osh region on the eastern edge of the fertile Fergana Valley, a major ethnic conflict broke out between Kyrgyz and Uzbek inhabitants over land distribution. Approximately 250 people died in what has been termed “the most explosive region of Central Asia,” because of its mixed population of Uzbeks and Kyrgyz, poverty, and high unemployment. Periodic clashes also occur between Kyrgyz and Tajiks along the border with Tajikistan over water resources. Beefed-up Kyrgyz security forces were placed in the Osh and Alais regions in early 1993 to prevent spillover from fighting going on between Tajik ex-communists and oppositionists in the mountains of northern Tajikistan and to halt the inflow of Tajik refugees.

## **<sup>9</sup>LANGUAGES**

A Turkic tongue, Kyrgyz is the official language. Until 1926, the Kyrgyz and Kazakh languages were not officially recognized as two distinct languages. Kyrgyz orthography was formally organized in 1923 and was modeled after the northern dialects using Arabic script. Afterward, Roman letters were used until 1940, when the Cyrillic alphabet was mandated by the Soviet government, with three special additional characters. Since independence, there has been discussion about switching back to the Roman alphabet.

Although the Kyrgyz language is the traditional language, most of Kyrgyzstan's population also speaks Russian, the language of business and commerce. In March 1996, the Kyrgyzstani legislature amended the constitution to make Russian an official language, along with Kyrgyz, in territories and workplaces where Russian-speaking citizens predominate.

## **<sup>10</sup>RELIGIONS**

Some 80% of the population are Muslim, mostly Sunni of the Hanafi persuasion. An estimated 11% are Russian Orthodox. Together, Jews, Buddhists, and Roman Catholics make up about 3% of the population. There are about 249 registered Protestant places of worship in the country and 12 Baha'i congregations.

The constitution provides for freedom of religion, a secular state, and the separation of church and state. However, in practice some minority Muslim groups as well as non-Muslim groups have reported discrimination by the government and social groups. All groups must be registered with the State Commission on Religious Affairs in order to operate legally; this same commission serves as a government forum to promote interfaith understanding and tolerance.

## **<sup>11</sup>TRANSPORTATION**

As of 2004, Kyrgyzstan's railway system consisted of 470 km (292 mi) of broad gauge railroad, the largest portion of which was a single east–west rail line of 370 km (230 mi) that went from Issyk-kul' across the Chuskaya region into Kazakhstan. There were some 18,500 km (11,507 mi) of highways, of which 16,854 km (10,483 mi) were paved in 2002. Irregular service with public transportation occurs frequently. As a landlocked nation, water transportation is of minor importance with only 600 km (372 mi) of waterways as of 2004. However, inland travel is possible on several east–west rivers. Kyrgyzstan has an estimated 52 airports and airfields as of 2004, of which 18 had paved runways as of 2005. The principal airport is Manas, located at Bishkek. In 2003, about 206,000 passengers were carried on scheduled domestic and international airline flights.

## **<sup>12</sup>HISTORY**

The area of present-day Kyrgyzstan contains evidence of human habitation from the time of the Lower Paleolithic era on, approximately 300,000 years ago. Archeologists suggest that two types of economies developed in the territory—farming and pastoral nomadism. By the 7th century BC, nomadism had become predominant, and the area was controlled by various tribal alliances. In the north the Saki (7th–3rd centuries BC) were succeeded by the Usuni (2nd century BC–5th century AD); in the south, the Parkan state (2nd–1st centuries BC) was replaced by the Kushani kingdom (1st–4th century AD). The ethnic identity of those peoples is the subject of much debate, but they were not Turkic. From the 6th century on, various Turkic tribes began to push westward, eventually settling most of Central Asia, including Kyrgyzstan. Much of present Kyrgyzstan was united by the 7th century as part of the West Turkic Kaganate, and replaced in the 8th century by the Turgash, who in turn were conquered by the Karluk, who originated in the Altai region further north.

When the present-day Kyrgyz first came to this territory is the subject of much debate. References to tribes of that name living in the Altai occur in the 10th century, but another people with the same name who lived along the Enisei River are first mentioned in records from the 2nd century BC. The Enisei Kyrgyz formed the Kyrgyz Kaganate in about AD 650, which survived until defeat by Genghis Khan in 1209. Kyrgyz tradition prefers to see its origin



LOCATION: 41°30' N; 75°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,878 kilometers (2,410 miles); China, 858 kilometers (533.2 miles); Tajikistan, 870 kilometers (541 miles); Uzbekistan, 1,099 kilometers (683 miles); Kazakhstan, 1,051 kilometers (653 miles).

in that state, but ethnographers and archeologists view the claim with considerable skepticism.

Evidence suggests instead that the present-day Kyrgyz are an amalgamation of various peoples, as existing tribes incorporated themselves into fresh waves of conquerors. The territory was part of the Karakhanid state from about 950–1150, during which the urban population was actively involved in trade and manufacturing along the Silk Road. Conversion to Islam also began in this period.

Genghis Khan's Mongols conquered the area in the 13th century, destroying most of the Karakhanid culture and introducing large numbers of new peoples into the area, of Turkic, Mongol, and Tibetan stock. The resulting mix of tribes was almost certainly the basis for the present-day Kyrgyz people, who retain much of the memory of those origins in the orally preserved genealogies of their 40 clans and tribes. The present Kyrgyzstan flag includes the depiction of a sun with one ray for each tribe. The Kyrgyz follow the Mongol practice of dividing their people into left (*ong*) and right (*sol*) "wings," said to reflect either the deployment of troops in military formation, or the tribe's original place of habitation. There is also a third group, the *ichkilik*, which seems to include parts of the Kyrgyz identity.

From the 15th century until the 17th century, the Kyrgyz tribes were part of the larger delineation of Central Asian history, which distinguished agricultural sedents from pastoral nomads. The appearance of the same tribal names among Kazakhs, Kyrgyz, and

Uzbeks suggests how the people of this territory formed a series of tribal alliances, rather than a true state.

In the 18th century the Kyrgyz began to come under pressure from Mongol tribes farther east. This prompted some of the northern tribes to send delegations to the Russians, who had pushed into Siberia in the 17th century, and who were beginning to take what is now northern Kazakhstan under its control. The Russians made no distinction between the Kazakhs and Kyrgyz, calling both Kyrgyz. The southern Kyrgyz, however, were conquered by the Kokand Khanate, established in the late 18th century, separating them from the northern Kyrgyz. This split between south and north continues to the present day in Kyrgyz life.

Russian expansion into what it called the Steppe included Kyrgyzstan. Most of northern Kyrgyzstan was incorporated into the empire by 1863; the south followed in 1876, when Russia destroyed the Kokand Khanate. Administratively, present-day Kyrgyzstan was split among four *gubernii*s. Beginning in the 1890s Russia settled Russian and other European farmers into the fertile river valleys of the north, forcing Kyrgyz nomads higher into the mountains.

By 1916, Russia's policies of livestock requisition and land use had left the Kyrgyz badly impoverished. When Russia attempted to issue a draft call-up for Central Asian males, including the Kyrgyz, widespread fighting broke out all across the territory. The uprisings were suppressed, with great loss of life; population in the

northern part dropped as much as 40%. Since independence in 1991, the state has commemorated the 1916 uprising as genocide.

Hostility to the tsars meant that there was some support for the Bolsheviks, at least until it became clear that Lenin was not going to encourage the development of national states. Resistance to the Russians continued sporadically until the mid-1920s in what Russian historians have labeled the "Basmachi Rebellion."

As Bolshevik power was consolidated, Kyrgyzstan was first made an autonomous oblast (political unit) of the Russian Federation in 1924; it was upgraded in 1926 to an autonomous republic, but still within Russia. (At that time Russia was one of the Soviet Republics.) Kyrgyzstan did not become a full Soviet Republic until 1936.

The republic was regarded as one of the least developed of the Soviet states, politically and economically. Thus, it came as a great surprise when, on 28 October 1990, Kyrgyzstan became the first Soviet republic to select its own leader. The Kyrgyzstan legislature refused to ratify Communist Party leader Absamat Masaliyev's bid to become the republic's president and elected instead, Askar Akayev, president of the republic's Academy of Science. Akayev and his supporters began asserting Kyrgyz nationalism and wresting political and economic control over the republic from the Soviet Communist Party. These efforts were briefly interrupted by an attempted coup in Moscow by Communist Party hardliners in August 1991. Akayev bravely condemned the coup and, after it fizzled, on 30 August 1991, he severed ties with the Communist Party and Kyrgyzstan declared its independence. On 12 October 1991, Akayev's presidency was confirmed by direct popular election.

A constitution was adopted on 5 May 1993. An economic and political crisis led to the resignation of the first government in December 1993, but Akayev's presidency was reaffirmed by a popular referendum of support conducted on 30 January 1994. Over 95% of registered voters participated in the referendum; 97% of those who voted supported President Akayev.

In September 1995, Akayev's supporters submitted a petition signed by 1.2 million people (52% of the voting age population) urging the legislature to approve a referendum extending Akayev's term to the year 2001. After contentious debate, the legislature rejected holding a referendum, and Akayev instead announced that a presidential election would be held on 24 December 1995. Thirteen candidates were registered, but 10 were disqualified, leaving Akayev, Masaliyev, and former speaker Medetken Sherimkulov. Akayev won reelection to a five-year term, receiving 72% of about 1.9 million votes in a race deemed generally "free and fair" by international observers, though questions were raised about the disqualifications. In July 1998, Akayev hailed a Constitutional Court decision permitting him to run for a third term in the year 2000. He was reelected president on 29 October 2000, receiving 74% of the vote in an election marred by serious irregularities. Opposition activity prior to the election had been severely curtailed.

Severely shaking Kyrgyzstan's stability, several hundred Islamic extremists and other guerrillas entered Kyrgyzstan from Tajikistan in July–August 1999. The guerrillas seized hostages, including four Japanese geologists, and several Kyrgyz villages, stating that they would cease hostilities if Kyrgyzstan provided a safe haven for refugees and would release hostages if Uzbekistan released jailed extremists. The guerrillas were rumored to be seeking to

create an Islamic state in south Kyrgyzstan as a springboard for a jihad in Uzbekistan. A Kyrgyz Security Council member in October 1999 alleged that the guerrillas were trying to seize the major drug trafficking route in southern Kyrgyzstan. Kyrgyzstan called out reservists and admitted that its military was unprepared for combat. Kyrgyzstan received air support from Uzbekistan and Kazakhstan, but protested Uzbek bombing of a Kyrgyz village. The Kyrgyz defense minister on 18 October 1999 announced success in forcing virtually all guerrillas back into Tajikistan.

The United States established a major airbase near Bishkek in December 2001 for military and humanitarian uses during its campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces there. Kyrgyzstan and the United States have established closer political and security ties since 11 September 2001. At US prompting, the IMF reached agreement with Kyrgyzstan on a \$93 million loan in December 2001. Since 11 September, all radical Islamic groups in the Central Asian nations have been linked with international terrorism. Both the Hizb-ut-Tahrir (Freedom Party) and the Islamic Movement of Uzbekistan (IMU), two radical Islamic organizations looking to establish an Islamic state in Central Asia, have a strong presence in the country. The IMU, expelled from its own country, collaborated with the Taliban and al-Qaeda and led armed incursions into Kyrgyzstan. Following the antiterrorist operations led by the United States after 11 September, all major units of the IMU were destroyed. In addition, in October 2002, Kyrgyzstan and China staged their first joint military exercises, aiming to coordinate their response to terrorism.

In January 2002, legislative assembly member and opposition leader Azimbek Beknazarov was detained on charges which supporters said were politically motivated. In February, Sherali Azarkulov, a prominent human rights activist, died while on a hunger strike to protest Beknazarov's detention. In March, five people were killed in the southern Aksy rayon in clashes with police during a protest demanding Beknazarov's release, and in May, the government resigned after a state commission ruled that senior officials were to blame for the deaths of the protestors. Beknazarov was subsequently freed, after being given a one-year suspended sentence for abuse of office. A rally in June called for Akayev's resignation, increasing fears of political instability and civil war. Large protests and arrests continued throughout the year. In January 2003, Akayev announced a referendum would be held on his presidency and on amendments to the constitution to "improve democracy." On 2 February, 76.6% of Kyrgyz citizens supported the amendments in the referendum, and 78.7% of voters determined Akayev should remain in office until his term expired in December 2005.

In January 2004, several opposition members in parliament announced they had found listening devices in their offices. The ensuing scandal prompted parliament to set up a commission to examine the case. The commission's conclusion was that the National Security Service (NSB) had planted the devices. As of 2005 no action had been taken against the NSB although the lower house of parliament adopted a resolution to hold the NSB responsible.

Starting with the parliamentary elections in February, 2005 was a year of massive unrest for Kyrgyzstan. Of the 75 seats in parliament only 6 were won by opposition parties. The belief that the election had been rigged by the government led to widespread protests, culminating in the March Revolution, or as it is other-

wise known, the “Tulip Revolution.” The revolution forced President Akayev, to flee the country and formally abandon his role as president on 11 April 2005. Elections were held on 10 July 2005 with Kurmanbek Bakiyev receiving 88.6% of the vote. Although the next presidential elections were scheduled to be held in 2010, there had been massive unrest in Kyrgyzstan since Bakiyev took office and his own tenure was in question. In September 2005 Azimbek Beknazarov was dismissed as prosecutor general and parliamentary member Bayaman Erkinbayev was assassinated. Many northerners associated the rise in crime and corruption with the March Revolution, which was led mainly by politicians with southern political roots, including Bakiyev.

### 13 GOVERNMENT

When Kyrgyzstan was still a Soviet republic, the legislature elected Askar Akayev president. Under his leadership, Kyrgyzstan declared independence and drafted a new constitution, ratified 5 May 1993. This constitution established a democratic presidential system with separation of powers and expansive human rights guarantees. In early September 1994, Akayev’s supporters in the legislature—a slim majority of 168 out of 323 sitting deputies, most of whom were local administrators—boycotted the last session of the legislature before the expiration of its mandate in February 1995. This boycott prevented formation of a quorum, causing the dissolution of the legislature. Oppositionists alleged that the timing of the dissolution was aimed to squelch a legislative investigation into corruption in the government and to open the way for Akayev to create a more malleable legislature. Akayev took over legislative powers, and decreed that legislative elections would be held by the end of the year. He also decreed that a referendum would be held in October 1995 to approve amendments to the constitution, including provisions revamping the legislative system to weaken it relative to the presidency. He argued that legislative and other provisions of the May 1993 constitution were too “idealistic” because the “people are not prepared for democracy,” and a “transitional period” was needed. Although the amendment process, like the dissolution of the legislature, contravened the constitution, the referendum questions were approved by over 80% of the voters.

Under the 1996 amendments, the president was given expanded powers to veto legislation, dissolve the legislature, and appoint all ministers (except the prime minister) without legislative confirmation, while making legislative impeachment more difficult. The legislature confirms the prime minister and high judges. Akayev spearheaded a referendum on 10 February 1996 to further alter the constitution. The amendments specify that Kyrgyzstan, or the Kyrgyz Republic, will be a secular, unitary state. It creates three branches of government: executive, legislative, and judicial. The Jogorku Kenesh (parliament or supreme council) has legislative responsibilities. The Jogorku Kenesh is made up of two houses—the 35-member legislative assembly and the 70-member assembly of people’s representatives. The legislative assembly is responsible for day-to-day operations of the legislature, such as interpreting laws and ratifying international treaties. The legislative assembly also has the power to impeach the president. The assembly of the people’s representatives meets periodically during the year to consider budget, tax, and appointment issues.

The executive branch is comprised of the cabinet of ministers, or ministries, appointed by the president and approved by the parliament. The head of the cabinet is the prime minister, also appointed by the president and confirmed by the parliament.

The president is to be elected once every five years, for no more than two terms, from among those citizens who are between 35 and 65 years of age, who have lived at least 15 years in the republic, and who are fluent in the state language, which is Kyrgyz.

There is no vice president. The usual functions of vice president, including the duty to replace the president in case of death or incapacity, are borne by the speaker of the parliament, who is elected from among the membership of the parliament.

Judges are chosen by the president, subject to parliamentary affirmation. Potential judges must be citizens between 35 and 65 years who have legal training and legal experience of at least ten years. The length of their service is unlimited, but can be terminated by the parliament.

In theory, the constitution provides a number of basic guarantees of human freedom, including freedom of religion, of the press and other forms of media, of movement about the republic and place of dwelling, of association, and unarmed assembly. It guarantees the privacy of post and other forms of communication, and guarantees private property. In terms of social benefits, the constitution guarantees pensions, unemployment compensation, legal representation, medical treatment, and free basic education.

Despite restrictions on its powers, in 1997–98, the legislature showed increasing signs of independence from executive power. Moving to further weaken it, Akayev spearheaded another referendum on 17 October 1998 to amend the constitution. Approved by 91.14% of voters, the amendments sharply restricted the legislature’s influence over bills involving the budget or other expenditures, limited a legislator’s immunity from removal and prosecution, increased the size of the legislative assembly to 60, and decreased the size of the assembly of people’s representatives to 45. It also provided for private land ownership and upheld freedom of the press. The legislature has acted in subordination to the executive branch, but has at times asserted itself by overriding presidential vetoes. In November 1999, the assembly of people’s representatives rejected the government’s budget for 2000, calling for added social and defense spending.

Kyrgyzstan’s 20 February 2000 legislative election (with a runoff on 12 March) reflected the erosion of Kyrgyzstan’s earlier signal progress in Central Asian democratization, according to the US State Department. Under new laws, 15 seats in the upper chamber were set aside for party list voting. The Central Electoral Commission ruled that 16 parties out of 27 legally registered were disqualified from fielding party list candidates, though it urged that such candidates could instead seek single-member seats. The major opposition Democratic Movement of Kyrgyzstan-Dignity Party bloc was initially registered but then decertified. The Organization for Security and Cooperation in Europe (OSCE) on 8 February criticized the decertification as a narrow interpretation of the law and as restricting popular choice in the election. In all, 545 candidates were finally permitted to run for 105 seats. Six parties received over 5% of the vote, giving them seats: the Party of Communists (5 seats), Union of Democratic Forces (4), Democratic Party of Women (2), Party of Veterans (2), My Country (1), and Ata-Meken (1). Only Ata-Meken and the Communist Party are clear op-

position parties. Only three constituency races were decided in the first round. In the second round on 12 March, 84 members were elected in a confusing vote. Prominent opposition politician Daniyar Usenov was disqualified after the first round, although he actually had won, according to the OSCE. Similarly, opposition Dignity Party head Feliks Kulov received more votes than his opponents in the first round, but was heavily defeated in the second through apparent legerdemain, according to the OSCE. After the second round, the opposition Democratic Movement, Dignity Party, and the People's Party protested the results.

About 120 OSCE observers and 2,000 local observers monitored the election. In the first round, OSCE monitors pointed to problems such as the disqualification of prominent opposition parties and the pro-government composition of electoral boards, and in the second round criticized continued government harassment of opposition candidates, politically motivated court decisions disqualifying some opposition candidates, and irregularities in vote-counting. US State Department spokesman James Foley on 14 March stressed that "the United States is disappointed in the conduct of the 2000 parliamentary election in Kyrgyzstan," which "amounted to a clear setback for the democratic process." On 23 March, he criticized Kyrgyz authorities for forcibly suppressing a peaceable demonstration and for arresting Kulov the day before on vague charges of committing crimes several years ago. Kulov was acquitted of charges of abuse of office in August, but was re-arrested in January 2001. That July, new charges of embezzlement were brought against him, and in May 2002, he was sentenced to 10 years' imprisonment.

On 29 October 2000, Akayev was reelected president with 74% of the vote in an election marred by serious irregularities. Throughout 2001, the government continued to harass the opposition, independent media, and human rights defenders. Police used force to disperse protesters and arrested them throughout 2001 and 2002.

On 13 January 2003, Akayev announced a referendum would be held on 2 February for amendments to the constitution, including the abolition of the two-chamber parliament in favor of a single chamber, the abolition of party-list voting for parliament, and immunity from prosecution of former presidents and their families. Voters could not vote on the changes individually, but were to approve or reject them wholesale. They also had to indicate whether or not they wanted Akayev to remain in office until his term expired in December 2005. 76.6% of Kyrgyz citizens supported the amendments in the referendum, and 78.7% of voters determined Akayev should remain in office. Turnout was over 86%. The opposition, which called for a boycott of the vote and sent observers to monitor the election, said that turnout had been less than 40%, failing to reach the 50% threshold for the referendum to be valid.

Elections for a new unicameral body (Jorgorku Kenesh) were held 27 February 2005, but the vast majority of positions remained undecided and protests over electoral irregularities culminated in the March Revolution which ousted Akayev from office. New legislative elections had not been rescheduled as of then. Kurmanbek Bakiyev was elected president in July 2005 with 88.6% of the vote, although the likelihood that he would remain in power throughout his term was thought unlikely.

## <sup>14</sup>POLITICAL PARTIES

There is no formal ruling party. Over two dozen parties are legally registered, though all are small and some are inactive. Fewer than one-half of legislators claim party affiliation. Pro-Akayev parties include the Birimdik (Unity) Party, and the Adilet (Justice) Party (formed by writer Chingiz Aitmatov in October 1999). The main "constructive opposition" party is the People's Party. Among other parties, the Party of Communists (PCK; headed by Masaliyev) calls for reunification with Russia. The Erkin (Free) Kyrgyzstan Progressive Democratic Party calls for elevating the rights of ethnic Kyrgyz. The Democratic Movement calls for democratic socialism. Erkin Kyrgyzstan, Asaba, the Social Democratic Party, Unity, Democratic Movement, My Country, and others decided in July 1999 to form a bloc to contest the legislative elections. The Dignity Party, headed by Felix Kulov (former vice president, security minister, and Bishkek mayor) was formed in August 1999. The electoral code forbade parties from taking part in the February 2000 legislative races unless they were more than one year old, eliminating eight new parties. The Central Electoral Commission in late 1999 also declared the People's, Citizens of Bishkek, Labor-Popular, and the People of Manas Parties disqualified on technicalities from taking part in the race. Religious parties are banned. Regional interests are important in the political process. The Kyrgyz leadership reportedly favors interests of the Chu region. Ten major opposition parties formed a broad coalition, the People's Patriotic Movement, in April 2001. After the March Revolution, political parties realigned several times and as of October 2005 the Kyrgyz political situation was in constant flux.

## <sup>15</sup>LOCAL GOVERNMENT

The republic is divided into seven administrative regions, plus the capital city of Bishkek. In addition, there are *rayons*, or districts. Each *oblast* and *rayon* has a local administration consisting of a governor and a local assembly. According to a presidential decree of March 1996, regional governors are appointed by the president to four-year terms, and are responsible for making sure that the local executive and legislative branches cooperate in carrying out state decisions, upholding law and order, ensuring citizens' rights and freedoms, obtaining funds to maintain local government and public property, adhering to state budget strictures, ensuring that taxes are collected, making sure that local pensions and state wages are paid, and generally ensuring the local welfare. Although in theory answering to the president, in practice some of the governors have become powerful spokesmen for regional interests, and run their districts with considerable autonomy. In October 1999, the first elections of municipal, *rayon* (district) and *oblast* (region) assemblies or *keneshs* took place. A new electoral law called for the candidate who gained a simple majority of votes to be declared the winner, introduced multi-seat constituencies, and dictated that only a Kyrgyz citizen who has lived in a constituency for no less than two years could become an assembly deputy.

## <sup>16</sup>JUDICIAL SYSTEM

The 1993 constitution declares the independence of the judiciary from the other branches of government. Thus far, however, the courts remain under the supervision of the Ministry of Justice and continue to operate mostly under Soviet-era laws and procedures.

Some judicial reforms are being introduced, such as a separate judicial budget and more judicial training. There are three levels of criminal courts: local courts, which handle petty crimes; provincial courts, which consider most categories of crime, and the appellate Supreme Court. Traditional elders' courts may also handle petty crimes in rural areas. Defendants in elders' courts may appeal to the local administrative court.

A state prosecutor, or procurator, remains responsible for criminal arrests, investigations, and presentations before a panel consisting of a judge and two people's assessors (pensioners or members of labor collectives). Since 1990 there has been a right to have legal counsel in criminal cases. In 1996, the Constitutional Court ruled that only the defense has the right of appeal. Counteracting these restrictions on prosecutorial power, the law continues to allow judges to remand a case to the procurator for further investigation, rather than to declare the defendant guilty or innocent.

Judges hold varying terms of office. Constitutional Court judges are appointed to 15-year terms, Supreme Court judges to 10-year terms, and first-term local court judges to 3-year terms by recommendation of the president and confirmation by the Jogorku Kenesh (legislature). The 1993 constitution instituted a Western concept of judicial review by a Constitutional Court which did not exist under the former Soviet regime. Formed in 1993, the Constitutional Court reviews legislation and administrative acts for consistency with the constitution. It also considers cases on appeal involving individual rights and liberties of citizens. Constitutional Court decisions are final. There is also a higher court of arbitration and a system of lower courts for economic cases.

Libel is a criminal offense and so there is much self-censorship among Kyrgyz journalists. Access to the internet is not controlled and there are no reports of government censorship of internet material. Freedom of assembly and association are generally respected, as seen by the massive protests of 2005. In March 2004, the president signed a law limiting the crimes that carry the death penalty to aggravated murder, rape of underage children, and genocide.

The trafficking of women and girls into forced prostitution abroad continued to be a serious problem and some victims have reported that Kyrgyz authorities are involved in trafficking. In response, the criminal code was amended in 2003 to punish trafficking with up to 20 years in prison, and the Ministry of Internal Affairs opened an anti-trafficking police unit in 2004. The tradition of bride kidnapping and forcing women into marriage persists despite being illegal, and few are prosecuted for the crime.

Kyrgyzstan is a member of many international organizations including the United Nations and the World Trade Organization.

## 17 ARMED FORCES

Active armed forces in 2005 totaled 12,500 personnel. The Army had 8,500 personnel. Major components included 215 main battle tanks, 30 reconnaissance vehicles, 387 armored infantry fighting vehicles, 63 armored personnel carriers, and 246 artillery pieces. The Air Force had 4,000 personnel for which key combat elements included 72 fighter aircraft, of which 24 were in storage, and 9 attack helicopters. There was also an estimated 5,000 member paramilitary border guard force. Kyrgyzstan provided the UN with a total of 14 observers in four African countries. The United States,

Denmark and Russia each have small contingents in Kyrgyzstan. The defense budget in 2005 totaled \$73.1 million.

## 18 INTERNATIONAL COOPERATION

Kyrgyzstan was admitted to the United Nations (UN) on 2 March 1992; it is part of several specialized organizations, such as the FAO, IFC, IMF, UNCTAD, UNESCO, and the World Bank. The country is a member of the CIS, the WTO, the Asian Development Bank, the Euro-Atlantic Partnership Council, the European Bank for Reconstruction and Development, the Organization of the Islamic Conference (OIC), the NATO Partnership for Peace, and the OSCE. In June 2001, leaders of Kazakhstan, China, Russia, Kyrgyzstan, Tajikistan, and Uzbekistan met in China to launch the Shanghai Cooperation Organization (SCO) and to sign an agreement to fight terrorism and ethnic and religious militancy while promoting trade. Kyrgyzstan, Kazakhstan, Russia, Belarus, and Tajikistan established the Eurasian Economic Community in 2000.

The United States and the European Union (EU) nations, along with many others, have diplomatic relations with the country. Kyrgyzstan has especially good relations with Germany, neighboring Central Asian states, and China. The country maintains close ties with other former USSR nations. In environmental cooperation, Kyrgyzstan is part of the Basel Convention, Conventions on Biological Diversity and Air Pollution, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Kyrgyzstan is among the poorest of the post-Soviet countries. The poverty rate was officially estimated at 40.8% in 2004, although Western estimates place it at around 84%. Although coal, gold, mercury, and uranium deposits are considerable, the country boasts few of the oil and gas reserves that promise a badly needed economic windfall to other Central Asian republics.

Kyrgyzstan's economy is primarily agricultural, with cotton, tobacco, wool, and meat being the primary agricultural products, although only cotton and tobacco are exported in any significant quantities. In 2005, 37.1% of GDP was in the agricultural sector; industry accounted for 21.9% and services for 41%. Over 50% of the labor force is engaged in agriculture.

Under the presidency of Askar Akayev, the process for economic restructuring toward a free market orientation outpaced that of most other post-Soviet republics, yet the transition has been an extremely difficult one. Dissolution of the state ordering system in Kyrgyzstan and its reduction in other post-Soviet republics have disrupted the traditional supply channels and effective markets for the country's industries, severely affecting overall economic performance. Akayev was ousted in spring 2005, and former Prime Minister Kurmanbek Bakiyev was elected president in July 2005. Under Bakiyev, concerns to be addressed include continuing privatizations, expansion of democracy and political freedoms, and reduction of corruption, among others.

As of 1995, 59.5% of enterprises had been privatized or converted to joint stock companies; privatized firms accounted for more than half the GDP that year. Some 50% of industrial firms, 75% of agriculture, and 90% of retail trade were privatized by 1995. By

1999, most of the state-owned enterprises had been sold. Kyrgyzstan was the first CIS country to become a member of the WTO.

The Kyrgyz government instituted tight monetary and fiscal policies in 1994 that reduced inflation from 23% per month in 1993 to 5.4% in 1994 and further, to 2.3% in 1995. Inflation was up again to 18% in 1998. Gross domestic product grew by an average annual rate of 7% from 1987 to 1998, with a 1998 growth rate of 1.8%.

A reform of the government structure in early 1992 consolidated 41 ministries into 13 ministries and 7 commissions. As part of this change, the Ministry of Economy and Finance was established to assume the fiscal and economic planning duties previously carried out separately by the Ministry of Finance and the State Planning Committee. In May 1993, Kyrgyzstan was the first country of the CIS countries to announce the introduction of its own currency, the som. Although taken in order to stabilize the national economy in face of continuing turmoil in the ruble zone, this step posed a large setback to previous negotiations for a single monetary union with other post-Soviet republics. The som has been remarkably stable since 1994, and is considered the most stable currency in Central Asia, although the government still faces excessive debt.

A decline in output from the Kumtor gold mine in 2002 resulted in an 0.5% decline in GDP, although GDP growth rebounded to some 6% over the 2003–05 period. The government reduced the fiscal deficit to 1% of GDP in 2005. The government in 2005–06 was embarking upon a poverty-reduction and economic-expansion program, and promised reforms in the tax system.

## **2<sup>0</sup> INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005, Kyrgyzstan's gross domestic product (GDP) was estimated at \$9.3 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,800. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2005 was 4.2%. It was estimated that agriculture accounted for 37.1% of GDP, industry 21.9%, and services 41%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$108 million or about \$21 per capita and accounted for approximately 5.6% of GDP. Foreign aid receipts amounted to \$198 million or about \$39 per capita and accounted for approximately 10.7% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Kyrgyzstan totaled \$1.36 billion or about \$269 per capita based on a GDP of \$1.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of -3.7%. In 2001 it was estimated that approximately 33% of household consumption was spent on food, 11% on fuel, 3% on health care, and 22% on education. It was estimated that in 2004 about 40% of the population had incomes below the poverty line.

## **2<sup>1</sup> LABOR**

In 2000 (the latest year for which data was available), the labor force totaled an estimated 2.7 million persons. As of that year, agriculture engaged 55%, industry 15%, and services 30%. The estimated unemployment rate in 2004 was 18%.

A labor comprehensive law protects the right of all workers to form and belong to unions. The Federation of Independent Trade Unions of Kyrgyzstan (FITUK), successor to the former Soviet-era official unions, remains the single trade union umbrella organization. Nineteen of the 20 union organizations in Kyrgyzstan are affiliated with FITUK. The exception is the union of entrepreneurs and cooperative members, which essentially is an association of over 80,000 self-employed persons. Strikes are permitted. Collective bargaining is legally recognized and is used to negotiate workers conditions on a limited basis.

The standard workweek is 41 hours. Safety and health regulations in factories are generally not enforced. Child labor is widespread due to economic hardship. The government set the minimum wage at \$2.00 per month, which does not provide a decent standard of living.

## **2<sup>2</sup> AGRICULTURE**

In 2003, Kyrgyzstan's crop-producing land amounted to 1,365,000 hectares (3,373,000 acres), or 7.1% of the total land area. About 50% of this area is used to cultivate fodder crops, 42% for winter wheat and barley, 5% for commercial crops (cotton, sugar beets, mulberry trees for silkworms, and tobacco), with the remaining 3% used for growing potatoes and other vegetables. Cultivation occurs primarily in the Shu, Talas, and Fergana valleys. About 39% of GDP was derived from agriculture in 2003. Since independence, about 75% of state farms have been privatized.

Wheat is Kyrgyzstan's main grain crop. Total wheat production was estimated at 998,000 tons in 2004. Individual farmers account for over half of production; state farms, about 40%; and the rest by private households. Production of barley in 2004 was estimated at 233,000 tons; corn, 453,000 tons; and rice, 18,000 tons.

Tobacco is an important cash crop in Kyrgyzstan. The areas around Osh and Jalālābād in the Fergana Valley and the Talas oblast to the north of Osh are the three major tobacco growing regions. The estimated total production was 13,000 tons in 2004.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

About 48% of the total land area is considered permanent pastureland. Because of the rugged topography, pasture-based stock breeding is the agricultural mainstay.

Livestock in 2005 included 4 million chickens, 2,964,900 sheep, 1,035,000 cattle, 361,100 horses, 808,400 goats, and 83,000 pigs. Yaks are also bred. Meat production in 2005 totaled 196,000 tons; cow's milk, 1,114,000 tons; wool (greasy), 10,000 tons; and eggs, 18,000 tons.

## **2<sup>4</sup> FISHING**

The Naryn River is the primary site of fishing activity, but fishing is of little commercial significance. The Yssk Kol Lake is slightly saline and not conducive to the development of fresh water spe-

cies fishing. The total catch in 2003 was 26 tons, including 14 tons of carp.

## 25 FORESTRY

Forests and woodlands account for about 5.2% of the total land area. With 85% of the country covered by high-altitude mountain ranges, and coupled with an underdeveloped transportation system, the forestry sector is not commercially significant. Imports of forest products totaled \$13.3 million in 2004.

## 26 MINING

Kyrgyzstan's southwestern region contained most of the nation's mineral wealth, including, most importantly, antimony (often found with lead-zinc), mercury (often found with fluorspar), and gold. Principal deposits of these minerals were found in the Kadamzhayskiy Rayon and Khaydarkan regions, in the Alay foothills. The Khaydarkan mercury mining and metallurgical complex, in the Osh region, was the major producer of metallic mercury in the former Soviet Union.

In 2002, Kyrgyzstan produced 537 metric tons of metallic mercury, a decline from 579 metric tons in 2001. Antimony metal and compounds production in 2002 totaled 1,504 metric tons. The mountains also contained deposits of gold, mercury, tungsten, molybdenum, rare earth metals, indium, sulfur, tin, and arsenic. Gold production in 2002 was estimated at 18,000 kg. Output figures in 2002 were: fluorspar concentrate, estimated at 2,750 metric tons, up from 1,175 metric tons in 2001; and cement 532,800 metric tons, up from 468,900 metric tons in 2001.

## 27 ENERGY AND POWER

Unlike its Central Asian neighbors, Kyrgyzstan has insignificant reserves of petroleum and natural gas. Kyrgyzstan's principal energy resources are its deposits of coal. Sub-bituminous coal deposits are found on the southern fringe of the Fergana Valley (at Suluktu and Kyzyl-Kyya), while hard coal comes from the west and northwest fringes of the valley (at Tash-Komur, Jalal-Abad, and Osh) and in the Tian Shan foothills east of Ysyk Kol Lake. In 2002, coal production amounted to 506,000 short tons, of which lignite or brown coal accounted for 387,000 short tons and bituminous coal 119,000 short tons. However, demand for coal in that year amounted to 1,369,000 short tons, necessitating the import of 978,000 short tons to make up the difference.

Several large hydroelectric projects are spread along the Naryn River and its headwater tributaries, and a series of dams built on irrigation canals, produce power for the manufacturing sector around Bishkek. The two major electric power plants are a 1,200 MW facility at Toktogul and a 760 MW generator at Bishkek. In 2002, electrical production totaled 13.046 billion kWh, of which nearly 91.8% came from hydropower and 8.2% from fossil fuels. Of the electric power produced, 27% was exported in 2002, mainly to Uzbekistan. Total installed capacity in 2002 was 3.779 million kW. Consumption of electricity in 2002 was 8.938 billion kWh.

Production of oil and natural gas in small quantities comes from fields at the northeastern edge of the Fergana Valley. In 2002, Kyrgyzstan produced an average of 2,000 barrels per day of oil. However, demand for oil averaged 10,090 barrels per day in that year, requiring Kyrgyzstan to import (including crude oil) an average of 8,320 barrels of oil per day. As with oil, domestic natural gas

production satisfies only a small percentage of domestic demand. In 2002, Kyrgyzstan's natural gas consumption came to 42.38 billion cu ft, while production was only at 350 million cu ft. Natural gas imports for that year came to 42.38 billion cu ft. A crude oil refinery was built in Dzhalal-ahad in 1997 by a Kyrgyz-Canadian joint venture. It produces heavy fuel oil, diesel fuel, and gasoline. In 2002, production of refined petroleum products averaged 2,350 barrels per day.

## 28 INDUSTRY

During the Soviet era, industry in Kyrgyzstan was totally dependent on the other republics for raw materials and other resources. Between 1985 and 1989, industrial output increased at a rate of over 5% annually. With the disruption of traditional supply and export arrangements within the former USSR, however, industrial output declined by 1% in 1990 and dropped by over 23% in 1992. Industrial production decreased by 24% in 1994 and by another 12.5% in 1995. By mid-1995, production began to recover and in 1997, Kyrgyzstan reported an industrial growth rate of 7%, and one of 14% for 1998. The high growth rate in 1998 was associated with a steep rise in gold production. Nearly all of Kyrgyzstan's industrial output derives from the capital of Bishkek and surrounding areas. Mechanical and electrical engineering (vehicle assembly, washing machines, electrical appliances, electronics), light industry (mainly textiles and wool processing), and food processing make up close to 75% of the country's industrial production and 80% of its industrial exports. Other important industries include chemicals, leather goods such as shoes, and construction materials (primarily cement). In 2004, the industrial production rate stood at 7.1%. In the early- and mid-2000s, the mining sector accounted for the majority of foreign investment. The high world price for gold also contributed to a rise in GDP and attracted foreign investment in the mid-2000s.

The government passed the Privatization and Denationalization Act in December 1991, authorizing the transfer of all small, medium, and large-scale industrial enterprises to the private sector. The Concept Law on Privatization, passed in 1994, was designed to correct early problems with the transition. By 1995, about 600 enterprises had been sold, with 250 fully privatized. The transition was also expected to involve the conversion of defense industries to civilian use under private ownership. One important conversion involved the participation of a South Korean firm in establishing electronics manufacture at a plant previously geared toward military-related production. The government is encouraging the purchase of substantial shares of individual enterprises by worker collectives, although more widespread and noncollective ownership is also being promoted. By 1999, much of the government's stock had been sold.

## 29 SCIENCE AND TECHNOLOGY

The Kyrgyz Academy of Sciences, founded in 1954 at Bishkek, has departments of physical engineering, mathematics, mining geological sciences, and chemical-technological, medical-technological, agricultural, and biological sciences. Attached to the academy are 24 specialized learned societies and research institutes concerned with agriculture, medicine, natural sciences, and technology. Kyrgyz State University has faculties of geography, physics, mathematics, information science and applied mathematics, bi-

ology, and chemistry. Agricultural and medical institutes and a technical university are located in Bishkek. The city also has a botanical garden and a scientific and technical library.

In 1987–97, science and engineering students accounted for 14% of college and university enrollments. In 2002, there were 413 researchers and 51 technicians actively engaged in research and development (R&D) per million people. For that same year, R&D expenditures totaled \$16.104 million, or 0.20% of GDP, with business and government accounting for 52.7% and 45.9%, respectively. Higher education accounted for only 0.1%, with foreign sources providing the remaining 1.2%. High technology exports in 2002 amounted to \$6 million, or 6% of manufactured exports.

### <sup>30</sup> DOMESTIC TRADE

As in other post-Soviet republics, structural reform appears to be proceeding most rapidly in the domestic retail sector. Small shops and traders predominate among the country's private retailing entities. However, expansion in the number of private wholesale distributors has been much less marked, placing small retailers in a disadvantaged position compared with large-scale and potentially monopolistic producers within the country's industrial sector. As of 2006, the government continued to work toward reforms, including greater privatization, that would strengthen a market economy. A 20% value-added tax applies to most goods and services.

Most businesses open around 9 AM and close at about 6 PM, with lunch taken sometime between noon and 2 PM. Some offices are open from 9 AM to 1 PM on Saturdays. Retail shops are usually open from 7 AM to 8 PM, with an afternoon lunch period. Department stores, bookstores, and other shops usually open according to state institution hours. Bazaars are open from 6 AM until 7 or 8 PM.

### <sup>31</sup> FOREIGN TRADE

Since 1992, Kyrgyzstan's trade balance has been negative, continuing the structural deficit caused by the costs of oil and gas, pharmaceuticals, and agricultural resources formerly supplied through internal trade with other Soviet republics. The primary export partners in 2004 were: the United Arab Emirates (28.2%); Russia (19.1%); China (12%); Kazakhstan (11.1%); and Switzerland (6.3%). Import partners included: China (26.3%); Russia (22.3%); Kazakhstan (17.1%); and Turkey (5.4%).

Kyrgyzstan exports metals, including gold, mercury, iron, steel and uranium; hydropower; tobacco; cotton; road vehicles; and inorganic chemicals.

### <sup>32</sup> BALANCE OF PAYMENTS

Kyrgyzstan had traditionally maintained a trade deficit, derived mostly from dependence on imports from other former Soviet republics. Exports began to increase by 1995, however; the country registered relatively high growth rates in the early 2000s and had a trade surplus in 2001. Foreign exchange reserves are minimal (\$593.2 million in 2005). In 2001, the IMF awarded Kyrgyzstan \$93 million in aid over a three-year period. Total external debt as of January 2005 stood at \$2.428 billion.

In 2005, exports were valued at \$759 million, and imports at \$937.4 million. The current-account balance in 2005 was estimated at -\$77.02 million.

## <sup>33</sup> BANKING AND SECURITIES

The central bank of Kyrgyzstan is the National Bank of the Kyrgyz Republic (NBK). It heads all 20 banks in the system, the savings bank, three former specialized state banks that have been converted into joint-stock commercial banks, two foreign joint-venture banks, and commercial banks. The specialized banks still dominate the allocation of credit and the taking of deposits, although some smaller banks are starting to challenge the major banks. However, many of the country's commercial banks have only one office. The larger banks have large bad loan portfolios; Promstroybank (Construction Bank) had 80% of its loans overdue at the end of 1994. Bank failures and bank consolidation were common during the late 1990s.

The NBK, formerly the local branch of Gosbank (the State Bank of the former Soviet Union), began to operate independently in

#### Principal Trading Partners – Kyrgyzstan (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	581.7	717.0	-135.3
United Arab Emirates	144.3	7.8	136.5
Switzerland-Liechtenstein	117.9	2.5	115.4
Russia	97.0	176.1	-79.1
Kazakhstan	57.1	170.9	-113.8
Canada	31.0	8.3	22.7
China	23.3	77.7	-54.4
Tajikistan	18.9	3.1	15.8
Uzbekistan	16.3	39.2	-22.9
Turkey	11.0	26.0	-15.0
Latvia	9.4	...	9.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Kyrgyzstan (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-44.0</b>
Balance on goods		-82.7
Imports	-673.0	
Exports	590.3	
Balance on services		7.0
Balance on income		-61.7
Current transfers		93.4
<b>Capital Account</b>		<b>-0.9</b>
<b>Financial Account</b>		<b>-23.0</b>
Direct investment abroad	...	
Direct investment in Kyrgyzstan	45.5	
Portfolio investment assets	1.1	
Portfolio investment liabilities	5.0	
Financial derivatives	-20.0	
Other investment assets	-78.1	
Other investment liabilities	23.5	
<b>Net Errors and Omissions</b>		<b>71.6</b>
<b>Reserves and Related Items</b>		<b>-3.8</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

December 1991 and is intended to perform all the functions of a central bank. The government has stuck with a tight monetary policy. The currency unit was initially the ruble following independence; however, with IMF support, the government introduced a new currency, the som, in May 1993 in order to stabilize the economy, avoid the inflation of the ruble, and attract foreign investment. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$114.9 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$170.2 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 11.9%.

The country has a small stock exchange, opened in May 1995. As of January 1996, 298 companies issued securities, with 7 trading on the stock exchange.

### 34 INSURANCE

No recent information is available.

### 35 PUBLIC FINANCE

During the early 1990s, economic output declined, while inflation escalated. As a result, the proportion of public revenues in GDP plummeted. Transfers from the former Soviet Union amounting to over 11% of GDP largely created an overall budget surplus equivalent to 4.1% of GDP in 1991. In 1992, parliament agreed to a further tightening of fiscal policy (including decreased expenditures and the elimination of transfers to inefficient state enterprises) due to the virtual termination of inflowing subsidies caused by the demise of the Soviet Union. The som, currency introduced by the government in May 1993, has proven fairly stable, and monthly inflation has slowed from 40% to about 10%.

The US Central Intelligence Agency (CIA) estimated that in 2005 Kyrgyzstan's central government took in revenues of approximately \$516.3 million and had expenditures of \$539.9 million.

#### Public Finance – Kyrgyzstan (2001)

(In millions of soms , budgetary central government figures)

<b>Revenue and Grants</b>	<b>12,482.1</b>	<b>100.0%</b>
Tax revenue	9,187.9	73.6%
Social contributions	...	...
Grants	622	5.0%
Other revenue	2,672.3	21.4%
<b>Expenditures</b>	<b>13,098.8</b>	<b>100.0%</b>
General public services	3,202.7	24.5%
Defense	980.6	7.5%
Public order and safety	752	5.7%
Economic affairs	1,423.1	10.9%
Environmental protection	...	...
Housing and community amenities	800.9	6.1%
Health	1,379	10.5%
Recreational, culture, and religion	295	2.3%
Education	2,847.6	21.7%
Social protection	1,417.9	10.8%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

Revenues minus expenditures totaled approximately -\$23.6 million. Total external debt was \$2.428 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, budgetary central government revenues were som12,482.1 million and expenditures were som13,098.8 million. The value of revenues was us\$258 million and expenditures us\$271 million, based on a official exchange rate for 2001 of us\$1 = som48.378 as reported by the IMF. Government outlays by function were as follows: general public services, 24.5%; defense, 7.5%; public order and safety, 5.7%; economic affairs, 10.9%; housing and community amenities, 6.1%; health, 10.5%; recreation, culture, and religion, 2.3%; education, 21.7%; and social protection, 10.8%.

### 36 TAXATION

The personal income tax varies up to a maximum rate of 40%; the corporate rate ranges from 15–55% with a standard rate of 35%. Also levied are a 20% value-added tax; a withholding tax ranging from zero to 5%; and a social security contribution of 37% by employers and 1% by employees.

### 37 CUSTOMS AND DUTIES

Imports are subject to customs duties at an average rate of 10%. The rate is 10–20% for certain products, including tobacco, alcoholic beverages, precious metals, and petroleum. Imported raw materials and imports from the former USSR are exempt. Also, a 20% value-added tax is levied on products from everywhere except Azerbaijan, Belarus, and Russia. Kazakhstan, Belarus, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan have formed a customs union. Kyrgyzstan and the United States signed a most-favored nation agreement in 1992.

### 38 FOREIGN INVESTMENT

In June 1991, the Kyrgyzstan parliament passed the Foreign Investment Law guiding the establishment of local enterprises with foreign shareholding as well as 100% foreign ownership. The law secures the right to repatriation of profits and allows foreign investment in all sectors of the economy except military production and certain forms of ownership in agriculture. Foreign buyers may acquire small enterprises being transferred from the state to the private sector directly on the open market; foreign participation in auctions or other forms of bidding for medium and large-scale enterprises requires special government permission. At present, the government is attempting to attract overseas investors, particularly to the minerals, electronics, and agro-processing sectors of the economy. In 1995, the Foreign Investment Law was amended to expand foreign investment opportunities, to clarify investors' rights, and to remove or extend some time limits on certain aspects of foreign investment. Foreign direct investment (FDI) that year amounted to about \$800 million, and was rising at a slow but steady rate. Investments from Canada represented 45% of the total; these were concentrated primarily in gold mining (the largest single project being the \$375 million development of the Kumtor gold field). Investments from Turkey comprised about 20% of the total; those from the United States, 12%; and China, 10%. In 1998,

foreign direct investment totaled \$102 million, up from \$83 million in 1997.

In 2004, the Kyrgyz government founded the National Council for Good Governance that was tasked with tackling corruption. The government is working with NGOs, international financial institutions, and international donors, to develop a plan to combat corruption. The government and members of the business and diplomatic communities have met to discuss reforms and a strategy to market the Kyrgyz Republic to foreign investors. Reforms are to be made in the banking sector, in addition to legal reforms and infrastructure improvement. Taxes are complex, with businesses paying anywhere from 12 to 19 different taxes; some of these are not financially burdensome, but require time-consuming accounting. There are currently four free economic zones (FEZs) in Kyrgyzstan: at Bishkek, Naryn, Karakol, and Maimak. FDI totaled \$116 million in 2002, an increase from \$90 million in 2001. In 2002, the countries providing the largest sources of FDI included: the United States (\$39.1 million); Germany (\$31.4 million); Turkey (\$30 million); Canada (\$25.7 million); South Korea (\$11.7 million); and China (\$10 million).

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Under the Soviet system, economic planning efforts in Kyrgyzstan focused on increasing agricultural production (particularly in the meat and dairy subsectors during the 1980s) and specialized development of industrial sectors in line with the wider Soviet economy. Transfer payments from the central government as well as capital inflows into state enterprises covered the republic's modest balance of trade deficit with its Soviet trading partners and countries beyond. With this support, GDP growth was sustained at moderately high levels in the late 1980s, averaging 5.1% in 1985–89.

Kyrgyzstan declared its independence in 1991. Since then, the Kyrgyzstan government faced the task of sustaining a viable national economy despite the sudden cessation of transfers from the central government, the country's critical dependence on oil and gas imports, and its landlocked geographic position that has hampered development of trading ties outside the economically troubled former Soviet Union. Reforms have aimed at making the transition to a market-oriented economy.

Kyrgyzstan experienced declines in gross domestic product (GDP) from 1991–94. Both per capita income and overall output fell to well below the 1990 level. Agricultural output fell by an estimated 20%, and industrial output, by 42%. By 1996, however, Kyrgyzstan had begun to show progress, especially when compared to the other former Soviet republics, in the areas of privatizing state enterprises, ending the state ordering system, lifting price controls, and converting military enterprises to civilian uses. Prime Minister Apas Jumagulov reported in 1995 that the economic crises had eased, and the rates of decline were slowing.

A value-added tax was introduced in 1992 to help strengthen the government revenue base. Expected state revenues, however, have fallen short of expectation due to steeply declining consumption and collection difficulties within the new tax system. With seriously declining revenues since 1991, the government's ability to make new development investments in either the productive sectors or physical and social infrastructure has been severely con-

strained. Capital expenditures as a percentage of total budgetary expenditures declined from 15% in 1990 to only 7% in 1992. Because of its commitment to democracy, Kyrgyzstan has received favorable treatment from international economic aid agencies. In 1992, the government signed a formal agreement with Russia transferring its share of the former Soviet Union's external debt to the latter in return for relinquishing most claims to the financial and other assets of the former USSR.

In May 1996, President Akayev negotiated an aid package from the Asian Development Bank that included \$60 million in loans to finance privatization of agriculture and to renovate power and heating facilities in Bishkek. In support of the government's efforts to evolve the country's agriculture from large communes to private farms, the Asian Development Bank also offered loans to small farmers. In July 1996, the International Finance Corporation promised \$40 million to finance a project to mine for gold near Issy-Kul, a large lake in the northeast. In November 1996, the World Bank moved to support programs to reform the Kyrgyzstan banking system and to modernize the electric power generating system. In 2001, the IMF awarded Kyrgyzstan \$93 million in aid over a three-year period, and that year Kyrgyzstan received \$50 million in aid from the United States.

In 2001, the government published its Comprehensive Development Framework (CDF) for 2001–10. The CDF contains the following goals for strengthening the economic stability of the country: modernization of the telecommunications, transportation, and tourism infrastructures; reduction and rationalization of the government's regulatory role in the economy; implementation of more sound fiscal, monetary, and taxation policies; reform of the judicial system to protect property rights; poverty reduction and employment creation, especially among Kyrgyz youth; and strengthening and reforming the banking sector. In addition to these goals, by 2006 other ingredients of future growth included progress fighting corruption, further restructuring of domestic industry, and success in attracting foreign investment.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

Old age, disability, and survivorship pensions are provided to all employed persons and members of cooperatives and collective farms. Contributions of 8% of earnings from employees, and 25% of payroll by employers finance the program. A universal medical care system exists for all residents. Maternity benefits for employed women include 100% of pay for 126 days of leave. Workers' compensation, unemployment benefits, and family allowances are also provided.

Women have equal status under the law, although discrimination persists. Women are well-represented in the workforce in urban areas, and participate in higher education and professional fields. However, they appear to be disproportionately affected by growing unemployment. A women's congress in Bishkek convenes periodically to consider women's issues. Opportunities for women are lacking in the rural areas. Domestic abuse and violence against women remain common. The lack of government funds impacts the programs aimed at assisting children. Child labor is increasingly common.

There is reported discrimination in hiring, promotion, and housing against citizens who are not ethnic Kyrgyz. Police bru-

tality has been reported, as well as arbitrary arrest and detention. The government violates basic civil rights, including the freedoms of speech, assembly, association, and the press. In 2004 the human rights record showed improvement. There were problems with freedom of speech and the press, due process for the accused, religious freedom, ethnic discrimination, and electoral irregularities. There are cases of police brutality and arbitrary arrest, but the number of incidents is declining. Citizens have only a limited ability to peaceably change their government. There are independent newspapers, magazines, and radio stations, and some independent television broadcasts, although the government takes measures to curtail the operations of independent media.

#### **41 HEALTH**

Kyrgyzstan's health care system has remained state-run following the breakup of the Soviet Union. Primary health care is being restructured using a family group practice model. As of 2004, there were an estimated 268 physicians, 675 nurses, and 26 dentists per 100,000 people. Approximately 26% of the country's hospital beds were eliminated between 1990 and 1996, but hospital expenditures still account for more than 70% of health care spending. Total health care expenditure was estimated at 4.4% of GDP.

The infant mortality rate in 2005 was 35.64 per 1,000 live births and the maternal mortality rate was 65 per 100,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.1 and 9.1 per 1,000 people. Major causes of death were communicable diseases and maternal/perinatal causes and injuries. Immunization rates for children up to one year old were tuberculosis, 97%, and polio, 84%. As of 1999 the rates for DPT and measles immunizations were, 98% and 97%, respectively. Tuberculosis incidence and mortality rates are rising steeply, reflecting economic hardship and the deterioration of the health infrastructure. Controlled for 30 years, diphtheria has re-emerged since the breakup of the Soviet Union. Nearly 50% of these cases occurred in persons 15 or under. The cancer mortality rates in Kyrgyzstan were higher than the medium human development countries. In 2005, life expectancy was 68.16 years.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 3,900 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

#### **42 HOUSING**

During the Soviet era, there was a severe lack of urban housing in Kyrgyzstan. In 1990, Kyrgyzstan had 12.1 sq m of housing space per capita and nearly 85,000 households (or 18.6%) were on waiting lists for housing in urban areas. At the first census in 1999, there were about 1,109,716 households in the country; the average number of members per household was 4.3. Overcrowding is a problem both in urban and rural areas; it is not unusual for two or three generations of family members to live in a single household. From 1996–2000, only about 14,800 new dwellings were built. The rate of housing constructions has not kept pace with the growth of population. But just as troubling is the slow rate of maintenance and improvement of the existing housing stock. In some apartment complexes, an entire floor may share one toilet. In 2000,

about 77% of the population had access to improved water sources; most residents had some access to improved sanitation.

#### **43 EDUCATION**

The educational system was not developed until after the 1920s when the country came under Soviet control. Primary school covers four years of study and is compulsory. This is followed by five years of basic secondary studies. At this stage, students may continue for two years of complete secondary education (necessary for university studies) or opt for a three-year vocational program. There are also training programs available for over 200 trades. The academic year runs from September to July.

In 2001, about 14% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 89% of age-eligible students. It is estimated that about 93% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 24:1 in 2003.

The State University of Kyrgyzstan is the main institution of higher education. In 2003, about 42% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 98.7%.

The Ministry of Education, Science and Culture is the primary administrative body. As of 2003, public expenditure on education was estimated at 4.4% of GDP, or 18.6% of total government expenditures.

#### **44 LIBRARIES AND MUSEUMS**

Important libraries in Kyrgyzstan include the National Library of the Kyrgyz Republic, with over 3.6 million volumes, and the Scientific Technical Library of Kyrgyzstan, with over 5.8 million volumes. The Kyrgyzstan State University library contains over 931,000 volumes, the Kyrgyzstan Agricultural Institute holds 626,000, and the Kyrgyzstan Technical University holds 766,000 volumes.

The State Historical Museum of Kyrgyzstan has 20,000 items on display depicting the history of Kyrgyzstan. The Kyrgyzstan Museum of Fine Arts collects primarily modern work. There are several regional museums exhibiting primarily archaeological findings.

#### **45 MEDIA**

Telephone links to other former Soviet republics are via land line or microwave, and to other countries through Moscow. The telephone network is underdeveloped, with some 41,000 residents waiting for telephone lines as of 2003. In 2003, there were an estimated 76 mainline telephones for every 1,000 people. The same year, there were approximately 27 mobile phones in use for every 1,000 people.

The state-owned Kyrgyz National TV and Radio Broadcasting Corp. has the widest broadcast range, but still could not reach the entire nation as of 2005. In 1998, there were 12 AM and 14 FM radio stations. In 2003, there were an estimated 110 radios and 49 television sets for every 1,000 people. The same year, there were 12.7 personal computers for every 1,000 people and 38 of every 1,000 people had access to the Internet. There were two secure Internet servers in the country in 2004.

In 2004, between 40 and 50 newspapers and magazines were published on a regular basis. The largest daily newspapers (with 2002 circulation figures) were *Sovetik Kyrzystan* (circulation 162,625), *Slovo Kyrgyzstan* (in Russian, circulation 111,000), *Vecherni Bishkek* (also in Russian, with a circulation of 51,500), and *Kyrgyz Tuusu*. The state-operated printing house, Uchkun, is the primary printing facility for the nation's major newspapers. An independent printing press was opened in 2003 by a group known as Media Support Center; by late 2004, this press was reportedly publishing about 50 commercial and political newspapers.

On 2 July 1992 the government passed a law on the press and mass media which supports freedom of the press but also provides guidelines proscribing publication of certain information. The law supports the right of journalists to work, obtain information, and publish without prior restraint. The law prohibits publication of state secrets, material which advocates the overthrow of, or changes to, the existing constitutional order in Kyrgyzstan or elsewhere. It also prohibits publication of material that advocates war, violence, or intolerance toward ethnic or religious groups. Desecration of national norms, ethics, and symbols like the national seal, anthem, or flag is prohibited. Publication of pornography is prohibited, as is propagation of untrue information.

#### **46 ORGANIZATIONS**

Important economic organizations in Kyrgyzstan include the Chamber of Commerce and Industry and the Kyrgyzstan Council of Free Trade Unions. Active political organizations include the Committee for the Defense of Human Rights, the Slavic Fund, Free Kyrgyzstan, Agigat, and Ashar. The Kyrgyz Bar Association was formed in August 1995. The Congress of Women of the Kyrgyz Republic serves as an umbrella organization for women's development groups. There are a number of sports associations and clubs through the country. The Kyrgyzstan Medical Association is one of several professional associations dedicated to research and education in specialized fields. Kiwanis International and the Lions Clubs have programs in the country. The Red Crescent Society and Habitat for Humanity are also active.

#### **47 TOURISM, TRAVEL, AND RECREATION**

The development in tourism has been a main priority of Kyrgyzstan since it gained its independence in 1991. Osh, Kyrgyzstan's second-largest city, is considered a holy city by Muslim pilgrims who visit it annually to pray at its Islamic shrines. The capital city of Bishkek is surrounded by some of the highest mountain ranges in the world. Bishkek is known for its large public parks and gar-

dens, shady avenues, and botanical gardens. Equestrian sports are very popular in Kyrgyzstan.

Passports and visas are required for entry to Kyrgyzstan and are not obtainable at land borders or other airports. The principal accommodations are hotels that formerly belonged to the Soviet Intourist system. However, foreign chains have developed a number of projects in Central Asia. In 2002 there were 139,589 visitors who arrived in Kyrgyzstan, of whom 63% came from Europe.

In 2004, the US Department of State estimated the daily expenses of staying in Kyrgyzstan at \$189.

#### **48 FAMOUS KYRGYZSTANIS**

Askar A. Akayev was elected president of the republic of Kyrgyzstan, in October 1990, prior to the republic declaring its independence. He remained president until 2005, when he was deposed in the popular uprising known as the "Tulip Revolution." Kurmanbek Bakiyev (b.1949) became acting president in 2005. Chinghiz Aitmatov (b.1928), winner of two Lenin Prizes for literature, is a native Kyrgyzstani.

#### **49 DEPENDENCIES**

Kyrgyzstan has no territories or colonies.

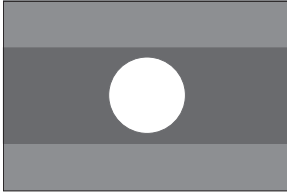
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# LAOS

Lao People's Democratic Republic  
*Sathalanalat Paxathipatai Paxaxon Lao*



**CAPITAL:** Vientiane (Viangchan)

**FLAG:** The national flag, officially adopted in 1975, is the former flag of the Pathet Lao, consisting of three horizontal stripes of red, dark blue, and red, with a white disk, representing the full moon, at the center.

**ANTHEM:** *Pheng Sat Lao (Hymn of the Lao People)*.

**MONETARY UNIT:** The new kip (₭) is a paper currency of 100 at (cents). There are notes of 10, 20, 50, 200, and 500 new kip. ₭1 = \$0.00009 (or \$1 = ₭10,751) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but older local units also are used.

**HOLIDAYS:** Anniversary of the Founding of the Lao People's Democratic Republic, 2 December. To maintain production, the government generally reschedules on weekends such traditional festivals as the Lao New Year (April); Boun Bang-fai (Rocket Festival), the celebration of the birth, enlightenment, and death of the Buddha (May); Boun Khao Watsa, the beginning of a period of fasting and meditation lasting through the rainy season (July); Boun Ok Watsa (Water Holiday), a celebration of the end of the period of fasting and meditation (October); and That Luang, a pagoda pilgrimage holiday (November).

**TIME:** 7 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Laos is a landlocked country on the Indochina Peninsula near the eastern extremity of mainland Southeast Asia. Laos occupies an area of 236,800 sq km (91,429 sq mi), extending 1,162 km (722 mi) SSE–NNW and 478 km (297 mi) ENE–WSW. Comparatively, the area occupied by Laos is slightly larger than the state of Utah. It is bordered on the N by China, on the E and SE by Vietnam, on the S by Cambodia, on the W by Thailand, and on the NW by Myanmar, with a total boundary length of 5,083 km (3,158 mi).

The capital of Laos, Vientiane, is located along the country's southwestern boundary.

## <sup>2</sup>TOPOGRAPHY

The terrain is rugged and mountainous, especially in the north and in the Annam Range, along the border with Vietnam. The mountains reach heights of more than 2,700 m (8,860 ft), with Pou Bia, the highest point in Laos, rising to 2,817 m (9,242 ft) in the north-central part of the country. Only three passes cross the mountains to link Laos with Vietnam. The Tran Ninh Plateau, in the northeast, rises to between 1,020–1,370 m (3,350–4,500 ft), and the fertile Bolovens Plateau, in the south, reaches a height of about 1,070 m (3,500 ft). Broad alluvial plains, where much of the rice crop is grown, are found only in the south and west along the Mekong River and its tributaries. Of these, the Vientiane plain is the most extensive.

Except for a relatively small area east of the main divide, Laos is drained by the Mekong and its tributaries. The Mekong flows in a broad valley along the border with Thailand and through Laos for 1,805 km (1,122 mi). In its low-water phase, it is almost dry, but it rises more than 6 m (20 ft) during the monsoon period. The

river is wide, but except for a navigable stretch between Vientiane and Savannakhét, rapids are numerous. Below Savannakhét and at the extreme south there are large rapids and waterfalls. Floods are common in the rainy season.

## <sup>3</sup>CLIMATE

Laos has a tropical monsoon climate with three main seasons. The rainy season is from May through October, when rainfall averages 127–229 cm (50–90 in). November through February is a cool, dry season. March through April is a hot, dry season, during which temperatures can be as high as 40°C (104°F). Humidity is high throughout the year, even during the season of drought. Average daily temperatures in Vientiane range from 14–28°C (57–82°F) in January, the coolest month, and from 23–34°C (73–93°F) in April, the hottest.

## <sup>4</sup>FLORA AND FAUNA

About 54% of Laos is covered by forest. The forests of southernmost Laos are an extension of the Kampuchean type of vegetation, while the highland forests of the north, consisting of prairies interspersed with thickets, resemble central Vietnam. Bamboo, lianas, rattan, and palms are found throughout Laos.

Roaming the forests are panthers and a dwindling number of tigers, elephants, and leopards. The elephant, until 1975 depicted on the national flag as the traditional symbol of Lao royalty, has been used throughout history as a beast of burden. A local breed of water buffalo also is universally used as a draft animal. Reptiles include cobras, geckos, kraits, and Siamese crocodiles. There are many varieties of birds, fish, and insects. As of 2002, there were at least 172 species of mammals, 212 species of birds, and over 8,200 species of plants throughout the country.

## **<sup>5</sup>ENVIRONMENT**

Soil erosion, deforestation, and flood control are the principal environmental concerns in Laos. The government seeks to control erosion by discouraging the traditional slash-and-burn agriculture practiced by many mountain tribes, and by resettling the tribes in permanent villages. Reforestation projects have been promoted by the government as a means of increasing lumber exports and of restoring valuable hardwoods to logged-out forest areas. Each person was required to plant five trees in the course of the 1981–85 economic plan. In 1986, the government prohibited the cutting of 15 different varieties of trees. At that time, forests were reportedly being consumed at a rate of 300,000 hectares (741,000 acres) per year. Between 1983 and 1993, Laos suffered a further decline of 11.3% in its forest and woodland area. From 1990–2000, the rate of deforestation was about 0.4% per year. In 2003, about 3% of the total land area was protected.

Laos has about 190 cu km of renewable water resources with 82% used in farming activity and 10% used for industrial purposes. Only 66% of city dwellers and 38% of rural citizens have access to safe drinking water. The nation's water supply has begun to decrease due to a combination of factors, among them the loss of forest land, uncontrolled agricultural practices, flooding, and drought. Pollution from fires, dust, and cars is also becoming a national problem.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 30 types of mammals, 21 species of birds, 11 types of reptiles, 4 species of amphibians, 6 species of fish, and 19 species of plants. Endangered species in Laos included the douc langur, three species of gibbon (pileated, crowned, and capped), tiger, Asian elephant, Sumatran rhinoceros, Javan rhinoceros, Thailand brow-antlered deer, kouprey, and Siamese crocodile. The Vietnam warty pig has become extinct.

## **<sup>6</sup>POPULATION**

The population of Laos in 2005 was estimated by the United Nations (UN) at 5,924,000, which placed it at number 102 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.3%, a rate the government viewed as too high. The projected population for the year 2025 was 8,712,000. The population density was 25 per sq km (65 per sq mi), but the population is unevenly spread, with the greatest concentration in the Mekong Valley.

More than 70% of the population is rural, living in some 9,000 villages. The UN estimated that 19% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 4.50%. The capital city, Vientiane (Viangchan), had a population of 716,000 in that year. Other large towns, all on or near the Mekong and its tributaries, are Savannakhet, Pakxé, Luangphrabang (the former royal capital), Muang Xaignaboury, and Ban Houayxay.

## **<sup>7</sup>MIGRATION**

There has been only limited population movement into Laos in modern times. During the late 1960s and early 1970s, under pressure of combat operations, Black Tai tribesmen moved southward into the Mekong River valley. Between 1975–90, over 360,000 Laotians fled to Thailand and China. The majority resettled and were given new lives in Western nations. To date, more than 27,000 Laotians have repatriated. In 1996, some 6,000 Laotian refugees remained in Thailand, and several hundred remained on collective farms in China. As of 1999, about 1,100 of the small number of refugees still remaining in Ban Napho camp in Thailand were determined not to have valid refugee claims. The two governments agreed that they should return to Laos, with assistance from the United Nations High Commissioner for Refugees (UNHCR). In the mid-1990s, as Laos opened up to international investment and development, Vietnamese workers began migrating to Laos—although in relatively small numbers—primarily to work in the construction industry. In 2003 Thailand arrested 19,115 Laotian unauthorized workers, and 6,098 Laotians as illegal foreigners. However, in 2004 Thailand registered 173,000 Laotians as migrant workers.

In 2004 Laotians sought refuge, 7,864 in France and 6,214 in the United States. In that same year 569 applied for asylum in Thailand and 101 in the United States. The net migration rate for 2005 was an estimated zero migrants per 1,000 population. The government views the immigration level as satisfactory, but the emigration level as too high.

## **<sup>8</sup>ETHNIC GROUPS**

About 68% of all Laotians are Lao-Loum, or lowland Lao, a people related to the people of Thailand; thought to have migrated to Laos from southwestern China in the 8th century, the Lao-Loum are concentrated in the lowlands along the Mekong. On the hillsides live the Lao-Theung, or slope dwellers, a diverse group dominated by the Lao-Tai (with various subgroups, including the Black Tai), who are ethnically related to the Lao-Loum. They account for 22% of the population. At higher altitudes are the Lao-Soung, or mountain dwellers, a diverse group of ethnic minorities of mainly Malayo-Polynesian or proto-Malay backgrounds. They constitute 9% of the population.

Important among the Lao-Soung, and more prosperous than most Lao because of the opium poppies they grow, are the Hmong (Meo), a people of Tibeto-Burman origin who supported the American presence until 1975 and, because of their continuing insurgency, became the targets of harassment by government and Vietnamese troops. Other important upland tribes, all with customs and religions considerably different from those of the lowland Lao, are the Ho, Kha, Kho, and Yao (Mien). Ethnic Vietnamese and Chinese account for 1% of the population.

## **<sup>9</sup>LANGUAGES**

Lao, the official language and the language of the ethnic Lao, is closely related to the language of Thailand. It is monosyllabic and tonal and contains words borrowed from Sanskrit, Pali, and

Farsi. Pali, a Sanskritic language, is used among the Buddhist priesthood.

Other groups speak the Tibeto-Burman, Non-Khmer, or Miao-Yao languages. French, formerly the principal language of government and higher education, has been largely replaced by Lao. English and various ethnic languages are also spoken.

## 10 RELIGIONS

Theravada Buddhism is practiced by most of the Lao-Loum, whose daily life is shaped by its rituals and precepts. Buddhist temples, found in every village, town, and city, serve as intellectual as well as religious centers. Vientiane and Luangprabang have been called cities of thousands of temples. More than 70 pagodas were built in Vientiane alone in the 16th century, including the famous Wat Phra Keo and That Luang. Despite the major role that Buddhism, its temples, and its priests have played in Laotian life, the average lowland Lao regulates a large part of daily activities in accordance with animistic concepts. Certain spirits (*phi*) are believed to have great power over human destiny and to be present throughout the material world, as well as within nonmaterial realms. Thus, each of the four universal elements (earth, sky, fire, and water) has its special *phi*; every road, stream, village, house, and person has a particular *phi*; forests and jungles are inhabited by *phi*. Evil *phi* can cause disease and must be propitiated by sacrifices.

The Lao-Theung and the Lao-Soung, including the upland tribes, are almost exclusively animists, although influenced by Buddhism to some extent. About 2% of the population are Christians, with about 60,000 Protestants and 40,000 Roman Catholics. Most Protestants are members of the Lao Evangelical Church or Seventh-Day Adventists, which are the only two officially recognized Protestant groups. Other minority religions include the Bahá'ism, Islam, Mahayana Buddhism, Taoism, and Confucianism.

Though religious activity was discouraged by the state from 1976 to 1979, freedom of religion has been legally guaranteed since the constitution of 1991. However, the government reserves the right to serve as the final arbiter of permissible religious activities, which the government loosely defines as those practices which serve to promote national interests. Religious affairs are overseen by the Lao Front for National Construction (LFNC), an organization of the Lao People's Revolutionary Party.

## 11 TRANSPORTATION

Lack of adequate transportation facilities continued to be a major deterrent to economic progress. Of the approximately 14,000 km (8,700 mi) of roads, only about 3,360 km (2,088 mi) were paved in 2002. Many are impassable in the rainy season. Only a single major road connects the northern and southern regions. Most of the roads were damaged by US bombing in the Vietnam war, but the main links with Vietnam (notably Highway 9, from Savannakhét to the Vietnamese port of Da Nang, and Highways 7 and 13, from Vientiane and Savannakhét to the Vietnamese port of Vinh and Ho Chi Minh City, respectively) were rebuilt with Vietnamese aid. Under the 1981-85 economic plan, 844 km (524 mi) of roads were built or improved. There are no railroads in Laos, although in 1994, the government entered into an agreement with a Thai company to build a railroad from Nong Khai in Thailand to Vientiane. In 2006, French president Jacques Chirac reported that his gov-



LOCATION: 100° to 107°E; 13°40' to 22°40' N. BOUNDARY LENGTHS: China, 425 kilometers (264 miles); Vietnam, 1,555 kilometers (966 miles); Cambodia, 541 kilometers (336 miles); Thailand, 1,754 kilometers (1,090 miles); Myanmar, 238 kilometers (148 miles).

ernment would support Thai efforts to build this planned railway, which, as of that year, had not been constructed.

In 2004 there were an estimated 44 airports; only 9 of had paved runways as of 2005. Vientiane has the only international airport. Major cities in Laos are connected by air services operated by state-run Lao Aviation, founded with Soviet aid in 1976. In 1995, the government signed an agreement with China's Yunnan Airlines forming a joint venture projected to increase Yunnan's holdings of Lao Aviation to 60% while the former pays off the latter's debt. In 2003, about 219,000 passengers were carried on scheduled domestic and international airline flights.

Landlocked, Laos' only water-transport link with the outside world is via the Mekong River, which forms a large part of the border with Thailand and flows through Cambodia and Vietnam into the South China Sea. As of 2003, the Mekong is navigable for small transport craft and, with its tributaries in Laos, forms a 4,587-km (2,850-mi) inland waterway system, although rapids make necessary the transshipment of cargo. However, another 2,897 km (1,802 mi) are navigable by small craft that draw under 0.5 m. To lessen dependence on Thailand, Laos in 1977 signed an agreement with Vietnam whereby the Vietnamese port of Da

Nang would replace Bangkok as the chief outlet for Laos. In 2005, Laos had one merchant vessel of 1,000 GRT or more, a cargo ship, at 2,370 GRT.

## 12 HISTORY

Although archaeological evidence indicates that settlers along the Mekong had learned agriculture, metallurgy, and pottery making by 3000 BC, little is known about the early history of the land that today bears the name of Laos. The lowland Lao are believed to be the descendants of Thai tribes that were pushed southward in the 8th century. According to tradition, the kingdom called Lan Xang ("a million elephants") was established in 756 by King Thao Khoun Lo. In 1353, it was reunified by Fa-Ngoum, who had been raised at the court of Angkor in Kampuchea and returned with a force of Khmer troops. He is also credited with the introduction of Hinayana Buddhism into Laos. Lan Xang waged intermittent wars with the Khmers, Burmese, Vietnamese, and Thai and developed an effective administrative system, an elaborate military organization, and an active commerce with neighboring countries. In 1707, internal dissensions brought about a split of Lan Xang into two kingdoms, Luangphrabang in the north (present-day upper Laos) and Vientiane in the south (lower Laos). Strong neighboring states took advantage of this split to invade the region. Vientiane was overrun and annexed by Siam (Thailand) in 1828, while Luangphrabang became a vassal of both the Chinese and the Vietnamese. In 1893, France, which had already established a protectorate over what is now central and northern Vietnam, extended its control to both Vientiane and Luangphrabang, and Laos was ruled by France as part of Indochina. Although French control over Luangphrabang took the nominal form of a protectorate, the French colonial administration directly ruled the rest of Laos, legal justification being ultimately provided in the Lao-French convention of 1917.

During World War II, Laos was occupied by Japan. After the Japanese proclaimed on 10 March 1945 that "the colonial status of Indochina has ended," the king of Luangphrabang, Sisavang Vong, was compelled to issue a declaration of independence. The nationalist Free Lao (Lao Issarak) movement deposed the monarch soon after, but French forces reoccupied Laos, and on 27 August 1946, France concluded an agreement establishing him as king of Laos and reimposing French domination over the country. In May 1947, the king established a constitution providing for a democratic government. On 19 July 1949, Laos nominally became an independent sovereign state within the French Union. Additional conventions transferring full sovereignty to Laos were signed on 6 February 1950 and on 22 October 1953. All special economic ties with France and the other Indochinese states were abolished by the Paris pacts of 29 December 1954. In the meantime, Vietnamese Communist (Viet-Minh) forces had invaded Laos in the spring of 1953. A Laotian Communist movement, the Pathet Lao (Lao State), created on 13 August 1950 and led by Prince Souphanouvong, collaborated with the Viet-Minh during its Laotian offensive. Under the Geneva cease-fire of 21 July 1954, all Viet-Minh and most French troops were to withdraw, and the Pathet Lao was to pull back to two northern provinces, pending reunification talks with the national government under the leadership of Souvanna Phouma (Souphanouvong's half-brother). The negotiations were completed on 2 November 1957, and the Pathet Lao transformed

itself into a legal political party called the National Political Front (Neo Lao Hak Xat). However, a political swing to the right that led to the ouster of Souvanna Phouma as prime minister, coupled with the refusal of the Pathet Lao forces to integrate into the Royal Lao Army, led to a renewal of fighting in May 1959.

A bloodless right-wing coup in January 1960 was answered in August by a coup led by paratroops, under the command of Capt. Kong Le; in the ensuing turmoil, Souvanna Phouma returned to power. After a three-day artillery battle that destroyed much of Vientiane, right-wing military elements under Gen. Phoumi Nosa-van and Prince Boun Oum occupied the capital on 11 December. A new right-wing government under Prince Boun Oum was established, but further military reverses, despite a heavy influx of US aid and advisers, caused the government to ask for a cease-fire in May 1961. An international conference assembled in Geneva to guarantee the cease-fire. All three Laotian political factions agreed on 11 June 1962 to accept a coalition government, with Souvanna Phouma as prime minister. On 23 July, the powers assembled at Geneva signed an agreement on the independence and neutrality of Laos, which provided for the evacuation of all foreign forces by 7 October. The United States announced full compliance, under supervision of the International Control Commission (ICC), set up in 1954. Communist forces were not withdrawn. Fighting resumed in the spring of 1963, and Laos was steadily drawn into the role of a main theater in the escalating Vietnam War. The Laotian segment of the so-called Ho Chi Minh trail emerged as a vital route for troops and supplies moving south from the Democratic Republic of Vietnam (DRV), also known as North Vietnam, and was the target for heavy and persistent US bombing raids. While the Vientiane government was heavily bolstered by US military and economic support, the Pathet Lao received key support from the DRV, which was reported to have 20,000 troops stationed in Laos by 1974. Efforts to negotiate a settlement in Laos resumed with US backing in 1971, but a settlement was not concluded until February 1973, a month after a Vietnam peace agreement was signed in Paris. On 5 April 1974, a new coalition government was set up, with equal representation for Pathet Lao and non-Communist elements. Souvanna Phouma, 73 years old and in failing health, stayed on as prime minister, while Prince Souphanouvong was brought closer to the center of political authority as head of the newly created Joint National Political Council.

The Pathet Lao had by this time asserted its control over three-fourths of the national territory. Following the fall of the US-backed regimes in Vietnam and Cambodia in April 1975, the Laotian Communists embarked on a campaign to achieve complete military and political supremacy in Laos. On 23 August, Vientiane was declared "liberated" by the Pathet Lao, whose effective control of Laos was thereby secured. On 2 December 1975, the Lao People's Democratic Republic (LPDR) was established, with Prince Souphanouvong as president and Kaysone Phomvihane as prime minister. King Savang Vatthana abdicated his throne, ending the monarchy that had survived in Laos for 622 years. Elections for a new National Assembly were called for April 1976; however, voting was put off indefinitely, amid reports of civil unrest and sabotage. A Supreme People's Council was convened, meanwhile, with Prince Souphanouvong as chairman, and was charged with the task of drafting a new constitution.

During the late 1970s, the Communists moved to consolidate their control and socialize the economy. Private trade was banned, factories were nationalized, and forcible collectivization of agriculture was initiated. "Reeducation" camps for an estimated 40,000 former royalists and military leaders were established in remote areas; as of 1986, the government maintained that almost all the inmates had been released, but Amnesty International claimed that about 5,000 remained. A 25-year friendship treaty with Vietnam, signed in July 1977, led to closer relations with that country (already signaled by the continued presence in Laos of Vietnamese troops) and with the former USSR, and also to the subsequent dismissal from Laos of all Chinese technicians and advisers. China, for its part, began to give support and training to several small antigovernment guerrilla groups. With the economy in 1979 near collapse, in part because of severe drought in 1977 and flooding in 1978, the Laotian government slowed the process of socialization and announced a return to private enterprise and a readiness to accept aid from the non-Communist world. Throughout the 1980s armed opposition to the government persisted, particularly from the Hmong hill tribe rebels. At the Fourth Party Congress of the Lao People's Revolutionary Party (LPRP), in December 1986, a "new economic management mechanism" (NEM) was set up, aiming at granting increased autonomy in the management of formerly state-run enterprises to the private sector.

In 1988 the Lao national legislature, the Supreme People's Assembly (SPA), adopted new election laws and the first elections since the formation of the LPDR in 1975 were held. Local and provincial elections were held in 1988, and on 27 March 1989 national elections took place for an enlarged Supreme People's Assembly. In March 1991 the Fifth Party Congress of the LPRP changed Kaysone Phomvihane's title from prime minister to president, elected a new 11-member politburo, pledged to continue economic reforms in line with free-market principles while denying the need for political pluralism, and changed the national motto by substituting the words "democracy and prosperity" for "socialism." The newly elected SPA drafted a constitution adopted on 14 August 1991. The constitution provided for a national assembly functioning on principles of "democratic centralism," established the LPRP as the political system's "leading organ," created a presidency with executive powers, and mandated a market-oriented economy with rights of private ownership.

President Kaysone Phomvihane, longtime LPRP leader, died on 21 November 1992. A special session of parliament on 24 November 1992 elected hard-line Communist Nouthak Phoumsavan as the next president. Gen. Khamtai Siphandon, who had been prime minister since 15 August 1991, remained in that post. National Assembly elections were held in December 1992. One day before these elections, three former officials who called for a multiparty democracy and had been detained in 1990 were sentenced to 14 years imprisonment. The National Assembly convened in February 1993 and approved government reorganization designed to improve public administration. On 9 January 1995, longtime leader Prince Souphanouvong died, unofficially marking an end to Laos' long dalliance with hard-line Marxism. Although the NEM had initiated an opening up to international investment and improved relations with the rest of the world, there remained elements of the old guard in positions of power. With the death of Souphanouvong, the only old-time hard-line Marxist still in

power as of 1996 was the country's president, Nouthak Phoumsavan. Khamtai Siphandon, prime minister and party chief, was more powerful than Nouthak and is largely credited with exerting a moderating influence on the hard-liner. Nonetheless, there remains a strongly conservative mindset among the politburo members that still pulls the government back from economic flexibility or any hint of political liberalization.

Laos has actively improved its already "special relations" with Vietnam and Cambodia, while always seeking to improve relations with Thailand, the People's Republic of China (PRC), and the United States. Periodic meetings are held to promote the co-operative development of the Mekong River region by Laos, Thailand, Vietnam, and Cambodia. Laos and the People's Republic of China restored full diplomatic relations in 1989 and are now full-fledged trading partners. Mutual suspicions, characterizing the relationship between Laos and Thailand, improved with agreements to withdraw troops and resolve border disputes, and agreements between the United Nations High Commissioner for Refugees (UNHCR) to repatriate or resettle nearly 60,000 Lao refugees in Thailand. Laos has cooperated with the United States in recovering the remains of US soldiers missing in action in Laos since the Vietnam War and in efforts to suppress drug-trafficking. The US Department of State objects to Laos' restrictions on free speech, freedom of assembly and religious freedom. US Assistant Secretary of State Stanley Roth commented in March 2000 that Laos was unlikely to gain Most Favored Nation trading status unless it accounted for the fate of two naturalized US citizens, Hmong activists who disappeared in Laos during 1999. The debate over whether to grant Laos normal trade relations status was ongoing as of early 2003.

On 26 February 1998, Khamtai Siphandon was elected president, and he was reelected in March 2001. Beginning in 2000, Vientiane was hit by a series of bomb blasts, attributed to antigovernment groups based abroad. Bombings targeted crowded markets and buses in the city during 2003. Triggered by Thailand's closing of refugee camps on its side of the Laos-Thai border, tens of thousands of exiles were forced to return home. Most were expected to be jailed or executed for their antigovernment activities, but instead, the government encouraged their peaceful settlement among the lowland population. Certain right-wing guerrilla factions among the Hmong, long fighting the Pathet Lao, subsequently reacted violently to the government's pacification efforts to integrate moderate Hmong villagers. On 6 February 2003 near Vang Vieng, a bus and two Western bicyclers were attacked by gunmen, who killed 12 people. Militant Hmong were blamed for the attack. The government launched a major military crackdown on Hmong insurgents during 2004. Hmong was accused of causing hundreds of civilians' deaths in rebel-held areas.

On 24 February 2002, parliamentary elections were held, but all but one of the 166 candidates were from the Lao People's Revolutionary Party (LPRP). The LPRP won 108 of 109 seats in the National Assembly. Laos hosted the annual ministerial summit of the Association of Southeast Asian Nations (ASEAN) in November 2004. Under heavy security, the ASEAN ministers met in Vientiane for two days and a significant free trade agreement was signed by ASEAN and China.

### <sup>13</sup> GOVERNMENT

Under the constitution of 1947 (as subsequently amended), Laos was a parliamentary democracy with a king as the nominal chief executive. The monarch was assisted by a prime minister (or president of the Council of Ministers), who was the executive and legislative leader in fact. The prime minister and cabinet were responsible to the national assembly, the main repository of legislative authority, whose 59 members were elected every five years by universal adult suffrage. With the establishment of the Lao People's Democratic Republic in December 1975, governmental authority passed to a national congress made up of 264 delegates elected by newly appointed local authorities. The congress in turn appointed a 45-member Supreme People's Council to draw up a new constitution. Pending the completion of this task effective power rested with Kaysone Phomvihane, a longtime Pathet Lao leader who headed the government as chairman of the Council of Ministers and was also secretary-general of the Lao People's Revolutionary (Communist) Party.

Prince Souphanouvong, the head of state and president of the Supreme People's Council since 1975, left office in October 1986 because of poor health. He was replaced first by Phoumi Vongvichit, a former vice chairman of the Council of Ministers, and later by Sisomphon Lovansay, a former vice president of the Supreme People's Council. The Lao national legislature, the Supreme People's Assembly (SPA), adopted new election laws in 1988, and the first national elections under the new government took place in March 1989 (local elections were held in 1988). Kaysone Phomvihane was elected president and Khamtai Siphandon was named prime minister. The newly elected SPA set out to draft a constitution, which was finished in mid-1990, and adopted on 14 August 1991 by the SPA. Khamtai Siphandon was elected president in 1998, and reelected in 2001. The executive branch consists of the president, prime minister and two deputy prime ministers, and the Council of Ministers (cabinet) who are appointed by the president with the approval of the National Assembly. The legislative branch is the 109-member National Assembly which is elected by universal suffrage for a period of five years. The judicial branch is the Supreme People's Court Leaders. The constitution calls for a strong legislature elected by secret ballot, but most political power continues to rest with the party-dominated council of ministers, who are much aligned with the military. Laos held celebrations of the 30th year of Communist rule on 23 August 2005. The next national elections were scheduled for 2007.

### <sup>14</sup> POLITICAL PARTIES

Elections to the National Assembly were first held in 1947. In the elections of 4 May 1958, the Pathet Lao's newly organized National Political Front (Neo Lao Hak Xat) won 9 of the 21 seats in contention; 4 were won by the Santiphab faction, a neutralist group allied with them, and 8 were obtained by the Nationalist and Independent parties. After the elections, the Nationalists and Independents combined to establish a new political party, the Rally of the Lao People (Lao Luam Lao), which held 36 of the 59 Assembly seats. The remaining 23 seats were divided among the National Political Front (9), the Santiphab grouping (7), the Democrats (3), the National Union (2), and unaffiliated deputies (2). The leaders of the Rally, upon formation of that party, announced its purpose

to be the defense of Laos against "an extremist ideology contrary to the customs and traditions of the Lao country" and the establishment of true unity and independence of the nation against "subversion from within and without." The Front then and later called for a reduction in the size of the armed forces and of US military aid. In December 1959, because of emergency conditions, election of new Assembly deputies was postponed until April 1960. When the balloting was finally held, the opposition Committee for the Defense of the National Interests won a landslide victory. The Committee leader, Phoumi Nosavan, then formed a new political party, the Social Democrats (Paxa Sangkhom).

In August 1960, a coup led by Kong Le brought down the government. After a period of struggle, Souvanna Phouma, who had earlier established the Neutralist Party (Lao Pen Kang) in order to build a broader popular following, became prime minister on 11 June 1962. In his 19-man cabinet, 4 posts were held by right-wing politicians, 11 by Neutralists, and 4 others by Pathet Lao adherents. The National Assembly came to the end of its five-year term in 1965. Political instability prevented the holding of national elections, and a provisional assembly was convened to amend the constitution so as to provide a means for maintaining the legislature. The result was a general election held on 18 July, with the franchise limited to civil servants, teachers, merchants, and village headmen. The new National Assembly was convened on 16 August, with the Neutralists retaining 13 seats, the Social Democrats 11, the Rally 8, and various independents 27. The endorsement gained in the limited polling of 1965 was not sufficient to sustain Prime Minister Souvanna Phouma for long, and new voting—the first real and effective election in a decade—took place on 1 January 1967. About 60% of 800,000 eligible voters went to the polls in 1967, despite the Pathet Lao charge that the balloting was illegal. Souvanna Phouma's United Front took 32 of 59 seats in the National Assembly voting.

In the last years of the constitutional monarchy, the gulf between the Pathet Lao and the enclave of rightists and neutralists that held governmental power widened appreciably. The pressures of war—both the civil strife within Laos and the larger conflict pressed by the external forces of the United States and the DRV—had thwarted the effectiveness of normal political processes. General elections held on 2 January 1972 were confined to government-controlled areas, with representatives for the Pathet Lao provinces elected by refugees from those regions. Despite the narrow range of political choices available to voters, only 20 of the 60 National Assembly deputies were reelected, reflecting a growing uneasiness both with the war and with the increasing evidence of corrupt practices among government officials. Despite right-wing pressures from within the National Assembly, Souvanna Phouma—whose neutralist policy was favored by both the United States and the DRV—retained the position of prime minister. The withdrawal of US military support for the Thieu regime in the Republic of Vietnam (South Vietnam) was followed, in April 1974, by the creation of a new coalition in Vientiane that gave equal political footing to the Pathet Lao. The National Assembly, which had become little more than a forum for disputes among right-wing factions, was dissolved by King Savang Vatthana on 13 April 1975, an act that signaled the end of domestic political opposition to the inexorable progress of the Pathet Lao.

The formation of the Lao People's Democratic Republic in December 1975 effectively established the Communist Lao People's Revolutionary Party (LPRP) (Phak Pasason Pativat Lao), the political incarnation of the Pathet Lao movement, as the sole political force in Laos. Kaysone Phomvihane, general secretary of the LPRP, was named head of government, and Prince Souphanouvong head of state. The LPRP plays the leading role in the Lao Front for National Reconstruction, which sought to promote socialism and national solidarity. The Third Party Congress of the PPPL, and the first since the party assumed control, was held in Vientiane in April 1982. The congress, whose 228 delegates represented a party membership of 35,000, elected an enlarged Central Committee with 49 full and 6 alternate members. The Central Committee reelected Kaysone as general secretary. The Fourth Party Congress, held in Vientiane in December 1986, established the "new economic management mechanism."

In 1988 the Supreme People's Assembly (SPA) adopted new elections laws and elections were held the next year—the first since 1975. In 1991, the Fifth Party Congress changed Prime Minister Phomvihane's title to president, a post he held until his death one year later. Elevated to the post of prime minister was Khamtai Suphandon, a generally pro-free market antidemocratic pragmatist of the Singaporean variety. Suphandon had for a time studied Marxism in Hanoi, but in his position as prime minister was considered essentially a transitional figure between the old guard and a new generation of leaders. After Phomvihane's death in 1992, a special session of the SPA elected an old-guard communist, Nouhak Phoumsavan, to the presidency.

Elections for the SPA were again held in 1992 but they were marred by the sentencing of three pro-democracy activists to 14 years in prison on the day before balloting. By 1996, Laos' leadership was made up primarily of party functionaries, regardless of the makeup of the SPA. Prime Minister Suphandon held considerable power as did Deputy Prime Minister Khamphoui Keoboualapha, who also served as the administrator of the State Committee for Planning and Cooperation (CPC), considered by many analysts to be a government within a government.

A 1998 election retrenched the hard-liners, as "technocrats" vanished from the preapproved slate, replaced with old style LPRP functionaries. This was viewed as a reaction to the social tensions (such as crime and corruption) arising with economic openness, as well as an attempt to reestablish centralized control over provincial matters.

The Seventh Party Congress, which took place in March 2001, reelected all eight surviving members of the nine-member politburo. The decision was a clear sign that the party had opted for continuity rather than change.

Several governments-in-exile have been set up by former ministers of pre-1975 regimes, and overseas Hmongs and other dissidents have formed opposition organizations. A young pretender to the throne, Prince Soulivong Savang, has rallied support in exile. Some Hmong groups and others have continued a low-level insurgency in rural Laos. Underground antigovernment sentiment may be on the rise among the urban intellectuals.

As of late 2005, parties other than the LPRP continued to be proscribed. A glimpse of popular discontent emerged with reports of an October 1999 demonstration in Vientiane, led by students and professors calling for democracy and human rights. The pro-

test was quickly suppressed, and Khamtai's government disavowed all knowledge of its occurrence.

## <sup>15</sup> LOCAL GOVERNMENT

Laos consists of 16 provinces (*khoueng*), one special zone, Xaisomboun, and the municipality of Vientiane. The provinces are subdivided into districts (*muong*), townships (*tasseng*), and villages (*ban*). The president appoints provincial governors and mayors of municipalities. The prime minister appoints deputy provincial governors and deputy mayors and district chiefs. Since 1975, local administration has been restructured, with elected people's committees in the villages functioning as basic units. Both suffrage and candidacy are open to citizens 18 and over. Village heads administer at the village level. Lack of control over local party members in the rural areas appears to be a source of worry for the politburo, with its implications of corruption and even potential unrest.

## <sup>16</sup> JUDICIAL SYSTEM

The 1991 constitution provides for freedom of speech, assembly, and religion, although, in practice, organized political speech and activities are severely restricted. The reality of religious freedom is equally illusory, with imprisonment of Christian activists in recent years. The constitution contains provisions designed to guarantee the independence of judges and prosecutors, but in practice the courts appear to be subject to influence of other government agencies. Provincial courts are at the next level as appellate courts. There is also a central Supreme Court in Vientiane. In 1993 the government began publishing an official gazette in which all laws and regulations are disseminated. A bar association was formed in 1996 to strengthen the legal profession and individual rights to counsel. Rising crime rates place a burden on Laos's underfunded and understaffed legal system. Amnesty International and other human rights groups have called attention to deaths in custody, torture, and substandard conditions in the Laotian prison system.

## <sup>17</sup> ARMED FORCES

In 2005 the number of active personnel in the armed forces of Laos totaled 29,100. Of that total, the Army accounted for 25,600, while the Air Force had 3,500 personnel. The Army's roster of equipment included 25 main battle tanks, 10 light tanks, 50 armored personnel carriers, and 82 artillery pieces (all towed). The Air Force had 22 combat capable aircraft, all of which were MiG-21 fighters. Although Laos did not have a formal navy, the Army did have an estimated 600-man marine section that operated 4 amphibious landing craft and 52 patrol/coastal boats. Laotian paramilitary forces consisted of a village home guard known as the Militia Self-Defense Forces, which numbered more than 100,000 members. The defense budget in 2003 (the latest year for which data was available) totaled \$37.8 million.

## <sup>18</sup> INTERNATIONAL COOPERATION

Laos, a UN member since 14 December 1955, belongs to ESCAP and several nonregional specialized agencies, such as FAO, UNESCO, UNIDO, ILO, WHO, IMF, and the World Bank. The nation participates in the Asian Development Bank, the Colombo

Plan, and G-77. It has observer status with the WTO. In 1997, Laos joined ASEAN and AFTA.

Since 1961, Laos has been a member of the Nonaligned Movement. Laos's main diplomatic, economic, and military allies have been Vietnam and the former USSR. In 1977, Laos signed a 20-year treaty of cooperation with Vietnam. In 2003, Laos and Thailand signed a cooperation agreement that addresses issues of labor and counternarcotics. In environmental cooperation, Laos is part of the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification. Laos is also a member of the Mekong River Commission with Cambodia, Thailand, and Vietnam.

## 19 ECONOMY

One of the world's poorest and least-developed nations, Laos is overwhelmingly agricultural, with 85% of the population still engaged in subsistence farming. Because industrialization is minimal, Laos imports nearly all the manufactured products it requires. Distribution of imports is limited almost entirely to Vientiane and a few other towns, and even there, consumption has been low. The hostilities of the 1960s and 1970s badly disrupted the economy, forcing the country to depend on imports from Thailand to supplement its daily rice requirements.

With the curtailment of hostilities in 1975, the development of a unified political structure offered an immediate advantage. The government began in late 1975 to pursue in earnest a variety of projects to repair and improve the infrastructure and make use of the country's ample mineral, lumber, and hydroelectric resources. During 1978–80, the government gave priority to postwar reconstruction, collectivization of agriculture, and improvements in rice production. In 1994 a liberalized Foreign Investment Law was promulgated as the government sought greater economic integration regionally and internationally.

By 1997, Laos had made modest improvements. In international investment, it had opened up its economy considerably. In April 1997, the government signed a trade and cooperation agreement with the EC. In July 1997, Laos became a full member of ASEAN and AFTA. In 1998 the government applied for membership in the WTO. More than \$5 billion in foreign investment had been made by more than 500 investors, mainly from other ASEAN countries. The government had also made considerable progress in the construction of a modern road network linking Laos to China and Vietnam. The country also announced plans for a second bridge into Thailand and the construction of its first railroad, linking Vientiane with Nong Khai in Thailand.

However, the Asian financial crisis dealt the economy a series of blows from which it has not yet recovered. Laos's economy was particularly dependent on Thailand, source of 42% of its foreign investment as well as 45% of imports and 37% of export purchases, which was severely affected by the financial crisis. From June 1997 to June 1999, the Laotian currency, the kip, lost 87% of its value. Growth, which averaged 7% for the six years 1992 to 1997, dropped to 4.8% in 1998, the lowest since 1991. Foreign investment dropped from \$179 million in 1996 to \$45.3 million in 1998. Growth increased in 1999, to 7.3%, propelled by growth of over 8% in both industry and agriculture, and continued at moderated rates of 5.7% and 6.4% in 2000 and 2001. However, high infla-

tion rates and low declining foreign investments have persisted. Inflation in 2000 was 25% and though it eased to 10% with lower growth in 2001, it was back to double digits, 12% in 2002 and a projected 15% in 2003. Foreign direct investment dropped to \$23.9 million in 2001. By late 2002, the kip had fallen to more than 10,000 to one dollar from its level of 1,171 to one dollar in June 1997. In February 2003, the administration of US president George W. Bush submitted legislation supporting the granting of normal trade relations (NTR) to Laos.

In 2004, the GDP growth rate was 5.1%, up from 5.8% in 2003; in 2005, the economy expanded at an estimated 7.2%. The inflation rate fluctuated, and at 10.5% in 2004, it did pose some problems to the economy. Despite encouraging growth rates, Laos remained a mainly subsistence agriculture economy, with a poor infrastructure and dependent on foreign aid. In late 2004, Laos gained Normal Trade Relations with the United States, which allows local producers to export at lower tariffs.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Laos's gross domestic product (GDP) was estimated at \$11.9 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,900. The annual growth rate of GDP was estimated at 7.2%. The average inflation rate in 2005 was 9.4%. It was estimated that agriculture accounted for 48.6% of GDP, industry 25.9%, and services 25.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1 million. Foreign aid receipts amounted to \$299 million or about \$53 per capita and accounted for approximately 14.3% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Laos totaled \$1.58 billion or about \$28 per capita based on a GDP of \$2.1 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

It was estimated that in 2002 about 40% of the population had incomes below the poverty line.

## 21 LABOR

The estimated labor force was 2.8 million in 2002. In the absence of additional data, it was estimated that 85% were subsistence farmers, with most of the remainder in the public sector as of 1997. In that year the unemployment rate was approximately 5.7%.

Labor is organized into a single Federation of Lao Trade Unions (FLTU) which is controlled by the Lao People's Revolutionary Party (LPRP), the authoritarian governmental body. In 2002, the vast majority of the 78,000 members of the FLTU were in the public sector. There is no right to organize, strike, or bargain collectively. Labor disputes have so far been infrequent and the desperate economic situation means that workers have little bargaining power.

Children under the age of 15 are forbidden by law from working, but many children work for their families in farms or in shops due to extreme economic hardship. The daily minimum wage was

\$0.53 in 2002. The labor code limits the workweek to 48 hours with at least one day of rest.

## 22 AGRICULTURE

In 2003, Laos's sown-field area was estimated at 1,031,000 hectares (2,548,000 acres), or 4.5% of the country's total area. Agriculture accounts for 51% of production and as much as 77% of employment. The main crop is rice, almost entirely of the glutinous variety. Except in northern Laos, where some farmers grow dry rice in forest clearings or on hillsides, most Lao are wet-rice farmers. The total area of rice plantings in 2004 was estimated at 770,000 hectares (1,903,000 acres), up from 554,000 hectares (1,369,000 acres) in 1996. Yields, which are relatively low, could be raised substantially through wider use of irrigation and fertilizers. Production, which averaged 609,000 tons annually during 1961–65, rose to 2,529,000 tons in 2004. Less important crops include corn (favored by some upland tribes and stressed by the government as a means of increasing livestock production), manioc, peanuts, and soybeans. The main commercial crops, emphasized by the government as part of its export drive, are coffee, cotton, and tobacco. Also grown are cardamom, tea, ramie, hemp, sugar, bananas, and pineapples. In 2004, the trade deficit for agricultural products was \$99.8 million. The mountain peoples have been known to grow large quantities of opium poppies, sold to dealers in the plains. In 2004, the UN estimated that 22,800 households in 846 villages were engaged in opium production, which was estimated at 846 tons that year.

## 23 ANIMAL HUSBANDRY

Cattle raising is important, especially in the southern plains and in the valleys of the Noy, Banghiang, and Don rivers. Much of the livestock population was killed in the final stages of the civil war that ended in 1975. As of 2005, livestock included an estimated 1,300,000 head of cattle, 1,130,000 buffalo, 1,750,000 hogs, and 21,000,000 chickens. Livestock products in 2005 included 28,000 tons of pork, 22,500 tons of beef and veal, 16,000 tons of poultry, and 12,800 tons of eggs.

## 24 FISHING

Edible fish, found in the Mekong and other rivers, constitutes the main source of protein in the Laotian diet. The prize catch is the pa beuk, weighing 205 kg (450 lb) or more. Despite the abundance of fish and their important contribution to the Laotian subsistence economy, there has been no systematic commercial fishery development. The total catch in 2003 was 94,700 tons, with aquaculture accounting for 69%.

## 25 FORESTRY

Timber is a major resource and one of Laos's most valuable exports. About 54% of the total area is forested, and about half of the forested area is commercially exploitable. The principal timber-producing areas are around Champasak, Savannakhét, Khammouan, and Vientiane. Muang Paklay, in western Laos, is noted for its teak. Exploitation is easiest in areas near the Mekong River, which facilitates transportation. Elephants and oxen are used in most forestry operations. Aside from timber, firewood, and charcoal, forestry products include benzoin and benzoin bark, bamboo, copra, kapok, palm oil, rattan, various resins, and sticklac.

Production of roundwood totaled an estimated 6.3 million cu m (223 million cu ft) in 2004; over 80% of the annual output is burned as fuel. Sawn wood output in 2004 was about 182,000 cu m (6.4 million cu ft); wood-based panels, 13,000 cu m (459,000 cu ft).

## 26 MINING

Laos' mining sector is dominated by tin, gypsum, gold, and limestone. However, mining is the country's smallest sector, contributing only 0.3% of the country's gross domestic product (GDP) in 2004. Although much of the country remained unprospected, the nature of the terrain has led to ardent speculation about the nation's mineral resources. Other mineral resources thought to possibly exist in Laos were magnesium, antimony, bismuth, copper, lead, manganese, potash, iron ore, silica sand, and tungsten. Also produced in 2004 were barite, cement, gemstones, rock salt, silver, bituminous coal, and zinc. Copper, gemstones, gold, iron ore, lead, potash, tin, and zinc were earmarked for further exploration. Undiscovered resources of iron ore, potash, and rock salt were believed to be substantial.

Tin mine output in 2004 was estimated at 340 metric tons, down from 360 metric tons in 2003. Gypsum production, by the State Gypsum Mining Operation from the Dong Hene Mine, in Savannakhét Province, was estimated at 102,000 metric tons for 2004, up from 101,727 metric tons in 2003. The mine's proven ore reserves were estimated to be 18 million tons. Although gold production ceased in 1998–2002, it was resumed in 2003, of which 5,368 kg was produced in 2003, with an estimated 4,000 kg produced in 2004. Important iron deposits, with reserves of 68% ore estimated at 11 billion tons, have been discovered on the Plain of Jars near Xiangkhoang. A substantial deposit of low-grade anthracite coal has been found at Saravan. Output of gemstones in 2004 was estimated at 800,000 carats, down from 2,302,973 carats in 2003. Tungsten and copper deposits and gold-bearing alluvials produced a limited income for the local population but have not been exploited by modern industrial methods.

## 27 ENERGY AND POWER

In 2002, Laos had an electrical generating capacity of 0.639 million kW. Production of electricity in 2002 totaled 3.562 billion kWh, of which almost 98% was hydropower and the remainder from conventional thermal sources. Consumption of electricity in 2002 was 3.013 billion kWh. The nation has an estimated hydroelectric potential of 12,500,000 kW, most of which is undeveloped. The largest power project is the Nam Ngum Dam, located on the Mekong 72 km (45 mi) from Vientiane. Construction began in 1969, with the first stage completed in 1971 and the second stage in 1978. Annual output at Nam Ngum is around 900 million kWh, with about 90% of the electricity produced being supplied to Thailand. An additional 3,000 kW of capacity comes from several smaller hydroelectric facilities. About 17,000 kW is provided by diesel-powered generators throughout Laos.

Laos has no known deposits of oil or natural gas, or refining capacity. In 2002, refined oil imports and demand averaged 2,850 barrels per day, each. There were no imports of natural gas in 2002. However, there was limited coal production for that year, totaling 298,000 short tons, of bituminous coal, with consumption equaling output.

## 28 INDUSTRY

Industrial development is rudimentary. There are some small mining operations, charcoal ovens, a cement plant, a few brick works, carpenter shops, a tobacco factory, rice mills, some furniture factories, and more than two dozen sawmills. Industrialization plans center on cotton spinning, garment manufacturing, hydroelectric power projects, brewing, coffee and tea processing, and plywood milling. New resource developments, including the Nam Ngum hydroelectric project and the Vientiane sylvite field, have aided industrial growth. Handicrafts account for an important part of the income of many Laotians. Some villages or areas specialize in certain types of products: silk fabrics, baskets, lacquerware, and gold and silver jewelry and ornaments. Bricks, pottery, iron products, and distilled beverages are made in individual villages. Manufacturing is largely confined to the processing of agricultural—food and natural fibers—and forestry products.

From 1998 to 2001, industry grew at an average annual rate of 8.7%. The growth is in large part attributable to government-sponsored construction projects, particularly hydroelectric power projects. By 2002, hydroelectric power had taken the place of garments as the country's leading industrial export, and its leading source of foreign exchange. Most manufactures, however, continued to be imported; exports regularly only amount to 60% of imports. At the end of 2002 the main industrial project under consideration was the construction of the \$1.3 billion hydroelectric dam on the Nam Theum River, the power from which would be exported to Thailand. The project was far from realization, lacking both a purchase agreement with the state agency in Thailand, and the World Bank guarantee for the investors.

Industry accounted for 25.9% of economic output in 2005, and was seconded by services with a 25.5% share. Agriculture continued to be the main economic sector, with a 48.6% share in the GDP, and with an 80% share in the labor force. The industrial production growth rate was 13% in 2005, almost double the GDP growth rate—an indicator that industry is, now, one of the country's main economic engines.

## 29 SCIENCE AND TECHNOLOGY

Like many developing nations, Laos depends primarily on external expertise in science and technology. Sisavangvong University, founded in 1958 at Vientiane, has faculties of agriculture, forestry, and irrigation, and of medicine, a technical college, and a polytechnic. Regional technical colleges are located in Luang Pradang, Savannakét, and Champasak. In 1987–97, science and engineering students accounted for 20% of college and university enrollments.

## 30 DOMESTIC TRADE

Before the Pathet Lao came to power, there was a growing market in Laos for capital and consumer goods. Vientiane was the wholesale distributing point for much of the country. In late 1975, private trade was banned and many small traders and businessmen—including Chinese, Japanese, Pakistani, Thai, and Vietnamese—fled the country. The new government subsequently made it clear that the trend toward consumerism would be reversed in favor of a production-oriented society. The Pathet Lao entered directly into the distribution and sale of essential commodities, such

as rice and sugar, and prices were brought under control. In 1979, however, the ban on private trade was lifted, and consumer items, which had all but disappeared from circulation, were once again available.

In the countryside, barter replaces money as the principal method of exchange. Markets are held at regular intervals, generally one day a week, at central villages or smaller towns. Once or twice a year, lowland farmers barter cloth and handicraft products with the mountain peoples for cereals, deer and rhinoceros horns, and ivory. Certain items recognized as media of exchange include tea, opium, tobacco, salt, silver, and gold. As of 1999, subsistence farming accounted for about 51% of the GDP, employing about 85% of the nation's workforce.

The New Economic Mechanism (NEM), a set of economic reforms instituted in 1986 across all sectors of the economy, has begun to demonstrate results in establishing a market-based economy. The government freed the market price of rice and other food staples in 1986, increasing agricultural output despite severe climatic conditions. Later reforms—floating the national currency, the kip, and freeing interest rates—stimulated a market-based economy and controlled inflation. Major land reforms in 1988 included the freedom to sell products at market-determined prices. Growth from these stimuli is demonstrated by the doubling of private shops in Vientiane and abundant fairly-priced goods in the markets. In a 1989 agreement with the World Bank and the International Monetary Fund, the government initiated reforms toward privatization and monetary reforms.

The usual hours of business are from 8 AM to 4 PM, Monday through Friday. Some factories and private companies extend the workday to 5 PM and factories are permitted to maintain a six day workweek if desired. Banking hours are 8 to 10:30 AM and 2 to 3:30 PM, Monday through Friday.

## 31 FOREIGN TRADE

The political reorganization of 1975 brought changes in Laos's foreign trade pattern, because regional alignments were shifting and because the aid needed to finance the nation's imports was no longer available from the United States. In the 1980s, much of the nation's trade was subsidized by the former USSR. The export of

### Principal Trading Partners – Laos (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	186.1	610.9	-424.8
Thailand	72.1	419.0	-346.9
France-Monaco	27.1	27.5	-0.4
Germany	21.4	4.2	17.2
United Kingdom	14.6	11.6	3.0
Belgium	14.3	...	14.3
Japan	11.7	27.4	-15.7
Italy-San Marino-Holy See	9.2	...	9.2
United States	8.8	...	8.8
China	6.7	28.7	-22.0
Vietnam	0.2	33.9	-33.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

electricity, the sale of overflight rights to foreign airlines, wood products, green coffee, and tin are sources of foreign earnings. In 1991 Laos's largest export earner, logging, was banned pending steps to prevent further destruction of the forests. There are 11 million hectares of mature forests in Laos, and about 4.4 million are considered commercially exploitable. The ban on log exports was modified to allow the export of already cut logs and logs from stipulated cutting areas. Foreign aid grants exceeded export earnings in 1991. That year, export revenue decreased by 22% from 1990 because of a reduction of timber exports and a decline (caused by drought) in the production of electricity for export. At the same time the cost of imports increased by 62%, owing to the newly adopted free trade measures, which ended restrictions on imported goods.

In 2005, exports reached \$379 million (FOB—Free on Board), while imports grew to \$541 million (FOB). In 2004, principal exports included garments, electricity, timber and wood products, and coffee; the bulk of them went to the Thailand (19.3%), Vietnam (13.4%), France (8%), Germany (5.3%), and the United Kingdom (5%). Imports included consumption goods, construction and electrical equipment, materials for garment industry, machinery and equipment, and mainly came from Thailand (60.5%), China (10.3%), Vietnam (7.1%), and Singapore (4%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

Laos has experienced severe trade deficits since independence. From 1963 through mid-1975, substantial deficit financing was provided through the Foreign Exchange Operations Fund (FEOF), an agency backed largely by the United States but also receiving funds from Japan, France, the United Kingdom, and Australia. In June 1975, the flight of gold and hard currencies from the country forced the government to ban exports of gold and silver bullion. A devaluation of the kip had the effect of further inflating its price, with the black market exchange rate soaring. In the 1980s, financ-

ing came mainly from the former USSR, with smaller amounts from multilateral agencies. Since the collapse of communism in Europe, Laos has lost this vital means of support. Even with its recent attraction of international investment (\$5 billion from 1988–94), it still relies heavily on aid. Primary sources are Scandinavia, the United States, and Japan. In 1995, the IMF announced a \$17 million loan to the country, its second in a series of structural adjustment loans. Laos received a total of \$290 million in economic aid in 1998. Total external debt stood at \$2.53 billion in 1999. In 2001, the IMF approved a \$40.2 million three-year arrangement with Laos, to reduce poverty and support the government's economic reform program. The Lao government is attempting to diversify its trading and investment partners, particularly among other Asian nations.

The International Monetary Fund (IMF) reported that in 2001 Laos had exports of goods totaling \$311 million and imports totaling \$528 million. The services credit totaled \$166 million and debit \$32 million. The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Laos's exports was \$325 million while imports totaled \$540 million resulting in a trade deficit of \$215 million.

Exports of goods and services totaled \$361 million in 2004, up from \$359 million in 2003. Imports grew from \$482 million in 2003, to \$506 million in 2004. The resource balance was consequently negative, and on a downward path—from -\$123 million in 2003 to -\$145 million in 2004. A different trend was registered for the current account balance, which improved from -\$93 million in 2003, to -\$45 million in 2004. Foreign exchange reserves (excluding gold) grew to \$223 million in 2004, covering more than five months of imports.

### 3<sup>3</sup> BANKING AND SECURITIES

The central bank, the Bank of the Laotian People's Democratic Republic, regulates a rapidly expanding sector comprising 13 national and foreign-owned banks under the terms of the Commercial Bank and Financial Institutions Act of January 1992. Most of the wholly foreign-owned banks are Thai (such as the Thai Military Bank and Siam Commercial) and many of the joint-venture banks are backed by Thai financiers (such as the Joint Development Bank). The central bank continued to receive technical assistance from multilateral lending agencies, and was gradually strengthening the prudential framework. The banks were believed to be more efficient. The largest commercial bank, established in 1953, is the Bank of Indochina.

The large-scale flight of foreign currency that accompanied the Pathet Lao's ascendancy to power led the new government to shut down Vientiane's banks in September 1975. Officials subsequently announced the expropriation of most private accounts, claiming they were the property of former rightists and "traitors."

Banking reforms of the 1988–89 period opened Laos to foreign banks. Banks in Laos include: Banque Pour le Commerce Extérieur Lao, Joint Development Bank, Nakhoneloang Bank, and the Vientiane Commercial Bank.

All banks now provide basic business services and offer a range of deposit and credit facilities. Interest rates are increasingly responsive to market conditions but tend to remain close to rates set by the central bank. Public confidence in the banking system as measured by the level of domestic capital mobilization is still low.

#### Balance of Payments – Laos (2001)

(In millions of US dollars)

<b>Current Account</b>		<b>-82.4</b>
Balance on goods		-216.8
Imports	-527.9	
Exports	311.1	
Balance on services		134.5
Balance on income		-33.8
Current transfers		33.7
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>135.7</b>
Direct investment abroad		...
Direct investment in Lao Democratic People's Republic	23.9	
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets	25.2	
Other investment liabilities	86.6	
<b>Net Errors and Omissions</b>		<b>-57.2</b>
<b>Reserves and Related Items</b>		<b>3.9</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Until 1988 the wholly state-controlled system serviced the needs of the command economy, offering uncompetitive rates of interest to savers or producers in need of regular credit. Most families continued to save by investing in gold and jewelry. The system suffered severe liquidity problems in 1990–91 when the “privatization” of former state-owned enterprises was at its peak: old debts were not repaid and new capital arriving as a result of the opening of the economy to foreign investors was coming in too slowly. Laos was badly hit in 1997 by the Asian financial crisis, leading to further liquidity problems in 1998. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$41.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$286.4 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 35%.

There is no stock exchange.

### **3<sup>4</sup> INSURANCE**

There are no private insurance firms.

### **3<sup>5</sup> PUBLIC FINANCE**

The civil war rendered normal budgetary procedures impossible, the budget being covered largely by US aid and monetary inflation. Deficit financing continued in the 1970s and 1980s, covered mostly by foreign aid from communist nations. With the collapse of this support, however, Laos has increasingly looked to foreign investment capital and Western lending agencies for financial support. Beginning in 1994, the IMF initiated an annual program of loans to assist the country with a structural adjustment program. It lent Laos \$17 million in 1995. Still, 31% of the 1995 budget was international aid.

The US Central Intelligence Agency (CIA) estimated that in 2005 Laos's central government took in revenues of approximately \$319.3 million and had expenditures of \$434.6 million. Revenues minus expenditures totaled approximately -\$115.3 million. Total external debt was \$2.49 billion.

### **3<sup>6</sup> TAXATION**

In 1977, the government introduced a progressive agricultural tax on production. The tax revenues were to be used to develop forestry and mining without the need for outside aid, but the tax had the unwanted side effect of discouraging production by some of the largest landowners and slowing the achievement of self-sufficiency in food. The 1992–93 budget included a new profits tax and a law requiring foreign firms engaged in construction projects to pay taxes. The agricultural tax was replaced by a land tax, and consumption taxes were raised on fuel oil, liquor, beer, and tobacco. The 1989 economic reforms included a new flat tax rate of 20% on profits for foreign-owned companies. The top personal income tax rate is 40% with the marginal rate for the average tax payer 10%. The top corporate tax rate is 35%.

### **3<sup>7</sup> CUSTOMS AND DUTIES**

Import duties are determined on a specific and ad valorem basis and range from 2–40%, mostly not exceeding 25%. Compensatory duties are imposed on imports of commodities in competition

with local goods. A general internal tax is collected on the CIF-plus-duties value of most imports. Certain commodities—including automobiles, radios, alcoholic beverages, tobacco, and sugar—are subject to special excise taxes of up to 104%. A duty-free unloading zone for Laotian imports is located in the Vietnamese port of Da Nang.

### **3<sup>8</sup> FOREIGN INVESTMENT**

Before 1975, Laotian foreign economic relations were conducted under the FEOF and the US Commodity Import Program, under which dollar exchange was provided; Laos in turn allocated dollars to local importers, who then made kip payments to the government for the purchase of foreign goods. There was little direct foreign investment, however. From 1975 until the mid-1980s, all foreign capital has come in the form of development assistance.

Reforms, as part of the New Economic Mechanism (NEM) initiated in 1986, included the introduction of a the Laos Foreign Investment Code and Decree in 1989, which established the Foreign Investment Management Cabinet (FIMC). The FIMC oversees the Committee for Investment and Foreign Cooperation (CIFC) with power to authorize and approve investment. All investment proposals, no matter how small, must be submitted to the CIFC of the FIMC, which passes it for screening by the relevant line ministries. The Code and Decree focus on three types of transactions: contractual business, joint ventures, and wholly foreign-owned enterprises. Investment is now allowed in the areas of agriculture, forestry, industry, communications, transport, service, and tourism, for projects using the indigenous raw materials and natural resources of Laos. The Decree details the permitted sectors of foreign investment and outlines restrictions and prohibitions. For instance, environmentally damaging investment, investors with overwhelming debt, long-term projects making great use of imported materials, and enterprises that would compete with local entrepreneurs are prohibited and/or discouraged. Hindrances to foreign investment are poor legal and physical infrastructure and a lack of skilled labor and capital. Additional disadvantages in the landlocked country are high transportation costs and limited domestic and foreign markets. In 1994 a new foreign investment law streamlined regulations and tax structures and included a flat corporate tax rate of 20%. The contractual business mode of foreign investment was eliminated. Although the law stipulated that the preapproval process for new investment was to take only 60 days, delays in fact have been a year or more.

Since 1986, foreign investment in Laos has totaled an estimated \$5.7 billion, about 75% in hydroelectric power projects. The Asian financial crisis, precipitated by Hong Kong's return to Chinese rule in June 1997, dealt foreign investment flows a blow from which it had not recovered. FDI fell from \$170 million in 1996 to \$45.3 million in 1998. In 1999, the Thai company that had been granted the concession to build Laos's first railroad in May 1997, backed out of the deal declaring it economically nonviable. A small uptick in FDI to \$51.5 million in 1999 was followed by sharp declines in \$33.9 million in 2000 and a negligible \$23.9 million in 2001 in the face of the continuing depreciation of the currency. The depreciation feeds into a vicious cycle, because with the government's need to conserve its hard currency reserves, it has become increasingly difficult for foreign investors to convert their kip income into for-

eign exchange. The government in 2002 was rationing foreign exchange, with priorities given to fuel, food, and medicines.

Thailand has been Laos's biggest foreign investor, accounting for about 42% of total FDI. In 2001, Laos and Thailand signed an agreement for the construction of a second bridge across the Me Kong, a project abandoned by a Japanese company in 1998 after the concession had been granted in 1996. Two Thai companies are also shareholders in the proposed \$1.2 billion 650 MW Nam Theum River hydroelectric power project. The other partners are the Laotian government and the French company, Electricite de France, the largest shareholder. China's Yunnan Province contracted to develop sylvite deposits in the Vientiane Basin. Twelve sylvite-bearing zones have been identified, with an estimated total of 10 billion tons.

### 39 ECONOMIC DEVELOPMENT

The National Plan and Foreign Aid Council was established in June 1956 to prepare a general plan for the development of Laos and to set up a series of five-year plans. In view of its limited capital resources, the government sought increased private foreign investment, continued US governmental economic assistance, and help from international monetary bodies and the Colombo Plan organization. An economic plan drafted by the Laotian government in 1962 was never fully implemented, however, owing to internal instability. Little of the infrastructure for public works, industry, and mining that was abandoned in 1961 has been resumed. Although a major goal of the 1969–74 economic and social development plan, completion of the Nam Ngum Dam, was fulfilled, a host of other targets had to be abandoned because of disruption stemming from the war. US aid to Laos began in 1955 and continued until the United States' pullout in 1975. During this period, the Laotian economy became almost totally dependent on US aid, which amounted to over \$900 million in nonmilitary loans and grants and \$1.6 billion in military assistance.

Following the Pathet Lao takeover in 1975, efforts were made to restructure the Laotian economy along socialist lines. The source of most foreign assistance shifted to China between 1975 and 1979. By 1979, however, with the economy reduced to a virtual standstill because of poor harvests, rapid inflation, and the absence of private incentives, the government abandoned central planning for a mixed model of a centrally coordinated amalgam of state-run enterprises, cooperatives, and private ventures.

Laos's first five-year plan (1981–85) after the removal of the Pathet Lao government envisioned increases of 65–68% in the gross social product, 23–24% in agricultural production, and 100–120% in industrial production, as well as completion of repairs on major highways and waterways. During this period the source of aid again shifted, this time to the USSR, Vietnam, and their allies. Aid from Council for Mutual Economic Assistance (CMEA) countries totaled \$90 million in 1985. Among non-Communist nations, Japan, Australia, Sweden, and the Netherlands have also furnished assistance. In 1985, the US ban on aid was lifted, largely because of Laotian cooperation in accounting for US military personnel missing in action in Laos during the Vietnam War. Aid from international agencies totaled \$183.1 million between 1946 and 1986.

The targets for the first five-year plan were largely not met, as per capita income fell to \$100 and inflation rose to 30% in 1985.

Failure was ascribed to an overly rigid central planning approach and in August 1986, as a major part of the second five-year plan (1986–90), the New Economic Mechanism (NEM) was introduced. The New Economic Mechanism (NEM) approved in 1986 (based on *chin tanakan may* "new thinking") introduced free enterprise initiatives including decentralized decision making, deregulation of pricing and financial systems, and promotion of domestic and international trade and foreign investment. Reforms have been introduced in phases. In 1988 land use reforms and market determined prices were introduced. In 1989 the tax system was modified, the Foreign Investment Code and Decree was implemented, the banking system was restructured, and the privatization of state economic enterprises commenced. Creation of a national taxation system and a customs administration are aimed at increasing government revenue. The Ministry of Industry and Primary Resources, the Economic Planning Unit, which monitors existing and new businesses, and the Economic Development Board (EDB), which assists in the establishment of new industries, facilitate foreign investment in most sectors of the economy. Incentives offered to encourage the development of industrial and commercial enterprises include allowing 100% foreign ownership, emphasized exportation of food products, strengthening of economic management, rehabilitation of routes to seaports and rural feeder roads, reform of general education and training, and development of small- and medium-scale projects.

The third five-year plan (1991–95) continued previous policies of infrastructure improvement, export growth, and import substitution. Four sectors were considered priority areas for future income for Laos: mining and energy; agriculture and forestry; tourism; and service, as a way-station and service center between China, Vietnam, and Cambodia. Laos has untapped mineral resources and proven reserves of gold, gemstones and iron ore. Pulp and paper tree plantations would be substituted for the export of timber and agricultural products to serve the Thai market. Based on Thailand's experience, the government recognizes that mass tourism involves environmental degradation, yet the opening of the Mittaphap (Friendship) Bridge over the Mekong between Laos and Thailand (1994) seemed to open an opportunity for both trade and tourism. A second bridge was approved in 1996 but the Japanese company holding the concession backed out in 1998. In 2002 the second bridge project was revived with an agreement with a Thai company. In 1993 three western oil companies, Enterprise Oil and Monument Oil, both from the United Kingdom, and Hunt Oil of Dallas, engaged in exploration for oil and gas in Laos. These projects, handicapped by inadequate geological maps, unexploded ordnance, tough terrain, encounters with the remnants of the anticommunist insurgency movement, tropical and dietary illness, and the potential expense of drilling and pipeline construction for transport to the Vietnamese coast, had not produced any substantial discoveries. However, two major hydroelectric projects, the Nam Thuen Dam on a tributary of the Mekong in Khammouan province, and the Xeset dam in southern Laos were completed, and produce electricity sold to Thailand.

At the sixth party congress, held in March 1996, Laotian officials debated the country's slow pace of opening up to the international investment community. By that year, the country had allowed more than 500 foreign investors, in a variety of sectors, to either establish or buy (in whole or in part) Laotian businesses. The ma-

jority of \$5 billion (75%) was invested in hydroelectric power. In February 1997, Laos joined ASEAN, though some raised questions about its ability to afford even to attend all the organization's 200 or so annual meetings. Balance of payments problems had emerged almost as soon as the economy opened up to foreign trade and investments, with imports regularly running about 40% above exports. By 1997, Laos had entered into two standby arrangements with the IMF, a one year arrangement under the Structural Adjustment Facility (SAF), and a three year arrangement under the Extended Structural Adjustment Facility (ESAP). The credit line for the ESAP arrangement amounted to about \$49 million and ran until 7 May 1997. The next month Hong Kong returned to Chinese rule precipitating the Asian financial crisis that was to have devastating effects of Laos's economic development ambitions. From June 1997 to June 2002 the kip depreciated from 1,171 to more than 10,000 to one US dollar. Direct foreign investment (DFI) dropped from \$179 million in 1997 to \$23.9 million in 2001. In the first six months of 2002, investment flows from ASEAN countries, formally the source of the nearly 60% of FDI, fell to zero. A possibility of some relief from the downward spiral of inflation and dwindling investment was in the likelihood that Laos would be voted normal trade relations (NTR) status in 2003 by the US Congress in line with legislation submitted by the administration of US president George W. Bush in 2003. NTR would reduce US tariffs on Laotian imports from an average of over 40% to about 3%, and allow for the implementation of bilateral trade and investment agreement with the United States. In turn, this would open the way for the World Bank to issue guarantees for foreign investment projects in Laos.

The healthy growth rates from 2004 and 2005 were expected to remain stable throughout 2006 and 2007. The main growth engine continued to be the industrial sector, and mining and construction in particular. Agriculture remained vulnerable to finicky weather conditions, but the government has committed itself to offer help to farmers. Tourism is a sector with strong potential but its immediate future was negatively influenced by security concerns and a still weak infrastructure.

#### **40 SOCIAL DEVELOPMENT**

By almost any measure, Laos is one of the world's most impoverished nations. Food intake does not meet basic requirements; there are virtually no sanitary facilities; and contamination of drinking water is widespread. Almost no families own cars, and bicycles and radios are considered luxuries. In general, the lowland Lao have the highest living standards, with lower standards prevailing among the upland tribes. The majority of the population engages in subsistence farming, and the country is heavily reliant on foreign aid. The first social insurance system was implemented in 2001. There is a special program for public employees. Employees in enterprises with ten or more employees are covered by work injury insurance.

Although the constitution establishes equal rights for women, they have traditionally been subservient to men and have generally been discouraged from obtaining an education. However, the government claims that it has encouraged women to assume a larger role in national life, and girls are increasingly attending school. It has been reported that in urban areas, working women have higher incomes than their male counterparts. Violence

against women, including domestic violence, is not widespread. The Family Code provides women with equal inheritance and marriage rights. Trafficking in women and girls for the sex trade persisted, but in 2004 legislation was passed to provide protection from these activities.

Minority highland tribes have limited ability to influence government decisions. The highland Hmong tribe, furthermore, reports instances of discrimination and harassment. The Law on Nationality grants greater citizenship rights to the Chinese and Vietnamese minorities.

Political dissent is not tolerated, and detention without due process is not uncommon. Prison conditions are harsh, and the government suppresses the freedoms of speech, assembly, and association and restricts freedom of religion.

#### **41 HEALTH**

The use of Western medicine has improved health generally and reduced the incidence of malaria and smallpox specifically, but high infant mortality and a variety of health problems remained. Most urban areas, including Vientiane, lack pure water and sanitary disposal systems. In 2000, 90% of the population had access to safe drinking water and 46% had adequate sanitation. In parts of Laos, malaria—the most serious health threat—is known to affect the majority of children. In 1995, there were 1,365 new cases of cholera. Other health problems are acute upper respiratory infections (including pneumonia and influenza), diarrhea and dysentery, parasites, yaws, skin ailments, various childhood diseases, hepatitis, venereal disease, and tuberculosis. Common diseases have been malaria, measles, and leprosy. In 1999, there were 171 reported cases of tuberculosis per 100,000 inhabitants. In the mid-1990s, a UNICEF survey found iodine deficiencies and goiter to be common problems in rural areas of Laos. Programs to increase iodine levels via salt intake were being instituted. An estimated 25% of school-age children were reported to have goiter. Children up to one year of age were vaccinated against tuberculosis, 69%; diphtheria, pertussis, and tetanus, 48%; polio, 57%; and measles, 73%. Vaccination rates were 56% for DPT and 71% for measles. The prevalence of underweight children was 44%, greater than the average of developing countries in South East Asia.

As of 2004, there were an estimated 59 physicians, 103 nurses, and 5 dentists per 100,000 people. Health care expenditure was estimated at 2.5% of GDP. Average life expectancy in 2005 was estimated at 55.08 years and infant mortality was estimated at 85.22 per 1,000 live births. The total fertility rate has remained nearly constant over the last years. The fertility rate in 2000 was five children per woman during her childbearing years. The overall mortality rate in 2002 was estimated at 12.7 per 1,000 people; the maternal mortality rate in 1998 was 650 per 100,000 live births.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,700 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

#### **42 HOUSING**

The typical house is rectangular, built entirely of wooden planks and bamboo, with a thatched roof, and is raised off the ground on wooden pilings 1–2 m (3–6 ft) high. There is a critical housing shortage in the towns, and many dwellings are substandard. As of

2000, 90% of the population had access to improved water sources and 46% had access to improved sanitation.

### 43 EDUCATION

Education in Laos is compulsory for five years of primary education. This is followed by three years of lower secondary and three years of upper secondary studies. At this stage, students may choose to continue to a three-year technical school or higher technical college. The academic year runs from September to July.

In 2001, about 7% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 85% of age-eligible students. The same year, secondary school enrollment was about 35% of age-eligible students. It is estimated that about 74% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 31:1 in 2003.

There are three universities in the country: the National University of Laos, Souphanouvong University, and Champasack University. There were also regional technical colleges and several teacher training colleges. In 2003, about 5% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 68.7%, with 77% for men and 60.9% for women.

As of 2003, public expenditure on education was estimated at 2.8% of GDP, or 11% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The National Library (Vientiane), with volumes in French, Lao, and English, is the nation's largest library. In addition, a Buddhist institute owns a number of classical manuscripts. Many excellent traditional works of art and architecture may be seen in Vientiane and Luangphrabang. Of particular interest in the latter city is the former royal palace and the Prabang (Golden Buddha), which was brought to Laos from Cambodia in the days of Fa-Ngoum. Also in Vientiane is the Museum of Religious Art. The Luang Prabang National Museum opened in 1976.

### 45 MEDIA

Beginning in 1992 telephone owners were able to direct dial internationally, and private facsimile machines were permitted. In 2003, there were an estimated 12 mainline telephones for every 1,000 people. The same year, there were approximately 20 mobile phones in use for every 1,000 people.

All communications, including the radio network, are operated by the government. Regular radio broadcasts were begun from Vientiane in 1968 and are now carried by Lao National Radio. Most broadcasts are in Lao, but government news broadcasts are also in English, French, and other languages. Domestic television service from Lao National TV began in 1983; in addition, programs are available by satellite from the former USSR, and it is possible to pick up Thai broadcasts. As of 1999 there were 9 AM and 4 FM radio stations, and 4 television stations. In 2003, there were an estimated 148 radios and 52 television sets for every 1,000 people. The same year, there were 3.5 personal computers for every 1,000 people.

The press is government-controlled. The sole news agency is the Laos News Agency; the only foreign news bureaus are those of

the former USSR and Vietnam. As of 2002, there were two daily newspapers, *Vientiane Mai* (*New Vientiane*), with a circulation of 2,500; and *Khao San Pathet Lao* (*Laos Newsletter*, published in French and English as well as Lao), with a circulation of 1,200. *Pasason* (*The People*) is a monthly publication with a 2002 circulation of 28,000. The *Vientiane Times*, published in English is available twice a week.

Although there are constitutional provisions for freedom of speech and the press, the government is said to exert broad control over the exercise of these rights. All domestically produced newspapers, radio, and television are controlled by the Ministry of Information, which reacts harshly to expressions of political dissent.

### 46 ORGANIZATIONS

The National Chamber of Commerce and Industry is located in Vientiane. The Lao People's Revolutionary Party and its allied social and political groups in the Lao Front for National Reconstruction have dominated Laotian life. The cooperative movement has been intensively developed. There is also a Lao Unified Buddhists' Association. The Mekong River Commission serves an important role in working toward sustainable development in the region. The Lao Medical Association promotes research and education on health issues and works to establish common policies and standards in healthcare. There are several sports associations promoting amateur competition in such pastimes as tennis, badminton, tae kwon do, and track and field. The Red Cross is active.

### 47 TOURISM, TRAVEL, AND RECREATION

The main tourist destinations are the capital, Vientiane, and Luang Prabang. Facilities are limited in other parts of the country. Vientiane is popular for its Buddhist pagodas, French colonial architecture, and landmarks. The city of Luang Prabang is located at the junction of the Nam Khan and Mekong Rivers in the North. Great views of temples and the land are seen from Mount Phousi in the center of the city.

In 2003, there were 636,361 visitors who arrived in Laos. Of these visitors, almost 60% came from Thailand. There were 12,289 hotel rooms with 18,877 beds that same year. Valid passports and visas are required for entry into Laos. Visas can be obtained upon arrival at most border crossings. If purchased upon arrival, the visa is valid for up to 15 days. Visas purchased through a Lao embassy are valid for up to 30 days.

In 2005, the US Department of State estimated the daily cost of staying in Laos at \$130.

### 48 FAMOUS LAOTIANS

One of the most cherished figures in Laotian history is Fa-Ngoum, who unified Lan Xang in the 14th century. Another dynastic personage still revered is the monarch Sethathirat, in whose reign (1534–71) the famous That Luang shrine was built. Chao Anou (r.1805–28) is remembered for having fought a war to recover Laotian independence from the Siamese (Thais) and for having restored Vientiane to a glory it had not known since the 16th century. Important 20th-century figures include Souvanna Phouma (1901–84), former prime minister; Prince Souphanouvong (1902–95), a half-brother of Souvanna Phouma, leader of the Pathet Lao

and president of Laos from 1975 to 1986; and Kaysone Phomvi-han (1920–1992), former chairman of the Council of Ministers.

#### **49 DEPENDENCIES**

Laos has no territories or colonies.

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# LEBANON

Republic of Lebanon  
*Al-Jumhuriyah al-Lubnaniyah*

**CAPITAL:** Beirut (Bayrut)

**FLAG:** The national flag, introduced in 1943, consists of two horizontal red stripes separated by a white stripe which is twice as wide; at the center, in green, is a cedar tree.

**ANTHEM:** *Kulluna lil watan lil'ula lil'alam* (*All of Us for the Country, Glory, Flag*).

**MONETARY UNIT:** The Lebanese pound, or livre libanaise (LL), is a paper currency of 100 piasters. There are coins of 1, 2½, 5, 10, 25, and 50 piasters and 1 Lebanese pound, and notes of 1, 5, 10, 25, 50, 100, 250, 1,000 and 10,000 Lebanese pounds. LL1 = \$0.00066 (or \$1 = LL1,507.5) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but traditional weights and measures are still used.

**HOLIDAYS:** New Year's Day, 1 January; Arab League Day, 22 March; Independence Day, 22 November; Evacuation Day, 31 December. Christian religious holidays include Feast of St. Maron, 9 February; Good Friday; Easter Monday; Ascension; Assumption, 15 August; All Saints' Day, 1 November; and Christmas, 25 December. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha, and Milad an-Nabi.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated on the eastern coast of the Mediterranean Sea, Lebanon has an area of 10,400 sq km (4,015 sq mi), extending 217 km (135 mi) NE–SW and 56 km (35 mi) SE–NW. It is bordered on the N and E by Syria, on the S by Israel, and on the W by the Mediterranean Sea, with a total boundary length of 679 km (422 mi), of which 225 km (140 mi) is coastline. Comparatively, the area occupied by Lebanon is about three-fourths the size of the state of Connecticut.

The Lebanon of today is the Greater Lebanon (Grand Liban) created by France in September 1920, which includes the traditional area of Mount Lebanon—the hinterland of the coastal strip from Şaydā (Sidon) to Tarābulus (Tripoli)—some coastal cities and districts such as Beirut and Tarābulus (Tripoli), and the Bekaa (Biqā') Valley in the east. Since January 1988, more than two-thirds of the territory was under foreign military occupation. In May 2000, Israeli troops withdrew from a 1,000 sq km (400 sq mi) strip along the Israeli border. Syrian forces, which had held northern Lebanon and the Bekaa Valley since 1976 and West Beirut and the Beirut-Şaydā coastal strip since February 1987, withdrew in April 2005.

Lebanon's capital city, Beirut, is located on the Mediterranean coast.

## <sup>2</sup>TOPOGRAPHY

The name of the country comes from the name Djebel Libnan, which is the Arabic name for the Mount Lebanon range stretching from northeast to southwest through the center of the country. This area is rugged; there is a rise from sea level to a parallel mountain range of about 2,000–3,000 m (6,600–9,800 ft) in less than 40 km (25 mi), and heavy downpour of winter rains has formed many deep clefts and valleys in the soft rock. The terrain has profoundly affected the country's history, in that virtually the

whole landscape is a series of superb natural fortresses from which guerrilla activities can render the maintenance of control by a centralized government an intermittent and costly affair.

East of the Mount Lebanon Range is the Bekaa Valley, an extremely fertile flatland about 16 km (10 mi) wide and 129 km (80 mi) long from north to south. At the eastern flank of the Bekaa rise the Anti-Lebanon Range and the Hermon extension, in which stands Mount Hermon straddling the border with Syria. Lebanon contains few rivers, and its harbors are mostly shallow and small. Abundant springs, found to a height of 1,500 m (4,900 ft) on the western slopes of the Lebanon Mountains, provide water for cultivation up to this height.

## <sup>3</sup>CLIMATE

Lebanon's extraordinarily varied climate is due mainly to the wide range of elevation and the westerly winds that make the Mediterranean coast much wetter than the eastern hills, mountainsides, and valleys. Within a 16-km (10-mi) radius of many villages, apples, olives, and bananas are grown; within 45 minutes' drive in winter, spring, and fall, both skiing and swimming are possible. Rainfall is abundant by Middle Eastern standards, with about 89 cm (35 in) yearly along the coast, about 127 cm (50 in) on the western slopes of the mountains, and less than 38 cm (15 in) in the Bekaa. About 80% of the rain falls from November to March, mostly in December, January, and February. Summer is a dry season, but it is humid along the coast. The average annual temperature in Beirut is 21°C (70°F), with a range from 13°C (55°F) in winter to 28°C (82°F) in summer.

## <sup>4</sup>FLORA AND FAUNA

Lebanon is rich in flora, with over 3,000 species. Olive and fig trees and grapevines are abundant on lower ground, while cedar, maple,

juniper, fir, cypress, valonia oak, and Aleppo pine trees occupy higher altitudes. Vegetation types range from subtropical and desert to alpine. Although hunting has killed off most wild mammals, jackals are still found in the wilder rural regions, and gazelles and rabbits are numerous in the south. Many varieties of rodents, including mice, squirrels, and gerbils, and many types of reptiles, including lizards and snakes (some of them poisonous), may be found. Thrushes, nightingales, and other songbirds are native to Lebanon; there are also partridges, pigeons, vultures, and eagles. As of 2002, there were at least 57 species of mammals and 116 species of birds.

## 5 ENVIRONMENT

Lebanon's forests and water supplies suffered significant damage in the 1975–76 war and subsequent fighting. Rapid urbanization has also left its mark on the environment. Coastal waters show the effects of untreated sewage disposal, particularly near Beirut, and of tanker oil discharges and oil spills. The water pollution problem in Lebanon is in part due to the lack of an internal system to consistently regulate water purification. The nation has about 5 cu km of renewable water resources.

Air pollution is a serious problem in Beirut because of vehicular exhaust and the burning of industrial wastes. In 2000, the total of carbon dioxide emissions was at 15.2 million metric tons. Control efforts have been nonexistent or ineffective because of political fragmentation and recurrent warfare since 1975.

The effects of war and the growth of the nation's cities have combined to threaten animal and plant life in Lebanon. In 1986, the National Preservation Park of Bte'nayel was created in the region of Byblos to preserve wooded areas and wildlife. In 2003, less than 1% of the total land area was protected, including four Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included five types of mammals, ten species of birds, one type of reptile, nine species of fish, and one species of invertebrate. The Mediterranean monk seal, African softshell turtle, and dogfish shark are on the endangered list. The Arabian gazelle and Anatolian leopard are extinct.

## 6 POPULATION

The population of Lebanon in 2005 was estimated by the United Nations (UN) at 3,779,000, which placed it at number 126 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 28% of the population under 15 years of age. There were 96 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 4,581,000. The population density was 363 per sq km (941 per sq mi), with most of the population living on the coastal plains where the major cities are located.

The UN estimated that 87% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.49%. The capital city, Beirut (Bayrut), had a population of 1,792,000 in that year, and Tarābulus (Tripoli), the largest city, had an estimated population of 2,093,000.

## 7 MIGRATION

The economic roots of emigration may be traced to the increase of crop specialization during the 19th century and to the subsequent setbacks of the silk market toward the end of the century. Political incentives also existed, and many Lebanese left their country for Egypt (then under British rule) or the Americas at the turn of the century. After the mid-1960s, skilled Lebanese were attracted by economic opportunities in the Persian Gulf countries. Large numbers fled abroad, many of them to France, Syria, Jordan, Egypt, and the Gulf countries, during the civil war in 1975–76. In 1986, the Lebanese World Cultural Union estimated that some 13,300,000 persons of Lebanese extraction were living abroad, the largest numbers in Brazil, the United States, and Argentina. In 2003 remittances were \$977 million.

Since the outbreak of war in 1975, internal migration has largely followed the pattern of hostilities, peaking in 1975/76 and again after the Israeli invasion of 1982. In 1993, the number of refugees in various parts of the country was estimated at over 600,000.

In 2004 there were 2,434 persons of concern to UNHCR in Lebanon, 1,753 refugees and 681 asylum seekers. By years' end, 17,302 Lebanese sought refuge in Germany. In that same year Lebanese sought asylum in Germany, Sweden, Belgium, the United Kingdom, and the United States. In 2005, the net migration rate was an estimated zero per 1,000 population, down from 12.1 per thousand in 1990. The government views the migration levels as too high.

As of 2004 there were 300,000 internally displaced persons.

## 8 ETHNIC GROUPS

Ethnic mixtures dating back to various periods of immigration and invasion are represented, as are peoples of almost all Middle Eastern countries. A confusing factor is the religious basis of ethnic differentiation. Thus, while most Lebanese are Arabs, they are divided into Muslims and Christians, each in turn subdivided into a number of faiths or sects, most of them formed by historical development into separate ethnic groups. The Muslims are divided into Sunnis and Shias. The Druzes, whose religion derives from Islam, are a significant minority. The Christians are divided mainly among Maronites, Greek Orthodox, and Greek Catholics. All the major groups have their own political organizations, paramilitary units, and territorial strongholds. Other ethnic groups include Armenians (most of them Armenian Orthodox, with some Armenian Catholics) and small numbers of Jews, Syrians, Kurds, and others. The number of Palestinian refugees is estimated at 390,000. As of 2005, population estimates stood at 95% Arab, 4% Armenian, and 1% other.

## 9 LANGUAGES

Arabic is the official language and is spoken throughout the country. Much of the population is bilingual, with French as the main second language. There are also significant numbers of English, Armenian, and Turkish speakers. The distinctive Lebanese Arabic dialect contains various relics of pre-Arabic languages and also shows considerable European influence in vocabulary.

## 10 RELIGIONS

Religious communities in the Ottoman Empire were largely autonomous in matters of personal status law and were at times treated as corporations for tax and public security matters. Membership in a millet, as these religious communities were called in Ottoman law, gave the individual citizenship, and this position, although somewhat modified, has given Lebanese politics its confessional nature. Religion is closely connected with civic affairs, and the size and competing influence of the various religious groups are matters of overriding political importance. The imbalance of power between Christians and Muslims, aggravated by the presence of large numbers of Palestinians, was a major factor contributing to the bitter civil war in 1975–76.

As of 2004, it was estimated that about 70% of the population practice Islam; there were five legally recognized groups—Alawite or Nusayri, Druze, Isma'elite, Shia, and Sunni. Muslims have come to outnumber Christians as the result of long-term demographic trends and population displacements during and after the civil war. The main branches of Islam are Shia and Sunni. Christians made up 23% of the population; there were eleven legally recognized groups—four Orthodox Christian, six Catholic, and one Protestant). The Maronites are the largest Christian group, with Greek Orthodox being the second-largest. There were also small numbers practicing Judaism, Buddhism, Hinduism, or Baha'ism.

Under an unwritten agreement made at the time of the National Covenant of 1943, the president of Lebanon must be a Maronite Christian, the prime minister a Sunni Muslim, and the speaker of parliament a Shia Muslim, with a ratio of six Christians to every five Muslims in the legislature. But this arrangement has subsequently ceased to reflect the strength of competing religious groups in the population and is widely criticized. Religious groups must be officially recognized by the government in order for the group or its members to participate in certain activities. For instance, members of unrecognized faiths cannot run for parliament. Proselytizing is generally discouraged. Public blasphemy is prohibited under the law. Certain Christian and Muslim holidays are officially observed.

## 11 TRANSPORTATION

As of 2002, Lebanon had 7,300 km (4,536 mi) of roads, of which 6,198 km (3,855 mi) were paved. Construction of new roads has been frequently delayed by recurrent hostilities. Many roads were badly in need of repair; since 1982, fully one-third of the country's roads have been rehabilitated. Some new mileage was also added. In 2003 there were 406,920 registered passenger autos and 85,125 commercial vehicles.

In 2004, Lebanon had 401 km (249 mi) of standard and narrow gauge railroad lines, of which 319 km (198 mi) were standard gauge. However, due to the civil war in the 1980s, only short sections are operable due to damage.

Beirut, a major Mediterranean port, was closed during the 1975–76 war and intermittently thereafter, reopening by March 1991. When the Beirut port was closed, Şaydā (Sidon) became the principal port for Muslims and Jūniyah for Christians. Other ports include Tarābulus (Tripoli) and Tyre. The rehabilitation and modernization of Beirut port was underway as of 2005, and the rehabilitation and development of Tarābulus (Tripoli) port was



LOCATION: 35°6' to 36°36' E; 33°4' to 34°41' N. BOUNDARY LENGTHS: Syria, 359 kilometers (223 miles); Israel, 102 kilometers (63 miles); Mediterranean coastline, 195 kilometers (121 miles). TERRITORIAL SEA LIMIT: 12 miles.

completed in 2001. As of 2005, Lebanon had a merchant fleet of 44 ships of 1,000 GRT or more, with a capacity of 198,602 GRT.

There were an estimated eight airports in 2004, five of which had paved runways as of 2005. Beirut International, Lebanon's principal airport, remained generally open until bombing during the Israeli invasion forced its closure in June–October 1982. It had handled 1,660,000 passengers in 1980; by 1985, the number was down to 599,000. In 2003, about 935,000 passengers were carried on scheduled domestic and international flights. Lebanon's two airlines, Middle East Airlines (MEA) and Trans-Mediterranean Airways (TMA), suffered heavy losses during the 1975–76 war and the Israeli invasion.

## 12 HISTORY

The geographical features of Lebanon have had a major effect on its history. Its mountains enabled the minority communities to survive the despotisms that submerged the surrounding areas. The sea provided trade routes in ancient times for exports from Lebanese cedar and spruce forests, and for commerce in copper and iron during the time of the Ptolemies and the Romans. Both Lebanon and Syria were historically associated from early times as part of Phoenicia (c.1600–c.800 BC), and both were later swept up into the Roman Empire. In the 7th century AD, the Arabs conquered part of Lebanon. Maronite Christians had long been established there; Islam gradually spread by conversion and migration, although the country remained predominantly Christian. In the 11th century, the Druzes established themselves in the south of the Mount Lebanon area as well as in Syria. Parts of Lebanon fell temporarily to the Crusaders; invasions by Mongols and others followed, and trade declined until the reunification of the Middle East under the Ottoman Empire.

For the most part, Ottoman officials of the surrounding areas left the Mount Lebanon districts to their own emirs and sheikhs. Fakhr ad-Din (1586–1635) of the Ma'an family set out to create an autonomous Lebanon, opened the country to Western Europe through commercial and military pacts, and encouraged Christian missionary activity. In 1697, the Shihab family acquired dominance, and from 1788 to 1840, except for a few intervals, Mount Lebanon was ruled by Bashir II of the Shihab family, who extended his power and was partly successful in building a strong state. The Egyptian occupation of Syria (1832–40) opened the Levant to large-scale European penetration and tied Lebanese affairs to international politics. It also heightened the antipathy between Christians and Druzes, with the occupiers from time to time using armed groups of one against the other. The British invasion of 1840–41 served to deliver Lebanon from Egyptian rule and forced Bashir II into exile, but it also involved France and the United Kingdom in the problem of finding a *modus vivendi* for the religious factions. A partition of government did not work. Economic discontent was inflamed by religious antagonisms, and the Druzes, feeling their power dwindling, organized a major onslaught against the Christians in 1860. When the latter, fearing annihilation, requested European intervention, major powers sent fleets into Syrian waters and the French sent an army into Mount Lebanon. Under European pressure, the Ottoman government agreed to the establishment of an international commission to set up a new, pro-Christian government; an autonomous province of Mount Lebanon was created in 1864, with a Christian governor who, though the servant of the Ottoman state, relied upon European backing in disputes with his sovereign.

The entry of the Ottoman Empire into World War I led to an Allied blockade, widespread hunger, and the destruction of Lebanese prosperity. An Anglo-French force took the country in 1918, and in 1920, an Allied conference gave France a mandate over Syria, in which Mount Lebanon was included. The French separated from Syria the area they called Greater Lebanon (*Grand Liban*), which was four times as large as the traditional Mount Lebanon and included a Muslim population almost as large as the Christian. The mandate years were a time of material growth and little political development.

Lebanon came under Vichy control in 1940, but in 1941, Lebanon and Syria were taken by a combined Anglo-Free French force. The Free French proclaimed Lebanese independence in November 1941, but when a strongly nationalistic government was created in 1943, the French intervened and arrested the new president, Bishara al-Khuri. An insurrection followed, prompting UK intervention and the restoration of the government. In 1945 agreement was achieved for the withdrawal of both UK and French forces, and in 1946 Lebanon assumed complete independence.

The 1950s and 1960s were generally characterized by economic and political stability. Beginning in 1952, Lebanon received increased US aid and also benefited from an influx of Western commercial personnel and from growing oil royalties. It also seemed the calmest center of the Middle East, taking little part in the Arab-Israeli war of 1948 and no action in the wars of 1967 and 1973. In 1958, however, a reported attempt by President Camille Chamoun (Sha'mun) to seek a second term precipitated a civil war, and in July the United States sent forces to help quell the insurrection; this move was in keeping with the Eisenhower Doctrine, which pledged US military and economic aid to any country requesting it in order to counter a Communist threat. The crisis was settled when Gen. Fu'ad Shihab (Chehab), who was supported by both government and opposition groups, was elected president in July. By October US forces were withdrawn, and public security was reestablished.

In the late 1960s and early 1970s Lebanon's economy was disrupted by conflict in the Middle East, vividly brought home by the presence, near the border with Israel, of thousands of well-armed Palestinian guerrillas, many of whom had come from Jordan following the "Black September" fighting there in 1970–71. Serious clashes between them and the Lebanese army occurred in 1969. Fearing civil war, the government that year signed the so-called Cairo Accord with the Palestinian Liberation Organization (PLO), which virtually made it a state within the state. The PLO gained the right to establish military bases and launch cross-border raids into Israel. This inevitably led to Israeli reprisals, and PLO interference in Lebanese affairs accelerated a slide toward anarchy. In April and May 1974, a series of Palestinian attacks on Lebanese villages killed scores of persons and injured hundreds. Government efforts to deal with the problem were denounced as insufficient by Christian rightists, while Muslim leftists defended the Palestinians, and both factions formed private militias.

During the early months of 1975, sporadic violence between the two factions gradually erupted into a full-scale civil war that pitted Maronite Christians against Muslims and against other Christian sects, and rightist militants against Palestinian guerrillas and other leftist Arab forces. At least 100,000 people on all sides were killed and some 600,000 persons displaced during the 18 months of fighting. In April 1976 Syrian forces entered Lebanon in an apparent effort to prevent an all-out victory by left-wing Muslims and Palestinians; by the fall, some 20,000 Syrian troops controlled the Bekaa Valley. A cease-fire arranged through the mediation of Saudi Arabia and other Arab countries enabled a peacekeeping force (including Syrian troops) to separate the combatants and end the war in October. The conflict not only devastated Lebanon economically, but so weakened the central government that effective power lay with the Syrians, the Palestinians, and some 30 sectarian militias. In general, the Christian Phalangists held

sway over east-central Lebanon; fighters loyal to Maj. Sa'ad Had-dad, a right-wing Lebanese army officer, controlled the southern border area, in a security zone set up by Israel; and the PLO, other Muslim leftists, and Syrian forces occupied northern and eastern Lebanon.

Intermittent fighting between the armed factions continued, and raids by Palestinian guerrillas based in southern Lebanon drew Israel into the conflict. In March 1978 the Israeli army invaded southern Lebanon, destroyed PLO bases, and then withdrew when the UN Interim Force in Lebanon (UNIFIL) was established to keep the peace. Continuing PLO rocket attacks on northern Israel and Syria's installation of anti-aircraft missiles in the Bekaa Valley prompted Israel to launch a full-scale invasion of Lebanon in June 1982. Israeli forces quickly destroyed PLO bases in the south and in Tyre and Ṣaydā (Sidon), penetrated to the outskirts of Beirut, and disabled the Syrian missile bases. Several cease-fires arranged by US envoy Philip Habib broke down, but following a two-month Israeli siege of West Beirut, where the Palestinians were encamped, a truce was agreed to by Israel, the PLO, and Syria; by 1 September, more than 14,000 Palestinian and Syrian fighters had been evacuated. The Lebanese estimated their war casualties at more than 19,000 dead and 30,000 wounded (figures disputed by Israel). A multinational peacekeeping force, comprising British, French, and Italian soldiers and US marines, was stationed in the Beirut area in early September.

Despite the truce, the violence continued. On 14 September Bashir Gemayel, a Phalangist leader who in August had been elected president by the Lebanese parliament, was assassinated. Almost immediately, Israeli troops moved into West Beirut to wipe out pockets of Palestinian resistance causing tens of thousands of casualties. Phalangist forces were allowed into the Sabra and Shatila refugee camps, and at least 600 Palestinians, many of them civilians, were massacred; a subsequent Israeli government inquiry was critical of senior officials for indirect responsibility for the killings. In 1983 Israeli and Syrian troops still occupied large portions of Lebanon, and they became targets of attack by Muslim and Druze forces. In May 1983 Lebanon, Israel, and the United States signed an agreement by which Lebanon and Israel agreed to end their state of war. Israel agreed to withdraw all its forces, and both countries agreed to establish a security zone in southern Lebanon patrolled by Lebanese forces and joint Israeli-Lebanese teams. However, Syria opposed it and the agreement, never implemented, was repudiated by Lebanon in 1984.

The American embassy in Beirut was bombed in April 1983, and US marines were harassed by sniper fire. On 23 October, 241 American servicemen, including 220 marines, were killed by a truck-bomb explosion in their barracks at Beirut airport; on the same day, a similar bombing caused at least 58 deaths at a French paratroop barracks. Shortly before, Lebanon and Syria had agreed to a cease-fire pending a reconciliation conference, which began in Switzerland in November, with all major Lebanese political factions participating. Meanwhile, fighting broke out between a radical Syrian-supported PLO faction and guerrillas loyal to Yasser Arafat, chairman of the PLO; defeated at Tarābulus (Tripoli), Arafat withdrew from Lebanon in December.

As 1984 began, the position of the government headed by Amin Gemayel, who had been elected president to succeed his brother, was deteriorating. In February the United States, the United King-

dom, and Italy pulled their ground troops and nonessential personnel out of the Beirut area. In March, the Lebanese reconciliation conference dissolved without reaching substantial agreement. The following month a "national unity" government was formed, bringing together the leaders of all the major warring factions. But it almost never met and could not pacify the country; intermittent clashes between factions continued. Israel's withdrawal of its troops from Lebanon (except the south) in early 1985 left in its wake renewed fighting for the evacuated territory. In December a Syrian-sponsored cease-fire agreement that included constitutional reforms was signed by the Druze, Amal (Shia), and Christian factions, but its terms were never implemented. The general lawlessness encouraged terrorist groups of all kinds to promote their own ends by assassinations, kidnappings, and bombings. Among the most feared was the Hezbollah, or Party of God, which was aligned with fundamentalist Iranian Revolutionary Guards.

In 1985–86 there was sporadic fierce fighting between Palestinian and Shia Amal militia. Syria pushed for political reform and, when opposed by Gemayel and militant Christians, influenced Muslim ministers not to deal with the president, thus paralyzing the government. With the economy in serious decline, Prime Minister Rashid Karami was assassinated, to be succeeded by Salim al-Huss. The badly divided factions could not agree on a successor to Gemayel when his term expired in September 1988. Christian Army Commander Michel Aoun asserted himself as prime minister, giving Lebanon two governments—a Muslim one in West Beirut and a Christian one in East Beirut. Aoun was opposed by the Syrians and Muslims and by rival Christian factions.

In January 1989 the Arab League appointed a committee on Lebanon which, in September, arranged for a seven-point cease-fire and convened a meeting of Lebanese parliamentarians in Taif, Saudi Arabia. The Taif Accord that resulted in November led to the election of Elias Hrawi, a Maronite Christian, as president. He named al-Huss prime minister. When forces of General Aoun (who was technically deposed by Hrawi) attacked Christian and Syrian positions, they retaliated in strength and finally obliged him to take exile in France in 1991.

In 1991–92 the government gradually began to reassert its authority. Militias, except notably Hezbollah and the Israeli-backed army of South Lebanon, were dissolved in May 1991. Palestinian militants were repressed in Ṣaydā (Sidon) in July. In May 1992 the last Western hostages were released after years of confinement. Lebanon joined the Israeli-Arab peace talks in Madrid in October 1991. Internally, the poor economy aggravated political instability, but parliamentary elections, the first in 20 years, were scheduled for 1992. Poor preparations, widespread irregularities, and Christian abstention produced results that did not prepare Lebanon for an assured future. Yet, the appointment of Prime Minister Rafiq al-Hariri in November 1992 promised a serious effort at reconstruction.

Al-Hariri, a self-made billionaire who made his fortune in Saudi Arabia, was perceived by many to be a savior of sorts for the war-torn country. He had a long history of philanthropic giving, donating large sums to rebuild Beirut, for instance. As prime minister, he was frequently accused of corruption and of making sure government rebuilding efforts were directed toward companies under his control. Still most Lebanese approved of his efforts to stabilize the country and unite its many long-warring factions. In

1996, al-Hariri was reelected prime minister in a unanimous vote of parliament.

In 1996 Lebanon was still subject to political violence, especially in the Israeli-occupied south, where that year 255 people were killed (27 Israeli soldiers) in violence. Some 54 of the dead were members of Hezbollah, and 19 were militiamen in the Israeli-controlled South Lebanon Army (SLA). The violence continued into 1997.

President Ilyas Hrawi had been elected to the six-year post in 1989. In 1995 when his term was set to expire in accordance with the constitution, parliament extended his term for an additional three years. Hrawi proved to be a weak leader and his standing with the Maronites was low. Emile Lahoud, of a prominent Maronite family, had been promoted to major-general in 1985 and general and army commander in 1989. In 1998 his name surfaced as a potential successor to Hrawi. In October 1998 the assembly introduced an amendment to the constitutional clause requiring senior public officials to leave office before running for president. Within two days Lahoud was elected president of the National Assembly. Lahoud was sworn in on 24 November 1998 as Lebanon's 11th president. On 4 December 1998 Salim al-Huss began his fifth term as prime minister after Hariri's sudden resignation.

In early 1999 fighting in southern Lebanon escalated as the Hezbollah staged attacks on Israeli forces and the Israeli-backed SLA. Israel retaliated on Hezbollah strongholds, and by February, expanded air strikes beyond the "security zone" to southern and northern Lebanon. The al-Huss government's fiscal austerity aimed at reducing the deficit, which had grown to 15% of gross domestic product, met with resistance from the trade unions. On 24 June 1999 Israel destroyed bridges and power stations with its heaviest air raids in three years. In July 1999 the UN Security Council renewed for six months the mandate for UNIFIL, and restated its support of the territorial integrity and sovereignty of Lebanon.

At the end of 1999 in anticipation of elections in August 2000, the government passed a law creating 14 constituencies of suspiciously varying sizes, based on rewarding or punishing political foes or friends. A bill to curb the media—limiting all elections news, advertisements, and coverage to the state-run Tele-Liban and Radio Liban—and limiting campaign spending was also drafted. On 24 May 2000 Israel made a quick withdrawal from southern Lebanon. With the Israeli withdrawal the SLA disintegrated. The exact border between Lebanon and Israel remained unsettled as they disputed ownership of the Shabaa Farms. The Lebanese government sent police and intelligence officers to the newly liberated area, but refused to deploy troops until there was evidence of stability or a comprehensive peace treaty with Israel.

In March 2001, Lebanon began to divert waters from the Wazzani River to supply villages in southern Lebanon. The Wazzani feeds into the Hatzbani, which in turn flows into the Jordan River watershed and Lake Kinneret (Lake Tiberias or the Sea of Galilee), a major source of Israel's water supply. In September 2002, Israel's prime minister Ariel Sharon identified measures to divert water from Israel as a cause for war.

Syrian troops withdrew from Beirut in June 2001 to redeploy in other parts of Lebanon, in response to greater Lebanese criticism of Syria's presence there. In February 2003, the Syrian army completed its redeployment out of north Lebanon. The majority of the

Syrian army remaining in Lebanon was assembled in a stretch of the Bekaa Valley on the Syrian border. As of early 2003, there were approximately 350,000 Palestinian refugees in Lebanon. Hezbollah and Israeli forces continued to exchange fire over the Shabaa Farms.

Parliamentary elections held 27 August and 3 September 2000 resulted in the appointment on 23 October of Rafiq al-Hariri as prime minister once again. In October 2004, Hariri stood down as prime minister in protest over the continued presence of Syrian troops in Lebanon. On 14 February 2005, Hariri and 19 others were killed in a massive bomb blast in central Beirut. The UN Security Council unanimously authorized an international investigation into the assassination. In the wake of Hariri's murder, numerous public demonstrations took place, both for and against the presence of Syrian troops and security agents in Lebanon. The cabinet of then-prime minister Omar Karami resigned two weeks after the first wave of anti-Syrian rallies. After Karami resigned, a moderate pro-Syrian member of parliament, Najib Mikati, was named prime minister. Syria pulled all of its military forces (15,000 troops) out of Lebanon by the end of April 2005, in what was dubbed the "Cedar Revolution." In June, journalist Samir Qasir, another critic of Syrian influence in Lebanon, was killed in a car bomb attack.

Parliamentary elections were held in May and June 2005 (they had been postponed for one year). An anti-Syrian alliance led by Saad Hariri, son of the late Rafiq Hariri, won control of parliament, and parliament chose an ally of Rafiq Hariri, Fouad Siniora, to become prime minister. The anti-Syrian alliance won 72 of 128 seats in parliament. Also in June, George Hawi, anti-Syrian former leader of the Lebanese Communist Party, was killed when his car blew up. In September 2005, four pro-Syrian generals were charged in connection with Rafiq Hariri's assassination.

### 13 GOVERNMENT

As defined by the constitution of 1926 and subsequent amendments, Lebanon is an independent republic. Executive power is vested in a president (elected by the legislature for six years) and a prime minister and cabinet, chosen by the president but responsible to the legislature. On 3 September 2004, the National Assembly voted 96–29 to extend President Emile Lahoud's six-year term by three years. Under an agreement dating back to the French mandate, the president must be a Maronite Christian, the prime minister a Sunni Muslim, and the president of the National Assembly a Shia Muslim. Decisions by the president must be countersigned by the prime minister and concerned minister(s) after approval by the National Assembly.

Legislative power is exercised by a 128-member National Assembly (formerly the Chamber of Deputies), elected for a four-year term by universal adult suffrage (compulsory for males age 21 or over, permitted for women age 21 or over with elementary education). The electoral reform law of 1960 determined the denominational composition of the legislature as follows: 30 Maronites; 20 Sunni, 19 Shia; 11 Greek Orthodox; 6 Greek Catholics; 6 Druzes; 4 Armenian Orthodox; 1 Armenian Catholic; 1 Protestant; and 1 other. Deputies were elected to the legislature in 1972, but elections scheduled for 1976 were postponed because of the war, and the legislature extended its term every two years until 1992. The Taif Accord of 1989 set the Christian-Muslim balance

in parliament at 50-50, but the failure of Christians to participate in the elections of 1992 and 1996 gave Muslim groups the largest number of seats in the legislature. There has been no official census in the country since 1932, but most observers believe Muslims now form the majority with the Shia as the largest single group. The denominational composition of the legislature following the 1989 Taif Accord is: 34 Maronites, 27 Sunni, 27 Shia, 14 Greek Orthodox, 8 Greek Catholics, 8 Druzes, 5 Armenian Orthodox, 2 Alaouites, 1 Armenian Catholic, 1 Protestant, and 1 Christian Minorities.

## 14 POLITICAL PARTIES

Political life in Lebanon is affected by the diversity of religious sects and the religious basis of social organization. The mainly Christian groups, especially the Maronites, favor an independent course for Lebanon, stressing its ties to Europe and opposing the appeals of Islam and pan-Arabism. The Muslim groups favor closer ties with Arab states and are opposed to confessionalism (political division along religious lines). Principal political groups, with mainly Christian membership, have been the National Liberal Party and the Phalangist Party. There are various parties of the left, including the Progressive Socialist Party (of mostly Druze membership), the Ba'ath Party, and the Lebanese Communist Party. The various Palestinian groups, allied under the umbrella of the Palestine Liberation Organization, have played an important role in the political life of Lebanon from the late 1960s. Amal, a conservative group, and Hezbollah, more militant, represent the Shia community. The former gained 18 seats and the latter 12 seats in the elections of 1992. The Christian community, which was supposed to have half the seats, largely boycotted the elections and, as a result, won only 59 seats.

In 1996, parliamentary elections were again held, and again certain Christian sects called for a boycott. Still, turnout was much higher than in the 1992 elections, reflecting the country's increasing political stability (turnout was about 45%). International observers found the elections substantially fair, but noted some irregularities, including Syrian interference, vote buying and ballot stuffing. The government itself acknowledges these shortcomings and has instituted some reforms.

The 1996 elections took place in five stages between August and September. The balloting gave a strong majority to a coalition of pro-Syrian parties, notably the Hezbollah-Amal coalition. There were 49 newcomers elected—3 of whom were female—and 19 seats were contested on charges of voter fraud. Following the election, Prime Minister al-Hariri stepped down, as is tradition, so that President Hrawi and the new parliament could choose a new prime minister. In late October, the parliament, with presidential backing, nominated al-Hariri for his second term, as was expected. The vote in parliament was 121-0 with four abstentions.

Al-Hariri, a billionaire, was one of the richest men in the world: in 1996 there were 3 billionaires and 35 millionaires in parliament. Asked by Lahoud to be prime minister in 1998, Salim al-Huss became prime minister after al-Hariri abruptly resigned office. Al-Hariri was asked by President Lahoud to become prime minister once again in October 2000; he received 107 parliamentary votes backing him.

In the aftermath of al-Hariri's assassination on 14 February 2005, Hariri's son, Saad Hariri, led an anti-Syrian alliance spear-

headed by his Future Movement Bloc to victory in parliamentary elections held between 29 May and 19 June of that year. Saad Hariri's bloc took 72 of the 128 seats in the National Assembly. Syrian military forces pulled out of Lebanon in April 2005, following massive street demonstrations. The 2005 election results, broken down by seats, were as follows: Future Movement Bloc 36; Democratic Gathering 15; Development and Resistance Bloc 15; Loyalty to the Resistance 14; Free Patriotic Movement 14; Lebanese Forces 6; Qornet Shewan 5; Popular Bloc 4; Tripoli Independent Bloc 3; Syrian National Socialist Party 2; Kataeb Reform Movement 2; Tachnaq Party 2; Democratic Renewal Movement 1; Democratic Left 1; Nasserite Popular Movement 1; Ba'th Party 1; Kataeb Party 1; and independents 5.

Palestinian refugees have no right to vote, despite numbering approximately 350,000.

## 15 LOCAL GOVERNMENT

Lebanon is divided into the six provinces (*muhafazat*) of Beirut, North Lebanon, South Lebanon, Bekaa, Mount Lebanon, and Nabatiye, each with its district administration. The *muhafazat* are subdivided into districts (*aqdiya*), municipalities, and villages. Provincial governors and district chiefs are appointed by presidential decree. In most villages, councils of village elders or heads of families or clans still play a considerable role.

Municipal elections had not been held since 1963, despite widespread civil desire for such elections. In 1995, parliament passed a law extending the term of municipal officers until 31 December 1996, after which elections were slated to be held. Municipal elections were held in May and June 1998, and in May 2004. The number of municipal councilors and *mukhtar* or mayors elected in 2004 was 15,300. The voter turnout tended to be low, reaching only 20% of the voters in Beirut and the turnout was not much higher in Tarābulus (Tripoli). Only in Mount Lebanon and in the south, where Hezbollah won 87 out of 142 contested municipalities, was the turnout high. In 2001, municipal elections took place in the newly liberated areas of South Lebanon after the Israeli withdrawal of May 2000.

## 16 JUDICIAL SYSTEM

Ultimate supervisory power rests with the minister of justice, who appoints the magistrates. Courts of first instance are presided over by a single judge and deal with both civil and criminal cases. Appeals may be taken to the courts of appeal, each made up of three judges. Of the four courts of cassation, three hear civil cases and one hears criminal cases. A six-person Council of State handles administrative cases. A Constitutional Council, called for in the Taif Accord, rules on the constitutionality of laws upon the request of 10 members of parliament. Religious courts—Islamic, Christian, and Jewish—deal with marriages, deaths, inheritances, and other matters of personal status in their respective faiths. There is also a separate military court system dealing with cases involving military personnel and military related issues.

The law provides for the right to a fair public trial and an independent and impartial judiciary. In practice, politically influential elements succeed in intervening to obtain desired results.

Matters of state security are dealt with by a five-member Judicial Council. The Judicial Council is a permanent tribunal, and

the cabinet, on the recommendation of the Ministry of Justice, decides whether to bring a case before the Judicial Council.

In the refugee camps, the Palestinian elements implement an autonomous system of justice in which rival factions try opponents without any semblance of due process. Hezbollah applies Islamic law in the area under its control.

## 17 ARMED FORCES

The conflict of 1975–90 split the regular Lebanese army along Christian-Muslim lines. The force was later reformed, first by the United States, then by Syria. In 2005, the armed forces totaled 72,100 active personnel, of which the Army had 70,000 active members. Equipment included 310 main battle tanks, 60 reconnaissance vehicles, 1,257 armored personnel carriers, and 541 artillery pieces. Active Navy personnel that year totaled 1,100. Major naval units included 32 patrol/coastal vessels and 2 amphibious landing craft. Lebanon's Air Force had 1,000 personnel. Equipment included six fighter ground attack aircraft and two attack helicopters. Paramilitary forces consist of an Internal Security Force with an estimated 13,000 active personnel under the Ministry of Interior.

Much of the opposition militia has disbanded, and the Muslim Hezbollah (3,000 active) is the only significant communal army remaining. The defense budget was \$530 million in 2005. Also stationed in Lebanon were a number of UN peacekeeping troops. Some 16,000 Syrian troops, in the country as part of the UN peacekeeping force, were removed in April 2005.

## 18 INTERNATIONAL COOPERATION

Lebanon is a charter member of the United Nations, having joined 24 October 1945, and belongs to ESCWA and several nonregional specialized agencies, such as the FAO, IAEA, the World Bank, the ICAO, ILO, UNESCO, UNHCR, and WHO. Lebanon was one of the founding members of the Arab League. It also serves as a member of the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, G-24, G-77, and the Organization of the Islamic Conference (OIC). The country has observer status in the OAS and the WTO.

Lebanon is part of the Nonaligned Movement. It is the home site of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA, est. 1949). Lebanon and Israel have a longstanding unresolved dispute concerning boundaries in the Golan Heights region. In 2000, the United Nations mapped out a Lebanese-Israeli line of separation known as the Blue Line, pending negotiations to determine a final international border. Israeli forces withdrew from their occupation across the Blue Line; however, the UN monitors have reported violations of the agreement from both countries. The United Nations Interim Force in Lebanon (UNFIL), which was originally established in 1978, continues to monitor the area and to assist in reestablishing Lebanese authority in the region.

In environmental cooperation, Lebanon is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Lebanon is traditionally a trading country, with a relatively large agricultural sector and small but well-developed industry. Until the civil war, it had always figured prominently as a center of tourist trade. The 1975–76 war caused an estimated \$5 billion in property damage and reduced economic activities to about 50% of the prewar level. The cost of reconstruction after the Israeli-Palestinian-Syrian war of 1982 was estimated at \$12–15 billion. Lebanon has been able to survive economically because of remittances from abroad by Lebanese workers and companies, external aid by the United States, France, Germany, and Arab countries, and foreign subsidies to various political groups. A residual effect of the 1982 war was political uncertainty, which poisoned the economic climate in the following years. In 1984 and after, there was a pronounced deterioration in the economy. In 1987 inflation peaked at 487%. After the 1989 Taif Accord for National Reconciliation ended hostilities, the economy began to recover. Economic activity surged in 1991, and in 1993 the Hariri government was able to stabilize the economy, and launch a program to reconstruct the economy's infrastructure. Real GDP grew 4.2% in 1992, after growing by about 40% in 1991.

After 1988, the economy posted growth rates averaging 7.5%, although a rising budget deficit threatens to hamper economic reforms. Israel's Operation Grapes of Wrath in April 1996 cut economic development short, but in the same year, the stock market had reopened, and investment had made significant returns. In 1997, unemployment remained high at about 18% although inflation had been reduced to around 5% by 1998. Gross domestic product grew by 3% in 1998. Growth in 1999 was 1% and flat in 2000. Inflation was 1% in 1999 and zero in 2000, and did not exceed 3% in 2001. High unemployment remained a persistent problem, at 20–25% in 1999 and 2000, and 15–20% in 2001. Among Lebanese youth unemployment is estimated to be 30%.

In 2002, the government met with international donors to seek bilateral assistance in restructuring its massive domestic debt at lower rates of interest. Receipts from donor nations helped to stabilize government finances in 2003, but did little to reduce the debt, which stood at approximately 200% of GDP in 2005. In 2004, the Hariri government issued eurobonds to try to manage maturing debt. Hariri stepped down as prime minister later in 2004, and was assassinated in February 2005, which led to a downturn in the economy. Prime Minister Fuad Siniora pledged to push forward with economic reforms, including privatization and more efficient government. In 2005, the GDP growth rate was estimated at a mere 0.5%, and the inflation rate was estimated at 2.4%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Lebanon's gross domestic product (GDP) was estimated at \$19.5 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,100. The annual growth rate of GDP was estimated at 0.5%. The average inflation

rate in 2005 was 2.4%. It was estimated that agriculture accounted for 12% of GDP, industry 21%, and services 67%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.7 billion or about \$600 per capita and accounted for approximately 13.6% of GDP. Foreign aid receipts amounted to \$228 million or about \$51 per capita and accounted for approximately 1.3% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Lebanon totaled \$18.27 billion or about \$4,062 per capita based on a GDP of \$19.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990–2003 household consumption grew at an average annual rate of 2.3%. In 2001 it was estimated that approximately 31% of household consumption was spent on food, 10% on fuel, 7% on health care, and 9% on education. It was estimated that in 1999 about 28% of the population had incomes below the poverty line.

## **21 LABOR**

The labor force in 2001 was approximately 2.6 million workers, with as many as one million additional foreign laborers in Lebanon. The estimated unemployment rate in 1997 (the latest year for which data was available) was 18%. There is no data on the workforce by occupation.

There are some 160 labor unions and organizations enrolling about 42% of the workforce as of 2001. The General Confederation of Workers is composed of 22 unions with about 200,000 members. Organized labor has grown slowly, partly because of the small number of industrial workers, but also because of the availability of a large pool of unemployed. Agricultural and most trade workers are not organized. Palestinians in Lebanon are free to organize their own unions. While Lebanese workers have the right to strike, there are limitations on public demonstrations which somewhat undermine this right. Lebanese workers have the right to organize and bargain collectively and this is the standard practice in employment situations.

Workers as young as eight may legally work with restrictions as to working hours and conditions. However, in reality, age limitations are not effectively enforced. In 2002, a monthly minimum wage of \$200 was in effect. The standard workweek is set at 48 hours, with a 24-hour rest period. In practice, most laborers average around 35 hours of work per week.

## **22 AGRICULTURE**

In 2003, an estimated 4% of the working population was engaged in agricultural activity, and agriculture accounted for about 12% of GDP. Less than 30% of Lebanon's land is arable, and expansion of cultivated areas is limited by the arid and rugged nature of the land. About 33% of the arable land was irrigated in 2003.

Agricultural production was severely disrupted by the 1975–76 war, and production of citrus fruits, the main crop, was reduced to low levels in the fertile Bekaa Valley by Israeli-Syrian fighting during 1982. Principal crops and estimated 2004 production (in thousand tons) were potatoes, 350; oranges, 190; olives, 180; apples, 140; wheat, 120; lemons and limes, 83; bananas, 66; grapefruit, 14; and peanuts, 7. In 2004, Lebanon exported \$252.3 million in agri-

cultural products (14% of total exports) and imported \$1.3 billion (14% of all imports). Two profitable, albeit illegal, crops produced are opium poppy (for heroin) and cannabis (for hashish). A joint Lebanese-Syrian eradication effort has practically wiped out the opium crop and significantly reduced the cannabis crop.

## **23 ANIMAL HUSBANDRY**

Much of Lebanon's livestock was lost during the protracted hostilities since the 1975–76 war and the Israeli invasion in 1982. In 2005 there were an estimated 430,000 goats, 346,000 sheep, 90,000 head of cattle, and 35,000,000 poultry. As Lebanon's own meat and milk production is below consumption needs, animal and milk products are imported.

## **24 FISHING**

The fishing industry has not progressed significantly, despite a government-sponsored effort to reduce fish imports and provide employment in the canned-fish industry. The catch in 2003 was 4,688 tons.

## **25 FORESTRY**

Forests comprised about 36,000 hectares (89,000 acres), or nearly 3.5% of the total area, in 2000. Most of the forests are in the central part of the country, with pine and oak predominant. Few of the ancient cedars have survived; small cedar forests have been planted at high altitudes. Roundwood production in 2004 was 88,700 cu m (3,131,000 cu ft).

## **26 MINING**

Lebanon's mineral industry continued its historically small contribution to the economy. Mining activity was limited to the production of salt and the quarrying of raw materials for the construction industry, particularly limestone and silica for cement manufacture. In 2004, hydraulic cement production was estimated at 2.9 million metric tons, unchanged from an estimated 2.9 million metric tons in 2003. Gypsum production in 2004 was estimated at 1,700 metric tons, while lime production in that same year was estimated at 14,000 metric tons; and salt output estimated at 3,500 metric tons. In 2004, Lebanon also produced phosphatic fertilizers, phosphoric acid, and sulfuric acid. Modest deposits of asphalt, coal, and iron ore existed, and the country had no petroleum or gas reserves. The success of Lebanon's minerals industry depended on the long-term restoration of peace and stability in the country.

## **27 ENERGY AND POWER**

Lebanon, as of 1 January 2005, has no known proven reserves of oil or natural gas. As a result, the country must import all the oil and natural gas it consumes. Although Lebanon had two coastal refineries, Tarābulus (Tripoli) in the north and Zahrani in the south, neither is operational, with the refinery in Tarābulus (Tripoli) closed since 1982.

In 2004, imports and demand for oil each averaged an estimated 108 barrels per day. There were no recorded imports or consumption of natural gas in 2003.

Lebanon's electric power generating sector is controlled by a state-owned public utility, Electricite du Liban (EdL). EdL is in charge of power generation, distribution and transmission. In 2003, total installed electrical capacity was estimated at 2 GW,

with production in that year estimated at 10.7 billion kWh. Demand is estimated to have equaled output in 2003, but Lebanon's seven power plants are known to be operating below capacity and the country must import power. In 2002, Lebanon imported 1.09 billion kWh. Of the electric power produced, 97.2% came from conventional thermal sources, while hydropower accounted for 2.8%.

## 28 INDUSTRY

The 16-year civil war that ended in 1991 caused tremendous damage to the industrial sector. By 1993, it was estimated that the Lebanese industry suffered losses of \$1.5 billion. Inadequate infrastructure and shortage of skilled labor are major obstacles in the process of rehabilitation. By 1995, the industrial sector was showing signs of improvement. Industrial exports in the first quarter of 1995 were up 76% (to \$79.5 million) compared with the same period in 1994. Major industrial products are clothing, metal, food, marble, sanitary equipment, cement, jewelry, furniture, paper, beverages, and plastic. In 2002, manufacturing contributed 17% to GDP and accounted for 40% of total exports. Industrial activity is concentrated in construction material; food and beverages; textiles and ready-made garments; and furniture. The industrial sector remains weak due to obsolete equipment, high operating costs, low productivity, and limited access to financing.

Lebanon's two main oil refineries at Zahrani and Tarābulus (Tripoli) suspended operations for most of the 1990s after 1992 and were inoperative as of 2006.

## 29 SCIENCE AND TECHNOLOGY

Lebanon's advanced technology is limited to oil refining, the facilities for which were installed by international oil companies. The National Council for Scientific Research, established in Beirut in 1962, draws up national science policies and fosters research in fundamental and applied research. The council operates a marine research center at Al-Batrun. Seven colleges and universities in Beirut offer degrees in basic and applied sciences.

In 1987–97, science and engineering students accounted for 30% of college and university enrollments. In 2002, high technology exports totaled \$16 million, or 3% of all manufactured exports.

## 30 DOMESTIC TRADE

Trade is by far the most important sector of the Lebanese economy. Before the 1975–91 civil war, Beirut was an important commercial center of the Middle East. During the first year of civil violence alone, 3,600 commercial establishments were destroyed, burned, or looted. Reconstruction and returning confidence have improved commercial activities since 1995.

The main trading activity is related to the importation of goods and their distribution in the local market. Distribution is generally handled by traders who acquire sole right of import and sale of specific trademarks, and although competition is keen, the markup tends to be high. Distribution of local products is more widely spread among traders. Franchising has become popular, with major firms representing the restaurant, hotel, and clothing industries.

Prices are generally controlled by the Consumer Protection Department of the Ministry of Economy and Trade. Retail credit is

## Principal Trading Partners – Lebanon (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,523.9	7,167.5	-5,643.6
Switzerland-Liechtenstein	379.1	216.1	163.0
Iraq	121.8	...	121.8
United Arab Emirates	104.4	96.1	8.3
Saudi Arabia	104.3	219.6	-115.3
Syria	99.5	259.3	-159.8
United States	66.2	432.3	-366.1
Turkey	63.3	234.1	-170.8
Kuwait	50.8	...	50.8
Jordan	48.4	...	48.4
Italy-San Marino-Holy See	28.5	674.4	-645.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

common, and advertising has developed rapidly in motion picture theaters, television, radio, and the press.

Government offices are generally open from 8 AM to 2 PM Monday through Thursday, from 8 to 11 AM on Friday, and from 8 AM to 1 PM on Saturday. Most banks are open with similar hours, occasionally with a half-day on Saturday as well. Private businesses and shops have varying hours, sometimes exceeding a 40-hour workweek.

## 31 FOREIGN TRADE

Foreign trade has been important in the economic life of Lebanon as a source of both income and employment. Some 40% of total exports are actually reexports, principally machinery, metal products, foods, wood products, textiles, and chemicals.

The most expensive products that Lebanon exports are gold, silverware, jewelry, and precious stones. Other exports include fruits, nuts and vegetables, scrap metal, and printed matter. Major imports include food, machinery and transport equipment, consumer goods, and chemicals.

Lebanon's major exporting partners in 2004 were: Syria, the UAE, Turkey, Switzerland, and Saudi Arabia. Lebanon's primary suppliers were: Italy, France, Syria, Germany, China, the United States, and the United Kingdom.

## 32 BALANCE OF PAYMENTS

Lebanon traditionally maintained a favorable balance of payments, with rising trade deficits more than offset by net earnings from services, transfers of foreign capital, and remittances from Lebanese workers abroad. Although the trade deficit increased substantially between 1977 and 1984, a balance of payments deficit was recorded only for the last two years of the period. By 1985, a surplus of \$249 million was again achieved, with a modest trade recovery following in 1986–87. Hostilities in the industrial and prosperous areas of Lebanon in 1989–90 triggered a substantial outflow of capital and a deficit in the balance of payments. Order was restored in 1991 and a resumption of capital inflows averted larger deficits in the following years. In 1995, net capital inflows offset a large trade deficit to produce a \$256 million surplus in the balance of payments. A large portion of the trade imbalance

consists of imports of machinery that should ultimately increase productivity. In 2000, the balance of payments registered a deficit of \$289 million, which compared to a \$267.7 million surplus in 1999.

In 2003, exports of goods and services totaled \$2.9 billion, and imports totaled \$7.6 billion. The trade deficit widened in 2005 that year, Lebanon's exports totaled \$1.782 billion, and imports were valued at \$8.855 billion. The current-account balance in 2005 was estimated at -\$4.09 billion.

### 33 BANKING AND SECURITIES

The Bank of Lebanon, established on 1 April 1964, is now the sole bank of issue. Its powers to regulate and control commercial banks and other institutions and to implement monetary policy were expanded by amendments to the Code of Money and Credit promulgated in October 1973. To encourage the movement and deposit of foreign capital in Lebanon, a bank secrecy law of 1956 forbids banks to disclose details of a client's business even to judicial authorities. There are no restrictions on currency conversions and transfers, and no foreign exchange controls effect trading.

In the late 1990s, the banking sector was undergoing a period of expansion and consolidation with a number of banks listed on the Beirut Stock Exchange. In 1998, over 70 banks were operating in Lebanon with total assets of around \$31 billion. The International Monetary Fund reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$35.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 20%.

The Beirut Stock Exchange was officially opened in 1952 as a center in which the few available company shares could be traded. The exchange closed during the civil war but reopened in 1979. However, there was little trading in stock during 1980–81. In

1982, Beirut was chosen as the headquarters of the Arab Stock Exchange Union, reflecting Lebanon's continuing importance as financial center of the Middle East.

In September 1995, the Beirut Stock Exchange reopened after a 12-year closure. Trading began in January 1996, but with just three companies listed, all of them producers of cement or construction material. A fourth company joined in mid-1996. A secondary market was opened to trade shares in the private property company, Solidere. Solidere is developing the destroyed business heart of Beirut. With the secondary market considerably more successful than the stock exchange, plans to list Solidere on the latter have, for the moment, been shelved. In 1997, however, Solidere moved its shares from the secondary market to the Beirut Stock Exchange. An important reason for the move was a plan to cross-list Solidere shares on the Kuwait Stock Exchange. Kuwait said it would do so only if shares were traded on the official bourse rather than on the secondary market. The Lebanese Stock Exchange authority signed an agreement to cross-list shares not only with Kuwait but also with Egypt from early in 1997. Solidere has a 115 million–125 million GDR (global depository receipt) to be listed on the London Stock Exchange.

In 2001, the stock market remained sluggish, with only 12 companies, including Solidere, listed. Market capitalization was at around \$1.2 billion. As of 2004, the Beirut Stock Exchange listed only 13 companies, and had a total market capitalization that year of \$2.322 billion. In 2004, the BLOM index rose 39.3% from the previous year to 636.8.

### 34 INSURANCE

Activities of insurance companies are regulated by the National Insurance Council. All insurance companies must deposit a specific amount of money or real investments in an approved bank and must retain in Lebanon reserves commensurate with their volume of business. There are at least 85 insurance companies operating in Lebanon, most of them national insurance companies. In 2003, the value of all direct insurance premiums written totaled \$520 million, of which nonlife premiums accounted for \$381 billion. In 2002, Lebanon's top nonlife insurer was Medgulf, with gross written nonlife premiums (including healthcare) of \$46.7 million. In 2004, the country's leading life insurer was Alico, which had gross written life premiums of \$69.8 million.

### 35 PUBLIC FINANCE

The annual budget of the central government must be approved by the National Assembly. The Lebanese government annually faces the formidable problem of financing a massive deficit resulting from heavy financial obligations and huge shortfalls in revenues. To reduce the deficit, the government has tried to increase revenues by raising taxes and tightening the budget. The government relies heavily on grants and loans from multilateral agencies, Arab governments, and the French to cover the deficit. As a result, the country's total debt reached \$28 billion in 2001, about 150% of total GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Lebanon's central government took in revenues of approximately \$4.9 billion and had expenditures of \$6.5 billion. Revenues minus expenditures totaled approximately -\$1.6 billion. Public

#### Public Finance – Lebanon (2002)

(In billions of pounds, budgetary central government figures)

<b>Revenue and Grants</b>	<b>5,385</b>	<b>100.0%</b>
Tax revenue	4,166	77.4%
Social contributions	75	1.4%
Grants	...	...
Other revenue	1,144	21.2%
<b>Expenditures</b>	<b>9,056</b>	<b>100.0%</b>
General public services	5,576	61.6%
Defense	932	10.3%
Public order and safety	395	4.4%
Economic affairs	808	8.9%
Environmental protection	9	0.1%
Housing and community amenities	73	0.8%
Health	298	3.3%
Recreational, culture, and religion	59	0.7%
Education	728	8.0%
Social protection	178	2.0%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

debt in 2005 amounted to 200.7% of GDP. Total external debt was \$25.92 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, budgetary central government revenues were LL5,385 billion and expenditures were LL9,056 billion. The value of revenues was us\$4 million and expenditures us\$6 million, based on a market exchange rate for 2002 of us\$1 = LL1,507.5 as reported by the IMF. Government outlays by function were as follows: general public services, 61.6%; defense, 10.3%; public order and safety, 4.4%; economic affairs, 8.9%; environmental protection, 0.1%; housing and community amenities, 0.8%; health, 3.3%; recreation, culture, and religion, 0.7%; education, 8.0%; and social protection, 2.0%.

### **36 TAXATION**

A graduated tax is imposed on individual salaries, real profits, and real estate income. Corporations and joint stock companies generally are taxed on net real profits derived in Lebanon at a flat rate of 15%. Dividends, interest and royalties are generally subject to a 10% withholding tax. Bank interest is subject to a 5% rate. Also levied are inheritance and gift taxes, social security payroll taxes, flat and graduated property taxes, and a stamp duty.

### **37 CUSTOMS AND DUTIES**

Customs duties, based on the Harmonized System of tariffs, depend on the type of product and range from 0–70%, averaging 15%. Lebanon acceded to Arab League's Arab Free Trade Area agreement in 1997 and also has bilateral free trade agreements with Egypt, Kuwait, Syria, and the United Arab Emirates. It also adheres to the Arab League boycott of Israel. Lebanon has applied for World Trade Organization membership and is in negotiations for accession.

### **38 FOREIGN INVESTMENT**

Lebanon's liberal investment policies are designed to attract foreign direct investment to foster economic recovery and rebuild its war damaged infrastructure. Some analysts estimated that the rebuilding costs would exceed \$18 billion with construction accounting for a large part of foreign investment. By 2006, French, Italian, German, British, Korean, and Finnish companies were the predominant investors in Lebanon. Their presence is most strongly felt in the fields of electricity, water, and telecommunications. US-based investment was only \$7 million in 1996, though this had climbed to \$65 million by 1999. The movement of funds in and out of Lebanon is free from taxes, fees, or restrictions. The top corporate tax rate is 15%. Lebanon also has bilateral trade investment agreements with China and a number of European and Arab countries.

To conserve cash, the government uses "build, operate, transfer" (BOT) agreements to finance major projects. In 1997 total foreign direct investment (FDI) totaled \$150 million. By 2000 this had nearly doubled to \$297.8 million. In 2001, the annual FDI inflow fell to \$249.3 million. In 2003, net FDI inflow amounted to \$246.5 million. Construction and real estate account for the largest share of FDI. Other forms of capital inflow—remittances, repatriated capital and placements in treasury bills—far outweigh inward FDI.

### **39 ECONOMIC DEVELOPMENT**

Since World War II, Lebanon has followed free-enterprise and free-trade policies. The country's favorable geographical position as a transit point and the traditional importance of the trading and banking sectors of the economy helped make Lebanon prosperous by the early 1970s. Lebanon became a center of trade, finance, and tourism by means of a stable currency backed largely with gold, by a conservative fiscal policy, by various incentives for foreign investors, and by minimization of banking regulations.

Lebanon's development went awry in the mid-1970s, as factional conflict, always present in Lebanese society, erupted into open warfare. The loss to the economy was enormous, particularly in Beirut. In November 1979, Saudi Arabia and six other oil-producing Arab countries promised to contribute \$2 billion for Lebanon's reconstruction effort over a five-year period, but only \$381 million had been provided by October 1987. (After Israel invaded Lebanon in June 1982, the Arab countries decided to withhold future funds until Israeli forces had withdrawn completely.)

Under the leadership of Prime Minister Rafiq al-Hariri, Lebanon embarked on the Horizon 2000 program in 1993. Areas of major activity targeted by the plan were the rehabilitation of telecommunications, electricity grids, highways, sewage, waste management, water networks, the renovation of the Beirut International Airport, harbor, the education system, and housing. The plan also called for investment in commercial facilities to reestablish Beirut as an international business center in competition with Hong Kong and Singapore. The government established a private company, Solidere, to carry out the reconstruction and development of downtown Beirut. Under the Horizon 2000 guidelines, no single investor would be permitted to hold more than a 10% share in the company. The parliament also established a public company, Elyssar, for developing southwest Beirut. Under the government's five-year program (2001–05) the "three pillars" of reform were affirmed by the Hariri government to be 1) economic revival and sustained growth with the private sector as the engine of growth; 2) fiscal consolidation and administrative reform; and 3) monetary, financial, and price stability.

By 2006, the Lebanese government was continuing its plans for economic reforms. These included an improvement in the management of the national debt (in 2005, it stood at over 200% of GDP); an expansion of state revenues by widening the tax base, improving the collection of revenues, and rationalizing expenditure; and strengthening financial management. As of December 2005, the government was formulating a new five-year plan with the aim of helping the government reduce its \$37 billion public debt. The World Bank, the United States, and European nations declared they would only aid Lebanon if the government submitted to an "implementable program."

### **40 SOCIAL DEVELOPMENT**

A government social security plan is intended to provide sickness and maternity insurance, accident and disability insurance, family allowances, and end-of-service indemnity payments. The employer contributes 8.5% of payroll, while the employee and government make no contribution. The system provides lump sum payments only for retirement, disability, and survivor benefits. Foreigners employed in Lebanon are entitled to benefits if similar

rights are available for Lebanese in their home countries. Family allowances are provided for workers' families with children and nonworking wives. Voluntary social work societies also conduct relief and welfare activities.

Careers in government, the professions, and, less commonly, business are open to women. However, in some segments of society, social pressure prevents them from taking full advantage of employment opportunities. Lebanese citizenship is passed on only by fathers to their children. The children of Lebanese women married to foreigners are unable to secure citizenship. Many of the religious laws governing family and personal status discriminate against women. Despite these circumstances, there are a growing number of women in business and in government. Domestic abuse and violence affects a significant percentage of women. The absence of economic independence and the fear of losing custody of children prevent women from leaving abusive spouses. Foreign domestic servants are frequently abused.

Human rights abuses include arbitrary arrest and detention and the use of excessive force and torture. Prison conditions are substandard and include severe overcrowding. Human rights organizations are allowed to operate freely.

#### **41 HEALTH**

As of 2004, there were an estimated 325 physicians, 118 nurses, 121 dentists, and 95 pharmacists per 100,000 people. The Lebanese Ministry of Health's review of hospital use identified major health problems to be hypertension, diabetes, and asthma, in addition to eye and ear diseases, cardiac conditions, and dermatological problems. In 2000, 100% of the population had access to safe drinking water and 99% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 8.2 and 14.7 per 1,000 people. About 61% of married women (ages 15–49) used contraception. Life expectancy in 2005 was 72.63 years and the infant mortality rate was 24.54 per 1,000 live births. The fertility rate was 2.3 births per childbearing woman. The maternal mortality rate was 100 per 100,000 live births. Immunization rates for children up to one year old included diphtheria, pertussis, and tetanus, 94%, and measles, 88%. Vitamin deficiencies are a problem; an estimated 25% of all school-age children have goiter.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 2,800 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

#### **42 HOUSING**

Despite substantial construction activity since World War II and a boom in construction during the 1960s, which increased the number of housing units to 484,000 in 1970, there was a housing shortage, especially of low-cost residential units, in the early 1970s. The situation was aggravated by the civil war (ending in 1990) and subsequent factional strife in which half of the country's real estate was severely damaged or destroyed. About 750,000 people were displaced. Under the CDR 1983–91 plan, nearly 30% of total expenditures were allocated to build new dwellings and to restore war-damaged houses. According to the last available information for 1980–88, total housing units numbered 820,000 with

3.3 people per dwelling. Housing needs until the year 2000 have been estimated at 400,000 units.

#### **43 EDUCATION**

Free primary education was introduced in 1960, but about two-thirds of all students attend private schools. Primary school covers six years of study, followed by three years of complementary (intermediate) courses. Based on their performance at the basic levels of education, students are assigned to general secondary school (studying economics, life sciences, humanities, and science) or a technical secondary school (with about 55 different field options). The academic year runs from October to June.

In 2001, about 74% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 91% of age-eligible students. In 2001, secondary school enrollment was about 77% of age-eligible students. It is estimated that about 68% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 17:1 in 2003.

Leading universities include the American University in Beirut; St. Joseph University; the Lebanese (State) University; the University of the Holy Spirit; and the Arab University of Beirut. In 2003, about 44% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2003 was estimated at about 87.4%, with 93.1% for men and 82.2% for women.

As of 2003, public expenditure on education was estimated at 2.7% of GDP, or 12.3% of total government expenditures.

#### **44 LIBRARIES AND MUSEUMS**

Lebanon has about a dozen sizable libraries with specialized collections of books, manuscripts, and documents. Most libraries are in Beirut, but there are also collections at Şaydā (Sidon) and Harissa. The National Library of Lebanon, founded in 1921, had more than 100,000 volumes when it was destroyed at the beginning of the war in 1975. By 2002, it had restored that collection to 150,000 volumes. The Arab University Library has 200,000 volumes, but the largest library is that of the American University in Beirut, with 546,000 volumes. St. Joseph University has several specialized libraries, including the Bibliothèque Orientale, with 400,000 volumes. The library of the St. John Monastery in Khonchara, founded in 1696, contains the first known printing press in the Middle East. The Université Saint-Esprit de Koslik in Jounieh has the largest provincial collection with 200,000 volumes. The Municipal Public Library of Beirut has two branches; the Bachoura branch, opened in 2004, maintains a collection that includes 20,000 books in Arabic, French, English, Armenian, Spanish, and German, plus audio books, CD-ROMs, videos, and DVDs. There are at least 25 other public and municipal libraries throughout the country that are organized through the Assabil library network, a nongovernmental organization established in 1997; these branches include National Library of Baakline, Cultural Center for Francophone Activities, Public Library of the Cultural League in Tarābulus (Tripoli), and the Library for the Blind (in Beirut).

The National Museum of Lebanon (1920) in Beirut has a collection of historical documents and many notable antiquities, including the sarcophagus of King Ahiiram (13th century BC), with the first known alphabetical inscriptions. The American Univer-

sity Museum also has an extensive collection of ancient artifacts. Beirut also houses the Museum of Fine Arts and the Museum of Lebanese Prehistory of St. Joseph University. The Gibran Museum in Bsharri, celebrating the life and work of the prophet Kahil Gibran, is a popular site. The Planet Discovery Children's Science Museum is located in Beirut.

#### 45 MEDIA

Before the civil war, Beirut was an international communications center with an earth satellite station and two oceanic cables linking it to Marseille, France, and Alexandria, Egypt. As of 1999, the rebuilding of Lebanon's telecommunications system was well underway. In 2003, there were an estimated 199 mainline telephones for every 1,000 people. The same year, there were approximately 227 mobile phones in use for every 1,000 people.

Government-controlled Radio Lebanon broadcasts in Arabic, and Tele-Liban broadcasts on three channels in Arabic, French, and English. All other radio and television stations are privately owned. In 2001 there were 36 radio stations and 7 television stations. In 2003, there were an estimated 182 radios and 357 television sets for every 1,000 people. About 29.9 of every 1,000 people were cable subscribers. Also in 2003, there were 80.5 personal computers for every 1,000 people and 117 of every 1,000 people had access to the Internet. There were 29 secure Internet servers in the country in 2004.

Historically, Lebanon has had the freest press in the Arab world. Even during the civil war some 25 newspapers and magazines were published without restriction. Newspapers freely criticize the government but refrain from criticizing political groups that have the power to retaliate forcibly. As of 2002, the largest Arabic dailies and their circulations included *An-Nahar* (*The Day*, 77,600), *Al-Anwar* (*Lights*, 58,675), *As-Safir* (*The Ambassador*, 50,000), *Al-Amal* (*Hope*, 35,000), *Al Hayat* (*Life*, 31,030), *Al-Sharq* (36,000), and *Al-Liwa* (*The Standard*, 15,000). Also influential are the French-language papers *L'Orient-Le Jour* (23,000), *Le Soir* (16,500), and *Le Réveil* (10,000).

Though the constitution provides for freedom of the press, the government uses several means short of censorship to control freedom of expression. The Surete Generale is authorized to approve all foreign materials, including magazines, plays, books, and films. The law prohibits attacks on the dignity of the head of state or foreign leaders, prosecuting through a special Publications Court.

#### 46 ORGANIZATIONS

There are chambers of commerce and industry in Beirut, Tarābulus (Tripoli), Şaydā (Sidon), and Zahlah. The Chamber of Commerce, Industry, and Agriculture of Beirut and Mount Lebanon promotes tourism as well as international trade. The International Labour Organization Regional Office for the Arab States is in Beirut. Lebanon has a French Chamber of Commerce, and an Association of Lebanese Industries.

The Amel Association is a major social welfare organization providing emergency relief and social, medical, and educational services. The National Council for Scientific Research offers major support for promoting scientific study and research. A smaller organization, the Nadim Andraos Foundation, also provides financial support for medical and scientific studies.

National youth organizations include the Lebanese Scout Federation, Lebanese Youth and Student Movement for the United Nations, the Progressive Youth Organization, the Democratic Youth Union, and YMCA/YWCA. There are several sports associations representing a variety of pastimes, such as squash, aikido, badminton, yachting, tennis, and track and field. There are active branches of the Paralympic Committee and the Special Olympics.

There are Rotary and Lion's Clubs in Beirut. There are national chapters of the Red Cross Society, Defence for Children, and Habitat for Humanity.

#### 47 TOURISM, TRAVEL, AND RECREATION

Before 1975, Lebanon's antiquities—notably at Şaydā (Sidon), Tyre, Byblos, and Baalbek—combined with a pleasant climate and scenery to attract many tourists (more than two million in 1974), especially from other Arab countries. During the civil war that began that year, however, fighting and bombing destroyed or heavily damaged major hotels in Beirut and reduced the number of tourists to practically zero. With the rebuilding of the country, the tourism industry has steadily grown. The luxury hotels have attracted tourists along with the famous Pigeon Rocks in Raouche. Many attractions are historical sites in Tyre and Tarābulus (Tripoli). The temple complex in Baalbek, which includes the remains of the temples of Jupiter, Bacchus, and Venus, is one of the largest in the world. Horse racing is also popular in Lebanon, with races held every Sunday.

Visas are required to enter Lebanon, along with passports valid for six months when applying for the visa. In 2003, foreign visitors totaled 1,015,793 in Lebanon, a 6% increase from 2002. Hotels numbered 16,202 with 28,246 beds. Tourism expenditure receipts totaled \$1 billion that same year.

According to the US Department of State, in 2004 the estimated daily cost of travel in Lebanon was \$193.

#### 48 FAMOUS LEBANESE

Khalil Gibran (Jibran, 1883–1931), a native of Lebanon, achieved international renown through his paintings and literary works. He is best known for his long poem *The Prophet*. Charles Habib Malik (1906–87), for many years Lebanon's leading diplomat, was president of the 13th UN General Assembly in 1958/59. Rafik Hariri (1944–2005), twice prime minister of Lebanon, was assassinated in February 2005; massive demonstrations held after his death led to the eventual withdrawal of Syrian troops from Lebanon in April 2005.

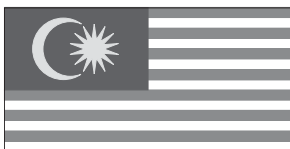
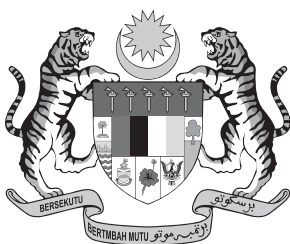
#### 49 DEPENDENCIES

Lebanon has no territories or colonies.

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# MALAYSIA

**CAPITAL:** Kuala Lumpur

**FLAG:** The national flag consists of 14 alternating horizontal stripes, of which 7 are red and 7 white; a gold 14-pointed star and crescent appear on a blue field in the upper left corner.

**ANTHEM:** *Negara Ku (My Country)*.

**MONETARY UNIT:** The Malaysian ringgit (M\$), or dollar, is divided into 100 sen, or cents. There are coins of 1, 5, 10, 20, and 50 sens and 1 ringgit, and notes of 1, 5, 10, 20, 100, 500, and 1,000 ringgits. M\$1 = US\$0.26455 (or US\$1 = M\$3.78) as of 2005.

**WEIGHTS AND MEASURES:** The metric system became the legal standard in 1982, but some British weights and measures and local units also are in use.

**HOLIDAYS:** National Day, 31 August; Christmas, 25 December. Movable holidays include Vesak Day, Birthday of His Majesty the Yang di-Pertuan Agong, Hari Raya Puasa, Hari Raya Haji, the 1st of Muharram (Muslim New Year), Milad an-Nabi, Dewali, Thaipusam, and the Chinese New Year. Individual states celebrate the birthdays of their rulers and other holidays observed by native ethnic groups.

**TIME:** 7 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in Southeast Asia, Malaysia, with an area of 329,750 sq km (127,317 sq mi), consists of two noncontiguous areas: peninsular Malaysia (formerly West Malaysia), on the Asian mainland, and the states of Sarawak and Sabah, known together as East Malaysia, on the island of Borneo. Comparatively, the area occupied by Malaysia is slightly larger than the state of New Mexico. Peninsular Malaysia, protruding southward from the mainland of Asia, comprises an area of 131,587 sq km (50,806 sq mi), extending 748 km (465 mi) SSE-NNW and 322 km (200 mi) ENE-WSW. It is bordered on the N by Thailand, on the E by the South China Sea, on the S by the Strait of Johore, and on the W by the Strait of Malacca and the Andaman Sea, with a total boundary length of 2,068 km (1,285 mi).

Sarawak, covering an area of 124,449 sq km (48,050 sq mi), on the northwest coast of Borneo, extends 679 km (422 mi) NNE-SSW and 254 km (158 mi) ESE-WNW. It is bounded by Brunei on the N, Sabah on the NE, Indonesia on the E and S, and the South China Sea on the W. Sarawak's total boundary length is 2,621 km (1,629 mi). Situated at the northern end of Borneo, Sabah has an area of 74,398 sq km (28,725 sq mi), with a length of 412 km (256 mi) E-W and a width of 328 km (204 mi) N-S. To the N is the Bala-bac Strait, to the NE the Sulu Sea, to the SE the Celebes Sea, to the S Indonesia, to the SW Sarawak, and to the W the South China Sea, with a total boundary length of 2,008 km (1,248 mi). The total boundary length of Malaysia is 7,344 km (4,563 mi), of which 4,675 km (2,905 mi) is coastline.

Malaysia claims several atolls of the Spratly Island group in the South China Sea. The claim, in a region where oil is suspected, is disputed by China, the Philippines, Taiwan, and Vietnam. Malaysia's capital city, Kuala Lumpur, is located in the western part of peninsular Malaysia.

## <sup>2</sup>TOPOGRAPHY

Four-fifths of peninsular Malaysia is covered by rain forest and swamp. The northern regions are divided by a series of mountain ranges that rise abruptly from the wide, flat coastal plains. The highest peaks, Gunong Tahan (Mt. Tahan—2,187 m/7,174 ft) and Gunong Korbu (2,183 m/7,162 ft), are in the north central region. The main watershed follows a mountain range about 80 km (50 mi) inland, roughly parallel to the west coast. The rivers flowing to the east, south, and west of this range are swift and have cut some deep gorges, but on reaching the coastal plains they become sluggish. The western coastal plain contains most of the country's population and the main seaports, George Town (on the offshore Pulau Pinang) and Kelang (formerly Port Swettenham). The eastern coastal plain is mostly jungle and lightly settled. It is subject to heavy storms from the South China Sea and lacks natural harbors.

Sarawak consists of an alluvial and swampy coastal plain, an area of rolling country interspersed with mountain ranges, and a mountainous interior. Rain forests cover the greater part of Sarawak. Many of the rivers are navigable. Sabah is split in two by the Crocker Mountains, which extend north and south some 48 km (30 mi) inland from the west coast, rising to over 4,101 m (13,455 ft) at Mt. Kinabalu, the highest point in Malaysia. Most of the interior is covered with tropical forest, while the western coastal area consists of alluvial flats making up the main rubber and rice land.

## <sup>3</sup>CLIMATE

The climate of peninsular Malaysia is equatorial, characterized by fairly high but uniform temperatures (23–31°C/73–88°F) throughout the year, high humidity, and copious rainfall averaging about 250 cm/100 in annually. There are seasonal variations in rainfall,

with the heaviest rains from October to December or January; except for a few mountain areas, the most abundant rainfall is in the eastern coastal region, where it averages over 300 cm (120 in) per year. Elsewhere the annual average is 200–300 cm (80–120 in), the northwestern and southwestern regions having the least rainfall. The nights are usually cool because of the nearby seas. The climate of East Malaysia is relatively cool for an area so near the equator.

#### **4 FLORA AND FAUNA**

About 59% of Malaysia consists of tropical rain forest. In peninsular Malaysia, camphor, ebony, sandalwood, teak, and many varieties of palm trees abound. Rain forest fauna includes seladang (Malayan bison), deer, wild pigs, tree shrews, honey bears, forest cats, civets, monkeys, crocodiles, lizards, and snakes. The seladang weighs about a ton and is the largest wild ox in the world. An immense variety of insects, particularly butterflies, and some over 250 species of birds are found.

On Sabah and Sarawak, lowland forests contain some 400 species of tall dipterocarps (hardwoods) and semihardwoods; fig trees abound, attracting small mammals and birds; and groves are formed by the extensive aerial roots of warangen (a sacred tree to indigenous peoples). As altitude increases, herbaceous plants—buttercups, violets, and valerian—become more numerous, until moss-covered evergreen forests are reached at elevations of 1,520–1,830 m (5,000–6,000 ft). Butterflies, brilliantly colored birds of paradise, and a great wealth of other insect and bird species inhabit the two states.

As of 2002, there were at least 300 species of mammals and over 15,500 species of plants throughout the country.

#### **5 ENVIRONMENT**

The Environmental Quality Act of 1974 and other environmental laws are administered by the Division of Environment of the Ministry of Science, Technology, and Environment. Discharge of untreated sewage has contaminated the nation's water; the most heavily polluted areas are along the west coast. Malaysia's water pollution problem also extends to its rivers, of which 40% are polluted. The nation has about 580 cu km of water with 76% of annual withdrawals used for farming and 13% used for industrial activity. Discharge of oil by vessels in Malaysian waters is prohibited. Malaysia's cities have produced an average of 1.5 million tons of solid waste per year.

Clean-air legislation limiting industrial and automobile emissions was adopted in 1978. However, air pollution from both of these sources is still a problem. In the mid-1990s, Malaysia ranked among 50 nations with the world's highest industrial carbon dioxide emissions, which totaled 70.5 million metric tons per year, a per capita level of 3.74 metric tons per year. In 2000, total carbon dioxide emissions were 144 million metric tons.

Of Malaysia's total land area, 59% is tropical rain forest. Malaysia has the world's fifth-most-extensive mangrove area, which total over a half a million hectares (over 1.2 million acres). The country's forests are threatened by commercial interests. In 2003, about 5.7% of the total land area was protected, including two natural UNESCO World Heritage Sites and five Ramsar wetland sites.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 50 types of mammals, 40 species of birds,

21 types of reptiles, 45 species of amphibians, 34 species of fish, 17 types of mollusks, 2 species of other invertebrates, and 683 species of plants. Threatened species in Malaysia include the orangutan, tiger, Asian elephant, Malayan tapir, Sumatran rhinoceros, Singapore roundleaf horseshoe bat, four species of turtle (green sea, hawksbill, olive ridley, and leatherback), and two species of crocodile (false gavia and Siamese). At least three species have become extinct, including the double-banded argus.

#### **6 POPULATION**

The population of Malaysia in 2005 was estimated by the United Nations (UN) at 26,121,000, which placed it at number 44 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.1%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 36,058,000. The population density was 79 per sq km (205 per sq mi).

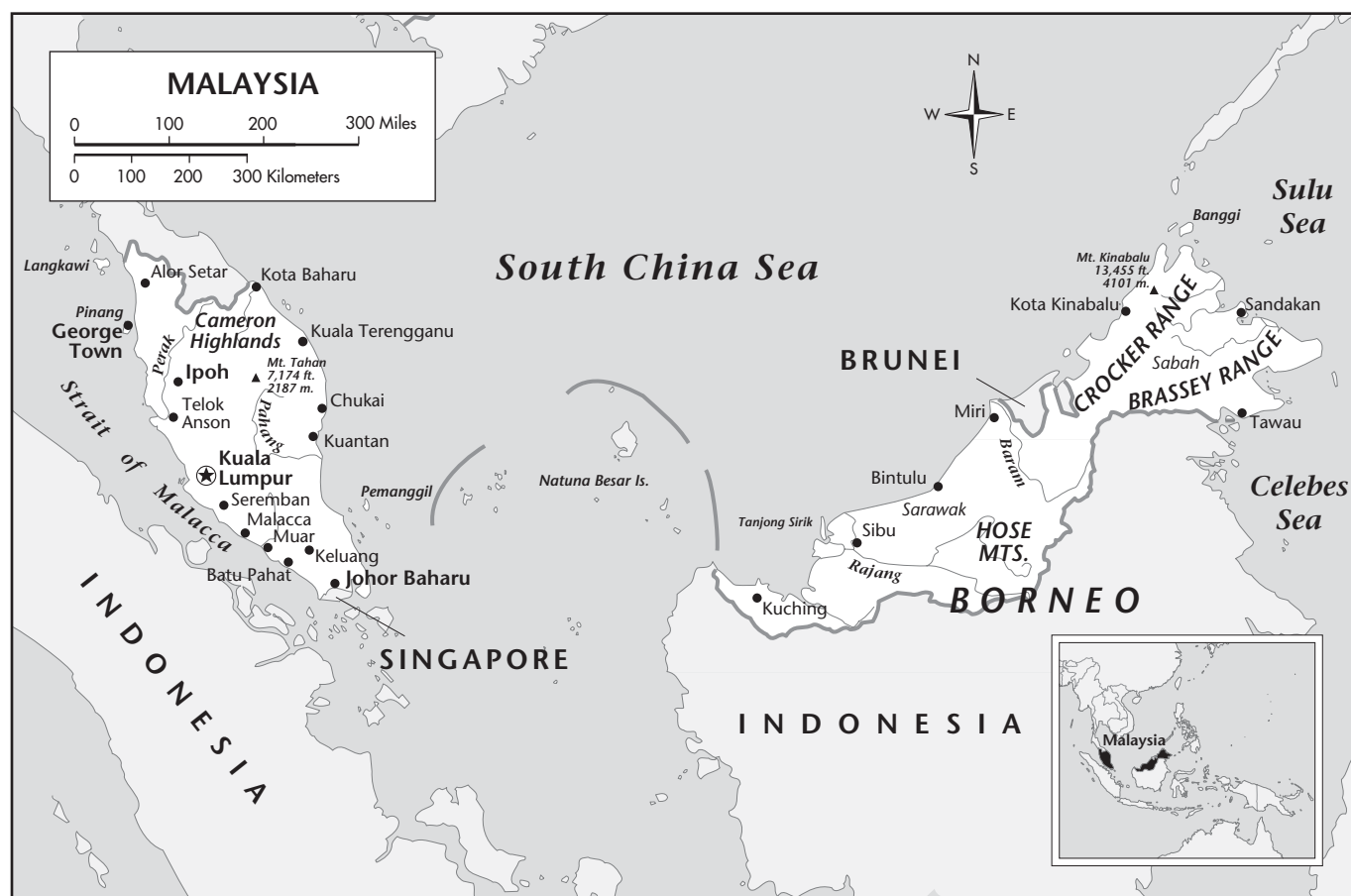
The UN estimated that 62% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.60%. The capital city, Kuala Lumpur, had a population of 1,352,000 in that year.

#### **7 MIGRATION**

Not until British economic enterprise first attracted foreign labor after 1800 did large-scale Chinese, Indian, and Malaysian migration (nonnative Indonesians and Borneans) take place. The early migrants were transients: in 1921, only 20.3% of the Chinese and 11.9% of the Indians were Malayan-born. However, migration data for subsequent years show a general tendency toward permanent settlement by these nonindigenous portions of the population. The percentages of the total Chinese population reporting Malaysia as their birthplace were 29.1%, 62.5%, and 74.4% for the years 1931, 1947, and 1957, respectively; the percentages of Indians reporting their birthplace as Malaysia were 21.1%, 51.4%, and 64.6% for the same respective years. By 1953, the Malays were a minority in their own territory. The government enacted legislation restricting further immigration, and by 1968 the Malays formed slightly more than 50% of the population. Regulations that took effect in 1968 concerning passports and border crossings between Malaysia and Indonesia and between Malaysia and the Philippines were also intended to restrict immigration. Between 1975 and 1996, Malaysia hosted more than 250,000 Indo-Chinese refugees and permitted the local integration of some 45,000 Filipino refugees in Sabah. Between 1975 and 1989, more than 250,000 Vietnamese refugees found asylum in Malaysia; the vast majority subsequently migrated to other countries.

In 2000 there were 1,392,000 migrants living in Malaysia, including 50,500 refugees. In 2004 persons of concern to the United Nations High Commissioner for Refugees (UNHCR) numbered 97,538. Refugees from Indonesia and Myanmar numbered 24,905, and asylum seekers, also from Indonesia and Myanmar, numbered 10,322. Others of concern numbered 63,311, including 57,197 Filipino Muslims, most residing in Sabah and Kuala Lumpur.

According to *Migration News*, in 2005 there were about 1.5 million legal foreign workers in Malaysia, most from Indonesia, Ban-



LOCATION: Peninsular Malaysia: 1°17' to 6°43' N; 99°38' to 104°39' E. Sarawak: 0°52' to 4°59' N; 109°38' to 155°43' E. Sabah: 4°6' to 7°22' N; 115°7' to 119°17' E. BOUNDARY LENGTHS: Peninsular Malaysia: Thailand, 506 kilometers (316 miles); coastline, 2,068 kilometers (1,292 miles). East Malaysia: Brunei, 381 kilometers (238 miles); Indonesia, 1,728 kilometers (1,080 miles); coastline, 2,607 kilometers (1,629 miles). Total boundary length, land and coastline: 7,290 kilometers (4,555 miles).

TERRITORIAL SEA LIMIT: 12 miles.

gladesh, India, and the Philippines, and another million unauthorized foreigners. Foreigners were about one-fourth of the total labor force of 10.5 million. Under government amnesty programs for unauthorized foreigners some 500,000 and 220,000 undocumented workers left in mid-2002 and in December 2004. In addition, between October 2004 and February 2005 another 380,000 unauthorized foreigner left or were expelled. Employers then claimed a shortage of workers on plantations and in construction. The government resumed the practice of permitting entrants on tourist visas to work if they found a job. In July 2005 the government declared that the 60,000 refugees in the country would be allowed to work.

The net migration rate in 2000–04 was an estimated zero migrants per 1,000. This rate does not reflect the unknown number of illegal immigrants, including large numbers from Indonesia and smaller numbers from the Philippines, Bangladesh, Myanmar (Burma), China, and India. The government views the immigration level as too high, but the emigration level as satisfactory.

## 8 ETHNIC GROUPS

The population of Malaysia consists of three main ethnic groups—Malays, Chinese, and peoples of the South Asian subcontinent. Collectively, indigenous groups are known as Bumiputras (“sons of the soil”). Estimates for 2004 reported the following distribu-

tion: Malays, 50.4%; Chinese, 23.7%; Bumiputras, 11%; Indians, 7.1%; and other groups, 7.8%. Malays predominate in the rural areas, while the Chinese are concentrated in urban and mining areas, where they control much of the nation’s wealth; enmity between Malays and Chinese has occasionally erupted into violence. The non-Malay indigenous groups on the peninsula, collectively called the Orang Asli (aborigines), number about 147,000; they represent the poorest group of people in the country.

Non-Malay indigenous tribes constitute about half of Sarawak’s residents; the largest indigenous group consists of the Sea Dayaks, or Ibans, followed by the Land Dayaks, or Bidayuh. The majority of Sabah’s population consists of indigenous peoples, principally Kadazans, Bajaus, and Muruts. The balance is dominated by Chinese.

## 9 LANGUAGES

Bahasa Malaysia, or Malay, is the national language and the lingua franca of all Malaysia. The traditional Bahasa Malaysia script is Jawi, which derives from Arabic script, but Rumi, based on the Roman alphabet, is officially used in government, education, and business. English is widely employed in government and commerce and is a compulsory subject in all schools. Chinese (notably the Mandarin, Cantonese, Hokkien, Hakka, Hainan, and Foochow dialects), Tamil, Telugu, Malayalam, Punjabi, and Thai are spo-

ken. In addition, in East Malaysia several indigenous languages are spoken, the largest of which are Iban and Kadazan. Most Malaysians are bilingual or multilingual.

## 10 RELIGIONS

In Malaysia, religious lines generally follow ethnic lines. Almost all Malays are Muslims; most Indians are Hindus, with a substantial minority of Muslims, Sikhs, and Parsees; and most Chinese are Confucian Buddhists, with a minority Muslim representation. Christianity has won some adherents among the Chinese and Indians. The indigenous peoples of Sabah and Sarawak are still largely animist, although many have become Christian. Shamanism is also practiced on East Malaysia.

According to a 2000 government census, about 60% of the population were Muslim, 19% Buddhist, 9% Christian, and 6% Hindu. About 3% practiced Confucianism, Taoism, or other traditional Chinese religions. Other faiths include animism, Sikhism, and Baha'ism.

Islam is the official religion and the head of state, the *yang di-pertuan agong*, is also the national leader of the Islamic faith. While the constitution guarantees freedom to profess, practice, and propagate other religions, in practice religious practices of groups other than other than Sunni Muslims are restricted. Proselytizing of Muslims to non-Muslim religions is prohibited. The Malaysian Consultative Council of Buddhism, Christianity, Hinduism, and Sikhism is an interfaith organization promoting mutual understanding and peace between religions. The Malaysian Council of Churches and the Christian Federation of Malaysia serve a similar purpose. The National Human Rights Commission has also worked to promote dialogue between faiths. Certain Christian, Muslim, and Hindu holidays are recognized as national holidays.

## 11 TRANSPORTATION

In 2002, the highway system of Malaysia consisted of 64,672 km (40,187 mi) of roads, of which 40,707 km (25,295 mi) were paved, including 1,192 km (741 mi) of expressways. The major highways on peninsular Malaysia run north-south along the east and west coasts. East-west links connect George Town and Kota Bharu in the north and Kuala Lumpur and Kuantan farther south. As of 1991, (according to the Malaysian Highway Authority) the East-West Highway (Federal Route 2) crossing peninsular Malaysia, as well as the Klang Valley Expressway connecting Kuala Lumpur to Port Klang were completed. The 924-km (574-mi) North-South Highway along the west coast of peninsular Malaysia connects Thailand and Singapore. In 2003, registered vehicles included 5,590,000 automobiles and 1,142,000 commercial vehicles.

Malaysia's railway system as of 2004 consisted of 1,890 km (1,176 mi) of standard and narrow gauge railroads, of which 207 km (129 mi) was electrified. Of that total, narrow gauge lines accounted for 1,833 km (1,140 mi), of which 150 km (93 mi) were electrified. Rail lines on peninsular Malaysia are operated by the country's Malayan Railway Administration. These lines provide links to Thailand, Singapore, and the eastern parts of the peninsula. On the island of Borneo, the Sabah State Railways provides diesel service along the west coast and in the interior for 136 km (85 mi). There are no railroads in Sarawak.

There are 7,296 km (4,533 mi) of waterways in all of Malaysia: 3,209 km (1,994 mi) in peninsular Malaysia; 1,569 km (975 mi) in Sabah; and, 2,518 km (1,565 mi) in Sarawak.

The three leading ports, all located on the busy Strait of Malacca, are Kelang (the port for Kuala Lumpur), Johor Baharu, and George Town. Kuching is the main port for Sarawak, and Kota Kinabalu the main port for Sabah. The Malaysian merchant fleet in 2005 consisted of 346 ships of 1,000 GRT or more, totaling 5,389,397 GRT.

Also in 2004, there were an estimated 117 airports. As of 2005, a total of 37 had paved runways, and there was one heliport. Most international flights enter or leave Malaysia through Kuala Lumpur International Airport. Other principal airports include Kota Kinabalu, Kuching, and Penang. The Malaysian Airline System (MAS) provides domestic service to most major cities of the peninsula and to Sarawak and Sabah. In 2003, about 15.214 million passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The ancestors of the Malays came down from South China and settled in the Malay Peninsula about 2000 BC. Sri Vijaya, a strong Indo-Malay empire with headquarters at Palembang in southern Sumatra, rose about AD 600 and came to dominate both sides of the Strait of Malacca, levying tribute and tolls on the ships faring between China and India. In the 14th century, however, Sri Vijaya fell, and Malaysia became part of the Majapahit Empire centered in Java. About 1400, a fugitive ruler from Temasik (now Singapore) founded a principality at Malacca and embraced Islam. It was at Malacca that the West obtained its first foothold on the peninsula. At the height of glory and power, the Malacca principality fell to Portugal in 1511. In their turn, the Portuguese were driven out by the Dutch in 1641. The British East India Company laid the groundwork for British control of Malaya in 1786 by leasing from the sultan of Kedah the island of Pinang, off the west coast of Malaya, about 800 km (500 mi) north of Singapore. Fourteen years later, it obtained from him a small area on the mainland opposite Pinang. In 1819, Sir Thomas Stamford Raffles obtained permission to establish a settlement at Singapore; in 1824, by agreement and financial settlement, the island was ceded to the British East India Company. In the following year, the Dutch settlement at Malacca was ceded to Great Britain. Pinang, Singapore, and Malacca were combined under British rule in 1829 to form the Straits Settlements. The states of Perak and Selangor in 1874 secured treaties of protection from the British. Similar treaties were subsequently made with the sultans of Negri Sembilan (1874-89) and Pahang (1888). In 1895, these four states became a federation (the Federated Malay States), with a British resident-general and a system of centralized government. In 1909, under the Bangkok Treaty, Siam (now Thailand) ceded to British control the four northern states of Kelantan, Trengganu, Perlis, and Kedah. These four, together with Johor, which in 1914 was made a British protectorate, became known as the Unfederated Malay States. Separate British control was extended to Sabah, then known as North Borneo, in 1882. Six years later, North Borneo and Sarawak each became separate British protectorates. Tin mining and rubber cultivation grew rapidly

under British rule, and large numbers of Chinese and Indian laborers were imported for these industries.

Japanese forces invaded Malaya and the Borneo territories in December 1941 and occupied them throughout World War II. Within a year after the Japanese surrender in September 1945, the British formed the Malayan Union, consisting of the nine peninsular states, together with Pinang and Malacca; also in 1946, Singapore and the two Borneo protectorates became separate British crown colonies. The Malayan Union was succeeded by the Federation of Malaya on 1 February 1948. Over the next decade, the British weathered a Communist insurgency as Malaya progressed toward self-government. On 31 August 1957, the Federation of Malaya became an independent member of the Commonwealth of Nations. On 1 August 1962, Great Britain and Malaya agreed in principle on the formation of the new state of Malaysia—a political merger of Singapore and the British Borneo territories (Sarawak, Brunei, and North Borneo) with the Federation. On 1 September 1962, by a 70% plurality, Singapore voted in a referendum for incorporation in the proposed Malaysia, but an abortive revolt staged by Brunei's ultranationalist Brunei People's Party in December 1962 eliminated the sultanate from the proposed merger. On 16 September 1963, the Federation of Malaya, the State of Singapore, and the newly independent British colonies of Sarawak and Sabah merged to form the Federation of Malaysia ("Federation" was subsequently dropped from the official name). On 7 August 1965, Singapore seceded from the Federation and established an independent republic. From the outset, Indonesia's President Sukarno attempted by economic and military means to take over the young nation and incorporate it into Indonesia; cordial relations between the two countries were not established until after Sukarno's ouster in 1966. Internal disorders stemming from hostilities between Chinese and Malay communities in Kuala Lumpur disrupted the 1969 national elections and prompted the declaration of a state of emergency lasting from mid-1969 to February 1971. Successive governments managed to sustain political stability until 1987, when racial tensions between Chinese and Malay increased over a government plan to assign non-Mandarin-speaking administrators to Chinese-language schools.

Between 1978 and 1989 Malaysia provided asylum to about 230,000 Vietnamese refugees as they awaited resettlement in the West. In March 1989 Malaysia responded to the continuing influx of refugees and the Western nations' slow efforts to place them with a plan to screen refugees in order to separate economic migrants from political refugees. This policy was confirmed by the United Nations (UN).

In October 1987 the Malaysian government, under provisions of the Internal Security Act (ISA), which allows detention without trial on grounds of national security, arrested 79 political and civil leaders and closed four newspapers in an effort to stifle dissent. The government called its actions necessary to prevent racial violence, but many prominent Malaysians, including Tunku Abdul Rahman, the country's first prime minister, condemned the actions. At the same time the government clamped down on all news sources disseminating what the government considered false news, and new legislation denied licensing to news sources not conforming to Malaysian values. In 1981 Dato' Hussein bin Onn was succeeded as prime minister by Sato' Sei Dr. Mahathir Mohamad, whose leadership came under criticism from within

the United Malays National Organization (UMNO) and other political parties as racial tensions increased. Part of the challenge to Mahathir's party leadership came in the form of a legal suit claiming that some of the delegates to the UMNO elections of 1987 had not been legally registered, and therefore the election should be declared null and void. The High Court ruled that, due to the irregularities, UMNO was an unlawful society and that in effect the election was invalid. Mahathir held that the ruling did not affect the legal status of the government; he was supported by the ruling head of state, Tunku Mahmood Iskandar. In 1988 Mahathir formed a new UMNO, Umno Baru, and declared that party members would have to reregister to join. (Umno Baru was thereafter referred to as UMNO.) Under provisions of the ISA four people linked to the Parti Bersatu Sabah (PBS) were detained over alleged involvement in a secessionist plot in Sabah in June 1990. In July 1990 elections, the PBS won 36 of 48 seats in the Sabah State Legislative Assembly. Prior to the general election of 1990 the PBS aligned itself with the opposition, which had formed an informal electoral alliance, People's Might (Gagasan Rakyat). The National Front (BN) won 127 of the 180 seats, thus maintaining control of the House of Representatives with the two-thirds majority necessary to amend the constitution. The opposition increased its seats from 37 to 53. In 1992 the People's Might registered as a political organization and Tengku Razaleigh was elected chairman.

In 1990 the restructuring of the portfolio of the Ministry of Trade and Industry was rationalized into two new ministries—the Ministry of International Trade and Industry (MITI) and the Ministry of Domestic Trade and Consumer Affairs (MDTCA). In an action that was widely regarded as politically motivated, Datuk Seri Joseph Pairin Kitingan, chief minister of Sabah and president of the PBS, was arrested in January 1991 and charged with corruption, then released on bail. After subsequent meetings with Mahathir it was announced that the PBS state government had proposed power sharing with United Sabah National Organization (USNO). The head of USNO, Tun Mustapha Harun, resigned from USNO and joined UMNO. This switch necessitated a by-election and in May 1991 UMNO took its first seat in Sabah. The rise of Dayak nationalism in Sarawak was considered as less of a threat after the 1991 state elections. The Sarawak Native People's Party (Parti Bansa Dayak Sarawak—PBDS) retained only 7 of the 15 seats it had won in the 1987 election. A High Court ruling in 1991 upheld a ruling by the Ministry of Home Affairs banning the public sale of party newspapers. Speculation was that by targeting limited media outlets the government was muzzling the opposition press.

In 1991 UMNO raised the issue of the alleged abuse of privilege by Malaysia's nine hereditary rulers. A resolution tabled in 1990 had demanded the rulers be restrained from interfering in politics. In November 1992 the issue of the constitutional status of the sultans again arose when it was proposed that the rulers' immunity from prosecution be removed. The cases inspiring the proposed changes to the constitution were an assault on a hockey coach by the sultan of Johore, and a 1981 incident in which the sultan of Johore (before he became sultan) was convicted of homicide but pardoned by his father, who was sultan at the time. In January 1993 these proposed amendments to the constitution were passed. Immediately after passage of the bill, royal privileges other than those sanctioned and allocations not expressly provided in the

constitution were withdrawn. The nine hereditary rulers first rejected the constitutional changes; however, they eventually agreed to a compromise formula on the bill that effectively removed the blanket legal immunity granted to them. The compromise upheld the constitutional stipulation of royal assent for laws affecting the monarchy. Criticism arose over Mahathir's handling of this situation, as it emphasized the antipathy between his authoritarian style and the "Malay way." These constitutional changes also highlighted Mahathir's moves to strengthen executive power at cost of the judiciary, to consolidate UMNO's control of the legislature, and to control the press. On 17 January 1994 Sabah's chief minister, Datuk Joseph Pairin Kitingan, was found guilty of corruption. The fine imposed on him fell short of the minimum required to disqualify him from office. Although the PBS won the Sabah polls in February 1994, Pairin resigned as the PBS's leading members joined the National Front, and the Sabah wing of UMNO (with 18 of 48 seats) was about to be installed. In August 1994 the government moved to ban the radical Islamic sect, Al-Arqam.

In the general election held 25 April 1995, the ruling National Front captured 162 parliamentary seats out of a possible 192, its biggest victory ever. The coalition won 64% of the popular vote and easily retained its two-thirds parliamentary majority.

The Asian economic crisis of 1997 affected both the economy and the political landscape in Malaysia. By early 1998, the Malaysian economy had undergone its first downturn in 13 years, and tensions over the handling of the crisis erupted between Prime Minister Mahathir, an economic isolationist, and his deputy, Anwar Ibrahim, who favored open-market policies. In September 1998, Mahathir removed Anwar from his cabinet and party posts and imposed currency controls. When Anwar publicly protested these moves and attempted to rally opposition to his former mentor's policies, he was arrested and later tried for corruption and sexual misconduct (sodomy). In 1999 Anwar was sentenced to six years in prison, and his wife launched a new political party, Keadilan (Justice), to contest the upcoming national elections.

The economy began to recover by the end of 1998 and in August 1999 the government officially announced that the recession was over. Responding to an April 2000 deadline for national elections, Mahathir called a snap election in November 1999. Although the arrest of Anwar and his treatment while in custody ignited widespread criticism of Mahathir and his government, the UMNO-led coalition maintained its two-thirds majority in parliament and Mahathir remained in power. However, electoral gains by the Islamic Party of Malaysia (Parti Se-Islam Malaysia—PAS) suggested a significant challenge to the popularity of the government and made PAS the country's largest opposition party.

On 9 March 2001, a wave of intercommunal violence between Malays and ethnic Indians began on the outskirts of Kuala Lumpur, the worst in more than 30 years. Six people, including five of Indian origin, were killed and over 50 were injured. Most of the wounded were ethnic Indians. When opposition leaders claimed the casualty figures were higher, the government threatened to charge them with sedition, although charges were never brought.

In early April 2001, days before public protests were scheduled for the second anniversary of the sentencing of Anwar, 10 opposition leaders were detained under Malaysia's Internal Security Act (ISA). The ISA allows the detention of suspects for up to two years without trial. Most of the detainees were members of the opposi-

tion party Keadilan founded by Anwar's wife, Wan Aziziah. The government used a variety of laws to restrict freedom of expression, and peaceful rallies were broken up by the police. An Anti-ISA Movement (AIM) was formed to work for the repeal of the ISA, which as of 2006 was still in effect.

In September 2001, Malaysia and Singapore came to a series of agreements over issues that had strained relations between them for years. Largely prodded by concern over the growing influence of Islam in Malaysian politics, Singapore agreed to a Malaysian proposal that the causeway linking the two countries be demolished and replaced by a bridge and undersea tunnel after 2007. Malaysia agreed to supply water to Singapore after two water agreements expire in 2011 and 2061. Also discussed were disputes over the use of Malaysian-owned railway land in Singapore, and requests by Singapore to use Malaysian air space.

With the rise in popularity of the Islamic PAS party, Malaysia's image as a moderate Islamic state began to be questioned. In the aftermath of the 11 September 2001 terrorist attacks on the United States, countries in Southeast Asia were asked by the United States to increase their security plans and efforts to combat terrorism. However, many nations have been cautious of a broad sweeping link between Islam and terrorist activities. In May 2002, members of Association of Southeast Asian Neighbors (ASEAN) met in Kuala Lumpur to form a united antiterror front (including strengthening laws to govern the arrest, investigation, prosecution, and extradition of suspects), and pledged to set up a strong regional security framework. Alleged militants with suspected ties to Osama bin Laden's al-Qaeda organization have been arrested in Malaysia. ISA detention was used as an antiterrorism measure, as were tightened laws against money laundering and harsher criminal penalties passed in 2003. The government continued to keep "extremist" Muslim organizations under surveillance.

In June 2002, Mahathir shocked the country with the news that he would resign in October 2003. It was to be the first transfer of the prime ministerial office in over 20 years. His successor was Abdullah Ahmad Badawi, one of three UMNO vice presidents. Badawi pledged to continue Mahathir's policies, but has a far more low-key political style. After just four months as an appointed prime minister, Badawi won an overwhelming mandate in the March 2004 national election, in which his UMNO took over 90% of the parliamentary seats, soundly defeating a challenge from the PAS opposition. During the election campaign, Badawi pledged more transparency in government. He also promoted a policy of Islam Hadhari (Civilized Islam) as a moderate, open, and tolerant alternative to fundamentalist or militant Islam.

Malaysia's Federal Court overturned the sodomy conviction of Anwar Ibrahim in September 2004, and he was freed after nearly six years of imprisonment. This was seen as the real end of the Mahathir era's authoritarianism, although Anwar's eventual role in Malaysian politics remained unclear through 2006. With Badawi's UMNO landslide in the 2004 elections, the status of the opposition as personified by Anwar was much diminished.

A devastating tsunami in December 2004 caused far less damage in Malaysia than in neighboring Thailand and Indonesia; there were fewer than 100 deaths in Malaysia and the Malaysian government did not seek international tsunami relief. A health emergency was declared in August 2005 when smoke from Indonesian forest fires enveloped Kuala Lumpur. Indonesia announced plans to

indict 10 companies for burning forest land for plantations; 8 of the companies were Malaysian.

The Badawi government's policies regarding illegal immigrants, mostly from strife-prone areas of Indonesia and Myanmar, seemed inconsistent, when an amnesty was followed by a crackdown in March 2005. Immigrant workers were detained, imprisoned, and deported. With a need for workers, particularly in the construction sector, Malaysia continued to attract immigrants in 2005, and government policy appeared unclear regarding the political refugees and asylum seekers among those foreign workers.

### 13 GOVERNMENT

Malaysia is a constitutional monarchy consisting of 13 states, 9 of which were formerly sultanates under British protection and 4 of which (Melaka, Pulau Pinang, Sarawak, and Sabah) were former British settlements ruled by appointed governors.

The constitution, promulgated on 31 August 1957 and subsequently amended, derives from the former Federation of Malaya, with provisions for the special interests of Sabah and Sarawak. It provides for the election of a head of state, the *yang di-pertuan agong* (paramount ruler), for a single term of five years by the Conference of Rulers. The constitution also provides for a deputy head of state, chosen in the same manner and for the same term.

The Conference of Rulers consists of the nine hereditary sultans. Its consent must be obtained for any law that alters state boundaries; affects the rulers' privileges, honors, or dignities; or extends any religious acts, observances, or ceremonies to the country as a whole. The conference must also be consulted on proposed changes of administrative policy affecting the special position of the Malays or the vital interests of other communities.

The *yang di-pertuan agong*, who must be one of the hereditary sultans, is commander in chief of the armed forces and has the power to designate judges for the Federal Court and the High Courts on the advice of the prime minister, whom he appoints. Until January 1984, the paramount ruler had the right to veto legislation by withholding his assent; this right was lost in a constitutional compromise that gave the paramount ruler the right to delay new laws for up to 60 days but also stipulated that, if passed by a two-thirds majority, a bill may become law after six months without his signature.

The *yang di-pertuan agong* from 1979 to 1984 was Ahmad Shah al-Musta'in Billah Ibni al-Marhum, the sultan of Pahang. The leading candidate to succeed him was Idris al-Mutawakil Allahi Shah Ibni al-Marhum, the sultan of Perak, but when Idris died of a heart attack on 31 January 1984, the Conference of Rulers selected Mahmud Iskandar Ibni al-Marhum Sultan Ismail. As crown prince of Johor he had been convicted of homicide in a shooting incident in 1977 but had been pardoned by his father and became sultan in 1981. In 1989 the sultan of Perak, Azlan Muhibuddin Shah, became the *yang di-pertuan agong*. He was succeeded in 1994 by Tuanku Ja'afar ibni Al-Marhum Tuanku Abdul Rahman, who was in turn succeeded in 1999 by Salehuddin Abdul Aziz Shah ibni Al-Marhum Hismuddin Alam Shah. Salehuddin died in office on 21 November 2001 and was succeeded in 2002 by Tuanku Syed Sirajuddin ibni Almarhum Tuanku Syed Putra Jamalullail, the sultan of Perlis.

Executive power rests with the cabinet, chosen by the prime minister, who is the leader of the majority party or coalition of

the house of representatives (*Dewan Rakyat*), the lower house of parliament. The 193 members of the house of representatives must be at least 21 years old; they are elected by universal adult suffrage (at age 21). Their term is five years unless the house is dissolved earlier. The 69-member senate (*Dewan Negara*) consists of 26 elected members (2 from each state); 2 members appointed by the paramount ruler to represent the federal territory of Kuala Lumpur, and 1 to represent the island of Labuan; and 40 members appointed by the paramount ruler on the basis of distinguished public service or their eligibility to represent the ethnic minorities. Senators must be at least 30 years old; they hold office for six-year terms.

### 14 POLITICAL PARTIES

Before World War II, there was limited political activity in Malaya, but the Japanese occupation and its aftermath brought a new political awareness. Postwar political parties sought independence, and although the Malays feared domination by the populous minorities, particularly the economically stronger Chinese, the United Malays National Organization (UMNO), the leading Malay party, and the Malaysian Chinese Association (MCA) formed the Alliance Party in 1952. This party was later joined by the Malaysian Indian Congress (MIC) and became the nation's dominant political party. The Malayan Communist Party, a powerful and well-organized group after the war, penetrated and dominated the trade unions. In 1948, after the Communists had resorted to arms, they were outlawed.

In the elections of April 1964, the Alliance Party won a majority of 89 of the 154 House seats. The third general election since independence was held in peninsular Malaysia on 10 May 1969; in the balloting, the Alliance Party suffered a setback, winning only 66 seats. The election was followed by communal rioting, mainly between Malays and Chinese, resulting in much loss of life and damage to property. The government suspended parliament and declared a state of emergency; elections in Sarawak and Sabah were postponed until July 1970. By the time parliament was reconvened on 22 February 1971, the Alliance had achieved a two-thirds majority (required for the passage of constitutional amendments) with the addition of 10 unopposed seats from Sabah and through a coalition with the Sarawak United People's Party, which controlled 12 seats.

The elections for state assemblies resulted in a setback for the Alliance Party, which before the elections had controlled 10 of the 13 state assemblies, but after the elections only 7. In September 1970, Tunku Abdul Rahman retired as prime minister and was replaced by the deputy prime minister, Tun Abdul Razak. In 1973, the Alliance Party formed a broader coalition consisting of the UMNO, MCA, MIC, and eight minority parties. Known as the National Front and led by the UMNO, the ruling coalition was returned to power in the 1974, 1978, 1982, and 1986 elections with overwhelming majorities (148 of 177 seats in 1986). In April 1987, Mahathir narrowly overcame a challenge to his leadership of the UMNO. The principal opposition parties (which win few seats owing to a legislative apportionment scheme that heavily favors Malay voters) are the Chinese-based Democratic Action Party (DAP), founded in 1966, and the Parti sa Islam Malaysia (PAS), dedicated to establishing an Islamic state. The post-Mahathir 2004

elections made UMNO more dominant than ever, with an over 90% mandate.

As of 2003 there were more than 20 registered parties. The governing coalition is the Barisan Nasional (National Front), led by the United Malays National Organization (UMNO) and comprising 13 other parties, most ethnically based. Major opposition groups are the Muslim Unity Movement (APU), dominated by the Parti sa Islam Malaysia (PAS); the Democratic Action Party (DAP), which is predominantly Chinese and socialist; the Parti Bersatu Sabah (PBS); and Keadilan, formed by Wan Aziziah Wan Ismail, the wife of government official Anwar Ibrahim, who was jailed from 1999–2004.

In the election held 28 and 29 November 1999, the 193 seats of the lower house were distributed as follows: National Front (148 seats), DAP (10), PBS (3), PAS (27), and Keadilan (5). In the election, PAS won control of the state governments of Kelantan and Terengganu, giving it 2 of Malaysia's 13 states.

In the March 2004 general election, the UMNO-dominated Barisan Nasional (BN) coalition took 198 of 219 seats in parliament's lower house, and won control of 11 of 12 state governments contested. The opposition Parti Islam sa Malaysia (PAS) won only six seats, losing even in conservative Muslim states. The Democratic Action Party (DAP) won 12 seats, making DAP's Lim Kit Siang the opposition leader in the Malaysian parliament. The PAS and the DAP were at odds over religious policy issues and the opposition was in a particularly weakened position. The next national election was scheduled to take place by 2009.

## <sup>15</sup>LOCAL GOVERNMENT

Of the 11 peninsular Malaysian states, 9 are headed by sultans, who act as titular rulers and as leaders of the Islamic faith in their respective states. The other two peninsular states, Pinang and Melaka, are headed by federally appointed governors. State governments are parliamentary in form and share legislative powers with the federal parliament. Effective executive authority in each state is vested in a chief minister, selected by the majority party in the state legislature. The legislative assembly, composed of elected members, legislates in conformity with Malaysian and state constitutions, subject to the sultan's assent. In peninsular Malaysia the states are divided into districts, each of which consists of 5 to 10 subdistricts, called mukims (derah in Kelantan). Each mukim is responsible for varying numbers of kampongs (villages or compounds). The mukim may include villages or consist of large, sparsely populated tracts of land. Each one is headed by a penghulu (penggawa in Kelantan), a part-time official locally elected for five years, who serves as the principal liaison between the district and the village. The village elects a ketua (chief).

Upon incorporation into the Federation of Malaysia in 1963, both Sabah and Sarawak adopted separate constitutions for their local self-government; each is headed by a chief minister, appointed by the majority party of the elective legislature. In Sarawak, divisions and districts are the main subdivisions; in Sabah their counterparts are residencies and districts. The district officer is the most important link between the governing and the governed. His responsibilities are administrative, fiscal, and judicial. Kuala Lumpur, the national capital and former capital of Selangor State, was constituted as a separate federal territory, under the national

government, on 1 February 1974. The mayor is appointed by the paramount ruler on the advice of the prime minister.

## <sup>16</sup>JUDICIAL SYSTEM

Malaysia has a unified judicial system, and all courts take cognizance of both federal and state laws. The legal system is founded on British common law. Most cases come before magistrates and sessions courts. Religious courts decide questions of Islamic law and custom. The use of religious law by states, and selective, inconsistent enforcement by religious officers, has become controversial. The use of the Internal Security Act (ISA) against dissidents and restrictions of the press and freedom of expression remain concerns of civil libertarians and international human rights organizations.

The Federal Court, the highest court in Malaysia, reviews decisions referred from the High Court of Peninsular Malaysia, the High Court of Sabah and Sarawak, and subordinate courts. The Federal Court, of which the *yang di-pertuan agong* is lord president, has original jurisdiction in disputes among states or between a state and the federal government. The Federal Court consists of the chief justice, the two chief judges from the High Courts, and seven other judges. Administrative detention is permitted in security cases, in which certain other guarantees of due process are reportedly suspended.

The judiciary has traditionally functioned with a high degree of independence. Most civil and criminal cases are fair and open. The accused must be brought before a judge within 24 hours of arrest. Defendants have the right to counsel and to bail. Strict rules of evidence apply in court and appeal is available to higher courts. Criminal defendants may also appeal for clemency to the paramount ruler or to the local state ruler. Severe penalties, including the death penalty, are imposed for drug-related offenses.

High courts have jurisdiction over all serious criminal cases and most civil cases. The sessions courts hear the cases involving landlord-tenant disputes and car accidents. Magistrates' courts hear criminal cases in which the maximum sentence does not exceed 12 months. The Court of Appeals has jurisdiction over high court and sessions court decisions.

## <sup>17</sup>ARMED FORCES

In 2005, Malaysia had 110,000 active personnel in its armed forces, with 51,600 reservists. The total strength of the Army was 80,000, including infantry and armored battalions, artillery regiments, and supporting air defense, signal, engineer, special forces, and administrative units. Equipment included 26 *Scorpion* light tanks, 418 reconnaissance vehicles, 1,020 armored personnel carriers, and 414 artillery pieces. The Navy had 15,000 active personnel including a 160-person naval aviation arm and a unit of naval commandos. Major naval units included 4 frigates, 6 corvettes, 35 patrol/coastal vessels, and 4 mine warfare ships. The naval aviation arm operated six antisubmarine warfare helicopters. The Air Force had 15,000 personnel and 63 combat capable aircraft that included 28 fighters and 16 fighter ground attack aircraft. Paramilitary forces numbered an estimated 20,100, and included aviation and marine police units. There was also the People's Volunteer Corps, which had 240,000 reservist personnel, of which around 17,500 were armed. In 2005, Malaysia provided support to 10 UN

peacekeeping missions. Australia provides a small training mission. The defense budget for 2005 totaled \$2.47 billion.

## 18 INTERNATIONAL COOPERATION

Malaysia became a member of the United Nations on 17 September 1957, and participates in ESCAP and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, IFC, IAEA, the World Bank, and the WHO. It also belongs to the WTO, the Asian Development Bank, ASEAN, the Commonwealth of Nations, APEC, the Arab Bank for Economic Development in Africa, the Colombo Plan, the Organization of the Islamic Conference (OIC), and G-77.

Before the 1970s, Malaysia pursued a pro-Western policy, but it later promoted the neutralization of Southeast Asia while establishing ties with China, the Democratic People's Republic of Korea, and Cuba, and strengthening relations with the USSR and other East European states. Links with its traditional allies, including the United States, remained strong in the course of this transition. Relations with the United Kingdom were strained in the early 1980s, after the British imposed surcharges on foreign students attending universities in the United Kingdom and issued new regulations reducing opportunities for foreign takeovers of British-owned companies. Malaysia agreed to drop its "buy British last" campaign in 1983 after the United Kingdom expanded scholarship opportunities for Malaysian students.

In 1986 there was some friction with Singapore because of its improved relations with Israel. Malaysia shares the anti-Zionist ideology of the Arab League countries. The nation has offered support to UN missions and operations in Kosovo (est. 1999), Western Sahara (est. 1991), Ethiopia and Eritrea (est. 2000), Liberia (est. 2003), Sierra Leone (est. 1999), East Timor (est. 2002), and Burundi (est. 2004), among others. The country is part of the Nonaligned Movement.

In the 1990s and early 2000s Malaysia has been building better relations with its neighbors. Malaysia has cooperated with the ASEAN Regional Forum (ARF), a 23-member Asian security network, helping to reduce tensions over the disputed Spratley Islands in the South China Sea. Malaysia also seeks increased economic integration in Southeast Asia. In 1990, Prime Minister Mahathir proposed the creation of an East Asian Economic Caucus, an idea that was initially regarded with skepticism, but was subsequently taken up by the ASEAN+3 group (the ten ASEAN members plus China, Japan, and South Korea) as a way of strengthening financial and trade ties between those states.

In environmental cooperation, Malaysia is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Malaysia was one of the most prosperous nations in Southeast Asia before 1998, albeit with the mood swings inherent in an export-oriented economy. Until the 1970s, Malaysia's economy was based chiefly on its plantation and mining activities, with rubber and tin the principal exports. Since then, however, Malaysia has added palm oil, tropical hardwoods, petroleum, natural gas, and

manufactured items, especially electronics and semiconductors, to its export list. This diversification greatly reduced the nation's dependence on overseas commodity markets. By 1980, rubber accounted for about 7.5% of the value of all exports, down from 30% in the 1970s, and tin for about 4.3%, down from about 20% in the 1970s. The worldwide recession in 1981–82 hurt the Malaysian economy. Prices of Malaysia's traditional commodity exports were depressed, growth slowed, and investment fell. Government efforts to stimulate the economy through spending on heavy industry and infrastructure projects financed by borrowing pushed foreign debt from \$4 billion in 1980 to \$15 billion in 1984.

In 1985, the GDP in current prices was estimated at \$31 billion, up from \$25 billion in 1981. Real growth rates rose to 6.9% in 1981, and 7.6% in 1984, but declined 1.0% in 1985. In 1985–86 Malaysia's period of high growth was halted abruptly as both oil and palm oil prices were halved. Recovery began in late 1986 and 1987, spurred by foreign demand for exports. Growth rates reached an average 8–9% from 1987–92, and for most of the 1990s, the economy grew annually by just under 9%.

The Asian financial crisis put an end to 13 years of uninterrupted growth with a decline in GDP of -7.4% in 1998. The government's response was to embark on a massive economic recovery program, aimed at stabilizing the currency, restoring market confidence, maintaining market stability, strengthening economic fundamentals, furthering socioeconomic goals, and reviving badly affected sectors. The program featured two fiscal stimulus packages amounting to 2.25% of GDP and the establishment of three special purpose agencies: the Danaharta—also known as the National Asset Management Co.—to acquire and dispose of nonperforming loans (NPLs); the Danamodal, charged with implementing government policy on recapitalizing financial institutions; and the Corporate Debt Restructuring Committee (CDRC), to facilitate voluntary debt restructuring between creditors and viable corporate debtors. More controversially, the government proceeded in 2000 with merger plans to consolidate Malaysia's banks into 10 "anchor" banks and to consolidate Malaysian domestic brokerage houses into 15 "universal brokers." The rationale behind the consolidations was that larger entities would be better able to compete with international counterparts. Gross domestic product growth recovered to 6.3% in 1999 and increased to 7.9% in 2000, but was reduced to 0.7% in 2001 as the global economic slowdown and the aftermath of the 11 September 2001 terrorist attacks on the United States helped produce a 10.6% reduction in exports.

In 2002, the economy continued to recover, reaching an annual growth rate of about 3.5%. Since late 2001, Malaysia has taken a leading role, with Bahrain, in seeking to institutionalize Islamic banking. In November 2001 Malaysia signed an agreement with Bahrain, Indonesia, Sudan and the Saudi-based Islamic Development Bank (IDB) to establish the International Islamic Financial Market (IIFM). This is an extension of its domestic efforts to foster Islamic banking going back to the Islamic Banking Act of 1983, under which it was the first Islamic economy to issue bonds on an Islamic basis. In June 2002 Malaysia took the lead in offering the world's first Islamic global bond issue. The Islamic bond is a problem because Islam forbids paying or receiving interest. The 144a offering (not subject to SEC disclosure regulations) in the name of the Malaysia Global Sukuk (MGS) involves MGS buying from the Malaysian government the Ministry of Finance building, two

hospitals, and a civil service accommodation, and leasing them back to the government for a period of five years, during which time the government issues trust certificates to the investors with payments exactly equal to lease rental payments being made by the government to MGS. At the end of five years, in 2007, the government will buy back the properties at the face value of the bond. These arrangements were judged compliant with Islamic law. The Trust Certificates had their primary listing on the Luxembourg Stock Exchange in August 2002, and their secondary listing on Malaysia's Labuan International Financial Exchange (LFX) in September 2002. The LFX is part of Malaysia's Labuan International Offshore Financial Centre (IOFC), established in October 1990 by the government to provide a full array of financial services for multinational corporations and investors. The MSG certificates are part of an effort to provide Sharia-compliant instruments for a growing Islamic financial market, estimated in 2002 at \$200 billion. The Labuan Offshore Financial Services Authority (OFSA) took credit for initiating the idea for the establishment of the IIFM in November 2001. A Malaysian heads the IIFM and the Islamic Financial Service Organization (IFSO) is headquartered in Malaysia. As host country for the IFSO, Malaysia will lead in formulating and developing standards for the regulation of Islamic financial institutions.

In 1990, Malaysia was the world's largest producer of natural rubber, accounting for one-quarter of world production. By 1993, however, production was overtaken by both Thailand and Indonesia. During the late 1990s, production of synthetic rubbers undercut the natural rubber industry. In 1990 Malaysia was the world's largest exporter of tropical hardwood, the world's fourth-largest producer of cocoa, and the source of 60% of the world's palm oil. By 2001, Malaysia exported over half of the world's fixed vegetable oils, accounting for approximately 6.7% of Malaysia's exports. In 2002, electronics accounted for two-thirds of total exports. Malaysia remains a major producer of commodities including rubber, tin, palm oil, tropical hardwoods, cocoa, and pepper. It also produces and exports oil, petroleum products, and liquefied natural gas, amounting to 5% of total exports in 1998.

Government or government-owned entities dominate a number of sectors (plantations, telecommunications, and banking). Since 1986 the government has moved toward the eventual privatization of telecommunications, ports, highways, and electricity production and distribution. In the 1990s, the government embarked on a privatization program aimed at creating a Malaysian business elite as part of its *bumiputera* (literally, "sons of the soil") policy. However, virtually all the major privatized companies failed in the Asian financial crisis, 1997–98 (including the carmaker Proton, Malaysian Airlines, the engineering group Renong, and the media group, Malaysian Resources) and were renationalized in the aftermath. The official unemployment rate at 2.6% in 1996 hovered around 3.6% in 2001–05. The inflation rate as measured by consumer prices, at 5.1% for 1998, fell sharply in the succeeding years to 1.6% in 2000, 1.4% in 2001, 1.8% in 2002, but had risen to 2.9% by 2005. Sarawak's basic economy is subsistence agriculture, supplemented by petroleum production and refining, the collection of forest produce, fishing, and the cultivation of cash crops, primarily rubber, timber and pepper. Sabah's economy rests primarily on logging and petroleum production.

On 1 September 1998, the government pegged the ringgit at m\$3.8 = us\$1. The government maintained this fixed exchange rate until 21 July 2005, when the peg was replaced by a managed floating exchange rate based on a basket of trade-weighted currencies. Real GDP was forecast to grow by an average 5.1% in 2006–07, supported by household and investment spending, which will bolster growth in the services sector. Although the trade and current-account surpluses were expected to narrow over the 2006–07 period, their nominal values were forecast to still be large compared with levels seen in the 1990s. By 2002, Malaysia was the world's dominant world producer of palm oil. Malaysia, like most countries in Southeast Asia, is dependent upon exports for its growth. In 2004, a double-digit surge in exports lifted the region's growth to 6.3%. But in remaining export-driven, the region is vulnerable to the vagaries of the world economy. Reviving domestic consumption is seen as a key to the region's successful economic future.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Malaysia's gross domestic product (GDP) was estimated at \$248.0 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$10,400. The annual growth rate of GDP was estimated at 5.1%. The average inflation rate in 2005 was 2.9%. It was estimated that agriculture accounted for 7.2% of GDP, industry 33.3%, and services 59.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$987 million or about \$40 per capita and accounted for approximately 1.0% of GDP. Foreign aid receipts amounted to \$109 million or about \$4 per capita and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Malaysia totaled \$45.36 billion or about \$1,829 per capita based on a GDP of \$103.7 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.9%. It was estimated that in 1998 about 8% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, Malaysia's total labor force was estimated at 10.67 million. As of 2004, agriculture accounted for 14.8% of the workforce, 30.1% by industry, and 55.1% by the services sector. Unemployment in 2005 was estimated at 3.6%.

Workers have the right to engage in union activity, but only about 9% of the workforce were unionized in 2005 and were covered by 617 trade unions. Negotiations between unions and employers are voluntary and strikes are permitted but limited due to many restrictions. In addition, unions must be registered with the director general of trade unions, the latter of which can refuse or revoke a union's registration, thus making the union an unlawful association. If a labor dispute has been referred to an industrial

court for settlement, the employees are prohibited from engaging in a strike.

As of 2005, the employment of children under the age of 14 is prohibited by law, although some exceptions—which include public entertainment, family businesses, as an approved apprentice, and work in school or a training facility for the government—are permitted. However, child labor persists in some areas of the country and protective labor legislation in Malaysia is more extensive than in most Asian countries. The workweek is set at a maximum of 48-hours, 6 days per week, 8 hours per day. Actual weekly hours tend to be closer to 44 hours. There is a legal requirement of one rest day per week. There is no national minimum wage that governs all workers, the government preferring to leave wage rates to market forces. Prevailing market wages provide a decent standard of living for a worker and family, although this was not the case with all migrant workers. Occupational safety and health provisions are set by law but are erratically enforced. The provisions are more rigorously enforced in the formal economic sector and are least enforced on plantations and construction sites where immigrant workers are employed. These foreign workers have no legal protections and are prohibited from forming unions.

## 22 AGRICULTURE

Agriculture contributed 10% of GDP in 2003 (down from 38% in 1960), occupied about 16% of the employed work force, and accounted for 8.6% of export earnings in 2004. Diversification—including development of such newer crops as oil palm, cocoa, and pineapples—was promoted by the government. Much of Sabah and Sarawak is covered with dense jungle and is not conducive to farming. Peninsular Malaysia, however, is predominantly an agricultural region. Cultivation is carried out on the coastal plains, river valleys, and foothills.

Domestic rice cultivation furnishes peninsular Malaysia with about 80% of its requirements; most of the rice supply for Sabah and Sarawak, however, must be imported. Milled rice production for 2004 totaled 2,183,000 tons, of which about 70% came from peninsular Malaysia. Rubber production totaled 1,190,000 tons in 2004. The government, through the Rubber Research Institute of Malaysia, has concentrated on improving production, but many estates have switched to production of the more profitable oil palm. Although Malaysia produced 12% of the world's rubber in 2004 and typically accounts for over one-third of the world's rubber exports, rubber is no longer the country's primary source of export income. Competition from Thailand and Indonesia has diminished the Malaysian market share for rubber.

Production of palm oil and palm kernel oil totaled 13,976,200 and 3,622,000 tons respectively in 2004, more than any other country in the world. More than 90% of all rubber and palm oil is produced in peninsular Malaysia. Black and white peppers are grown on Sarawak; pepper exports amounted to \$31.6 million in 2004. Output of lesser agricultural products in 2004 included coconuts, 710,000 tons; cocoa, 33,000 tons; and pineapples, 320,000 tons.

## 23 ANIMAL HUSBANDRY

Peninsular Malaysia is free of most of the infectious and contagious diseases that plague livestock in the tropical zone, but the livestock industry is of minor importance. The livestock popu-

lation in 2005 included 2,150,000 hogs, 755,000 head of cattle, 225,000 goats, 119,000 sheep, and 130,000 buffalo. The swamp buffalo and indigenous breeds of cattle are used mainly as draft animals. Production of meat in 2005 included (in tons): poultry, 965,000; pork, 205,500; and beef (cattle), 21,200. Malaysia is self-sufficient in pork and poultry production and also exports to other countries in the region, particularly Singapore and Japan. Sarawak's poultry sector was growing by 7% annually in response to increased demand from neighboring Kalimantan, Indonesia, where during certain festive months there is a poultry shortage. Malaysia has been monitoring outbreaks of bird flu, with the third case reported in September 2004, believed to have been caused by poultry smuggled along the Malaysia-Thailand border. The government prohibits the importation of chicken and chicken parts in order to protect domestic producers. Hog-raising and export are handled mainly by non-Muslim Chinese. Milk production was 45,125 tons in 2005.

## 24 FISHING

Fishing was being developed both as a means of reducing unemployment and as a primary source of protein in the country's diet. The total catch in 2003 was 1,477,195 tons, as compared with 296,300 tons in 1966; the increase has been largely the result of expanded and improved marketing facilities. Exports of fisheries products were valued at \$435.1 million in 2003, with imports of \$365.8 million that year. A government training program in navigation and engine care was accelerating the use of powerboats. Freshwater fishing, which accounted for 2% of the total catch, occurred in paddy fields or irrigation ditches and was integrated with rice farming and hog production.

## 25 FORESTRY

Malaysia produced an estimated 21.8 million cu m (770 million cu ft) of roundwood from a forest area of 17.7 million hectares (43.7 million acres) in 2004. About 33% of the forest area is located in peninsular Malaysia, 22% in Sabah, and 45% in Sarawak.

After 40 years of large scale conversion of lowland forest areas into agricultural plantations, the pace of new land development declined in the mid-1990s. Reduced land availability and a growing need to preserve remaining forests resulted in a 60% reduction from the government's 1991–95 plan in the total acreage of land scheduled for development. Of the total natural forest area, 14.2 million hectares (35 million acres) of forested land is designated as Permanent Forest Estate, of which 78% is available for sustainable production.

Exports of timber products in 2004 amounted to \$5.2 billion, or 4.1% of total exports. Exports of tropical hardwoods in 2004 included (in thousands of cubic meters) logs, 5,118; lumber, 2,761; veneer, 394; and plywood, 4,348. In keeping with the National Forestry Policy of 1978, exports of sawn logs are being progressively reduced (in fact, many states ban the export of logs) in favor of domestic development of veneer, plywood, furniture, and other wood-using industries. Only Sarawak exports tropical hardwood logs, but its state government has placed further restrictions on exporting logs in order to encourage expansion of value-added activities. As of 2004, eight states and 40 timber companies have been given permits for compliance with the government's timber

certification program to provide assurance of sustainable and legal sources of forest products to buyers of Malaysian timber.

## 26 MINING

Malaysia is a producer of bauxite, coal, ilmenite, iron ore, kaolin, monazite, sand and gravel, struverite, tin, zircon, and natural gas and oil. Although the country's mining sector in 2004 accounted for 7% gross domestic product (GDP), gas and oil accounted for 95% of that sector. In addition, Malaysia's tin mining sector has been declining because of depleted high-grade reserves and lower tin resources. In 2004, Malaysia mined 2,745 metric tons of tin, down from 3,359 metric tons in 2003, and down from 6,307 metric tons in 2000. To revitalize the tin-mining industry, the Malaysian Chamber of Mines recommended that the government of Perak, one of the two main tin-mining states (Selangor being the other), change the royalty rate to a flat rate. In 2004, total exports were valued at \$126.5 billion, of which mining products accounted for 11.5% of that total. However, the bulk of that figure was from oil and liquefied natural gas (\$6 billion and \$7.1 billion, respectively) with major mineral exports valued at only \$424 million, of which tin accounted for \$289 million.

Subsoil resources were public property of the states, which granted prospecting licenses and mining leases. Royalties on coal and gold accrued to the states. Export duties were levied on other minerals by the government, which returned a portion to the states.

Iron ore production (by gross weight) in 2004 totaled 663,732 metric tons, up from 596,612 metric tons in 2003. Bauxite production has fallen as a result of depleted resources since 2000. In that year, bauxite output (by gross weight) totaled 123,270 metric tons, but in 2004 totaled only 2,040 metric tons. Malaysia ceased copper production in 1999. As a result, silver production, most of which was a by-product of copper mining, dropped from 9,647 kg in 1997 to 364 kg in 2004. Other metal minerals extracted included gold, columbite, and titanium dioxide (from Terangganu). Malaysia was a net exporter of all its coal, ilmenite, rare earths, and zircon concentrate, and most of its smelted tin. Industrial minerals produced in 2004 included hydraulic cement, clays and earth metals, feldspar, mica, nitrogen, silica sand, and stone. Silica sand came mainly from natural sand deposits in Sarawak (56.6 million tons of estimated reserves) and Johor and from tin-mine-tailings sand in Perak and Selangor; 85% was exported and 63% of exports went to Singapore.

## 27 ENERGY AND POWER

Malaysia's large reserves of natural gas and its exports of oil make the country a key player in the world's energy markets. The country is also a modest producer of coal.

Crude oil is now the chief mineral produced by Malaysia. As of 1 January 2005, Malaysia had proven oil reserves estimated at 3 billion barrels, down from 4.3 billion barrels in 1996. In 2004, oil production averaged an estimated 855,000 barrels per day, of which crude oil accounted for 750,000 barrels per day. Domestic demand that year was estimated at 534,000 barrels per day. Malaysia's oil is produced offshore, primarily in the peninsular region. However, of new and increasing importance are large offshore natural gas deposits, with reserves estimated at 75 trillion cu ft as of 1 January 2005. Production in 2002 totaled an estimated 1.7

trillion cu ft, with domestic consumption at an estimated 1 trillion cu ft for that same year.

Malaysia is also a major exporter of liquefied natural gas (LNG). In 2003, LNG exports totaled 0.8 trillion cu m, about 14% of the world's total. Production of oil and natural gas is controlled by the National Petroleum Co. (PETRONAS).

In 2002, Malaysia produced an estimated 900,000 short tons of coal, while demand that year was estimated at 6.9 million short tons. As a result, Malaysia imported 6 million short tons.

Malaysia's net installed electrical generating capacity, as of 1 January 2002, stood at 14 GW, of which 86% was dedicated to conventional thermal fuels and 14% was hydroelectric. Electrical energy production in 2002 was estimated at 67 billion kWh. In 2002, demand for electric power was placed at 65.038 billion kWh. The National Electricity Board, a state-owned corporation, supplied the greater part of the nation's power.

## 28 INDUSTRY

Early industrialization efforts centered on the establishment of import-substitution industries (ISI) and resulted in construction of sugar refineries and motor vehicle assembly plants. Industrialization accelerated after the mid-1960s under the provisions of the Investment Incentives Act and the formation of the Malaysian Industrial Development Authority (MIDA). Special incentives were offered for industries that were labor-intensive, export-oriented, or that utilized domestic rubber, wood, and other raw materials. In the mid-1980s the Malaysian economy changed from a commodity-based to a manufacturing-based economy. In 1986, the leading manufacturing industries included rubber processing, the manufacture of tires and other rubber products, palm oil processing, tin smelting, and the manufacture of chemicals, plywood, furniture, and steel. Other industries were textiles, food processing, and the manufacture of electronic and electrical components. Most early industries were controlled by ethnic Chinese and foreigners, but government policies in the 1990s and early 2000s called for greater participation by ethnic Malays.

In 2005 industry accounted for 33.3% of GDP. Of total exports in 2004, electronics and electrical products accounted for 67.6%; chemicals and chemical products 7.3%; petroleum and liquefied natural gas (LNG) 7.3%; palm oil 5.3%; and textiles, clothing, and footwear 2.7%. In 2001, Malaysia produced about 15% of the world's DVD players, compared with China's 54.1% and Japan's 7.7%. In peninsular Malaysia, the leading industries by value of annual output are rubber and palm oil processing and manufacturing, light manufacturing, electronics, tin mining and smelting, and logging and processing timber. In Sabah, the leading industries are logging and petroleum production, while in Sarawak, they are agricultural processing, petroleum production and refining, and logging.

Malaysia has six oil refineries, with a total capacity of 544,832 barrels per day (BPD) in 2005. Oil production from 1996 to 2002 varied between 650,000 bpd and 730,000 bpd. In 2004, crude oil production amounted to 750,000 barrels per day. Proven reserves have dropped from 4.3 billion in 1996 to 3 billion in 2005, and Malaysia's national oil and gas company, PETRONAS, has invested in oil exploration projects in Syria, Turkmenistan, Iran, Pakistan, China, Vietnam, Burma, Algeria, Libya, Tunisia, the Sudan, and Angola. Overseas operations made up one-third of PETRONAS's

operations in 2002. Japan, Thailand, South Korea, and Singapore continue to be the major customers for Malaysian crude oil. Malaysia's domestic oil fields are split between the South China Sea off Borneo and those off peninsular Malaysia. All exploration is conducted under production-sharing contracts (PSCs) between PETRONAS, the national oil company, and foreign companies. In 1999, foreign oil companies involved in the production of oil and gas in Malaysia included Exxon, Shell, Sonoco, Statoil, Union Carbide, Amerada, and Lundin. Gas reserves were being developed to fuel power stations and to supply industries in peninsular Malaysia and Singapore. In 2003, Malaysia accounted for 14% of the world's exports of LNG, down from 18% in 1998.

A top industrial priority in Malaysia economic plans is the development of the "multimedia super corridor" (MSC), an ambitious project underway to transform a 15-by-40 km (9.3-by-25 mi) area south of Kuala Lumpur into Asia's version of California's Silicon Valley. It is composed of a number of projects: the tallest twin towers in the world, the 450-m (1,483-ft) Petronas Twin Towers; two of the world's first Smart Cities—Putrajaya, the \$8-billion new seat of government and administrative capital of Malaysia, where the concept of electronic government will be implemented, and Cyberjaya, an intelligent city with multimedia industries, research and development centers, a multimedia university, and operational headquarters for MSC; the construction of a \$3.6 billion international airport; and the installation of a fiber-optic telecommunications system linking them all.

In 1998, as part of its policy to encourage manufacturing industries, the government relaxed restrictions on foreign ownership of new manufacturing projects. Any new manufacturing project for which the Malaysian Industrial Authority (MIDA) approves a license may have up to 100% foreign ownership, regardless of its involvement in exporting.

## 29 SCIENCE AND TECHNOLOGY

Training in science, technology, and related subjects was promoted at all levels during the 1970s and 1980s. Enrollment at technical and vocational secondary schools rose from 4,510 in 1970 to 20,720 in 1985. The National University of Malaysia at Selangor, the University of Malaya at Kuala Lumpur, the University of Agri-

culture at Selangor Darul Ehsan, the University of Science at Penang, the Technological University at Johor Bahru, Kolej, Daman-saura Utama College at Selangor, Politeknik Kuching at Surawak, and Tunku Abdul Rahman College at Kuala Lumpur offer degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 54% of college and university enrollments. National science policy is administered by the Ministry of Science, Technology, and Environment. The Ministry of Agriculture undertakes all aspects of research for improvement of crops. The Institute of Medical Research is a branch of the Ministry of Health.

The Forest Research Institute Malaysia (FIRM), the Freshwater Fish Research Center, the Malaysian Agricultural Research and Development Institute (MARDI), the Malaysian Institute of Microelectronic Systems (MIMOS), and the Rubber Research Institute of Malaysia are all located in Kuala Lumpur.

In 2002, total expenditures on research and development (R&D) amounted to \$1.5 billion or 0.69% of GDP. Of that amount, business accounted for 51.5% of R&D spending, followed by the government at 32.1%, foreign investors at 11.5%, and higher education at 4.9%. In that same year, Malaysia had 294 scientists and engineers and 57 technicians per million people, who were actively engaged in R&D. In 2002, high-tech exports were valued at \$40.912 billion and accounted for 58% of manufactured exports.

## 30 DOMESTIC TRADE

Imported goods are channeled into the Malaysian market through local branches of large European mercantile firms; by local importers with buying agents abroad; through branch offices and representatives of foreign manufacturers; by local Chinese, Indian, and Arab merchants who import directly; and by commission agents. Chinese merchants occupy an important place in the marketing structure and control a large share of the direct import trade. For warehousing of imported goods, the facilities of the port of Singapore are used, while rubber for export is warehoused mainly on plantations.

The usual business hours are from 9:00 AM to 5:00 PM, Monday–Friday including an hour-long lunch break, with most businesses operating for a half-day on Saturday. All public service departments and some banks close on the first and third Saturday of the month. In Kelantan, Terengganu, Johor, Perlis, and Kedah states, businesses close for a half-day on Thursday (in keeping with Islamic practice) and Friday is the day of rest. English is widely used in commerce and industry.

Newspaper and motion picture advertising is directed toward the higher-income consumer, while radio advertising, outdoor displays, and screen slides are used for the lower-income consumer who is less likely to be literate. A code of practice and ethics governing advertising is in force, with restrictions on advertising of some products, such as alcohol and tobacco. Trade fairs are supervised by the Ministry of Trade and Industry.

## 31 FOREIGN TRADE

During the 1970s, petroleum and manufactures displaced rubber and tin as Malaysia's leading exports. Malaysia now exports over one-third of the world's fixed vegetable oil and a considerable portion of the world's radio broadcast receivers, but its largest export revenues come from sales of office machines.

### Principal Trading Partners – Malaysia (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	104,969.3	82,740.6	22,228.7
United States	20,539.7	12,850.7	7,689.0
Singapore	16,522.8	9,811.1	6,711.7
Japan	11,221.8	14,282.4	-3,060.6
China	6,810.1	7,299.7	-489.6
China, Hong Kong SAR	6,783.8	2,257.8	4,526.0
Thailand	4,615.3	3,828.8	786.5
Other Asia nes	3,776.7	4,131.2	-354.5
Netherlands	3,430.6	565.6	2,865.0
Korea, Republic of	3,039.4	4,554.7	-1,515.3
Australia	2,613.8	1,264.0	1,349.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

The primary exports in 2004 were: electronics and electrical machinery (67.6% of all exports); petroleum and liquefied natural gas (7.3%); chemicals and chemical products (7.3%); palm oil (5.3%); and textiles, clothing, and footwear (2.7%). The primary imports were: intermediate goods (75.6% of total imports); capital goods (14.6%); consumption goods (6.1%); reexports (4.5%); and dual-use goods (2.5%).

Malaysia's leading markets in 2004 were: the United States (18.8% of all exports); Singapore (15%); Japan (10.1%); China (6.7%); and Hong Kong (6%). Leading suppliers in 2004 were: Japan (15.9% of all imports); the United States (14.5%); Singapore (11.1%); China (9.8%); and Thailand (5.5%).

### <sup>32</sup>BALANCE OF PAYMENTS

Malaysia sustained a favorable trade balance throughout the 1960s and 1970s, recording its first trade deficits in 1981 and 1982, as world prices for tin, crude oil, rubber, and palm oil, the major exports, weakened simultaneously. Malaysia's balance of payments, like that of many other producers of primary products, was adversely affected in 1981–82 by the prolonged recession in the world's industrial nations. From 1983 to 1986, however, Malaysia registered trade surpluses. In the 1990s, a significant growth in exports and a decrease in imports led to trade surpluses, along with a fairly large services deficit. In the early 2000s, however, exports declined, but so did imports of intermediate components used in the manufacture of the country's electronics exports; this contributed to continuing strong trade surpluses.

The current-account recorded a surplus of \$14.8 billion in 2004, lifted by a large merchandise trade surplus. The services and income balances remained in deficit. In 2005, the current-account surplus amounted to \$15.35 billion. Exports totaled an estimated \$147.1 billion in 2005, and imports were estimated at \$118.7 billion. Although the trade and current-account surpluses were expected to narrow over the 2006–07 period, their nominal val-

ues were projected to be large compared with levels seen in the 1990s. In 2002, Malaysia's total exports of goods and services were equivalent to 114% of nominal GDP, a high figure by international standards.

### <sup>33</sup>BANKING AND SECURITIES

In 1958, the Bank Negara Tanah Melayu (renamed the Bank Negara Malaysia in 1963) was created as the central banking institution. Bank Negara requires banks to maintain a minimum risk-weighted capital ration (RWCR) of 8%. At the end of 2002, Malaysia had 31 licensed commercial banks, 19 finance companies, 12 merchant banks, 2 Islamic banks, and 7 discount houses. A total of 36 foreign banks have offices in Malaysia, but their banking privileges are restricted. Specialized credit institutions include the Federal Land Development Authority (FELDA), the Agricultural Bank of Malaysia (Bank Pertanian Malaysia), and Bank Rakyat, serving rural credit cooperative societies. International trade is financed mainly by the commercial banks. Total banking system assets were \$179.1 billion in 2000. There were 51 offshore banks operating on the island of Labuan in 1997.

Malaysia offers Islamic banking, which is based on the concept of profit sharing as opposed to the use of interest in the conventional banking system. One such Islamic bank is Bank Islam Malaysia Berhad. The central bank has embarked on a plan to develop Malaysia as a regional Islamic financial center. Toward this end, the central bank formed a consultative committee on Islamic banking in January 1996 to serve as a think-tank group to develop strategies and proposals to map out the future direction of Islamic banking. Although Islamic operations were only a small proportion of total business, Malaysia has achieved more than most other Islamic countries in this respect and its developments are regarded as models by them.

The International Monetary Fund reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$22.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$93.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 2.79%.

The principal market for securities is the Kuala Lumpur Stock Exchange (KLSE), which separated from the joint Stock Exchange of Malaysia and Singapore in 1973. A second, smaller exchange has operated since 1970 to serve indigenous Malay interests. In October 1991 the KLSE completely severed its links with the Singapore Stock Exchange. As of 2001, the KLSE was capitalized at approximately \$120 billion. Foreign investors are permitted to buy and sell on the stock market, subject only to compliance with regulatory requirements. In June 1995, a wide range of measures liberalizing the Malaysian capital market were introduced. These included the lowering of commission rates on the KLSE, the easing of controls on loans secured against shares, and less stringent conditions for overseas fund managers. Overseas funds can now set up 100% subsidiaries for conducting non-Malaysian business and rules on work permits for expatriate staff have been relaxed. By the end of 1997, the Kuala Lumpur Stock Exchange Composite Index (KLCI) capitalization had declined 53% from its high that year of 1271.57. The KLCI hit a low of 262.70 in September 1998, but had climbed back up to 696.1 by the end of 2001. In 2004, the

#### Balance of Payments – Malaysia (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>13,381.0</b>
Balance on goods	25,711.0	
Imports	-79,289.0	
Exports	104,999.0	
Balance on services	-3,955.0	
Balance on income	-5,928.0	
Current transfers	-2,447.0	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-3,196.0</b>
Direct investment abroad	-1,369.0	
Direct investment in Malaysia	2,473.0	
Portfolio investment assets	-196.0	
Portfolio investment liabilities	1,174.0	
Financial derivatives	119.0	
Other investment assets	-4,502.0	
Other investment liabilities	-895.0	
<b>Net Errors and Omissions</b>		<b>-4.0</b>
<b>Reserves and Related Items</b>		<b>-10,181.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

KLCI rose 14.3% from the previous year to 907.4. As of 2004, a total of 962 companies were listed on the Bursa Malaysia and had a market capitalization of \$190.011 billion.

### 34 INSURANCE

In Malaysia, third-party automobile liability, workers' compensation, and social security are compulsory insurances. The law requires insurance firms to maintain a minimum of 80% of their assets in authorized Malaysian holdings, including (by an amendment passed in 1978) 24% in government securities. Foreign insurance companies may operate by obtaining a license. The government's insurance branch, the Malaysian National Reinsurance Berhad, covers 25% of all fire and personal accident, 10% of aviation and automobile, and 20% of all other classes of insurance. In 2003, the value of all direct insurance premiums written totaled \$5.609 billion, of which life insurance premiums accounted for \$3.455 billion. Malaysia's top nonlife insurer in 2003 was Kurnia, which had gross written nonlife premiums of \$252.4 million. In 2002, the country's leading life insurer was Great Eastern, which had gross written life insurance premiums of \$802.8 million.

### 35 PUBLIC FINANCE

Malaysia's economy, heavily industrial and heavily dependent on export revenues, experienced a bump in the road when the US economy began to slow down at the end of 2000. The United States is a key trading partner for Malaysia, so as exports to the United States fell, so did Malaysia's economy. The government introduced two fiscal stimulus packages in 2001, but neither did the job; at the time, analysts suspected that GDP would grow less than 1% on the year.

The US Central Intelligence Agency (CIA) estimated that in 2005 Malaysia's central government took in revenues of approximately \$30.5 billion and had expenditures of \$34.6 billion. Revenues minus expenditures totaled approximately -\$4 billion. Public debt in 2005 amounted to 48.3% of GDP. Total external debt was \$56.72 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were M\$93,610 million and expenditures were M\$110,571 million. The value of revenues was US\$24,634 million, based on an official exchange rate for 2003 of US\$1 = M\$3.8 as reported by the IMF.

### 36 TAXATION

Income tax is levied on all individual and corporate income accrued in Malaysia during the previous year. As of 2005, income of resident individuals was progressively taxed, with a top rate of 28%. Nonresidents are taxed at a flat rate of 28%. Resident and nonresident companies are charged a flat rate of 28%. A 38% income tax is levied on petroleum corporations. Royalties and technical fees are subject to a 10% withholding tax, while the withholding rate for interest is 15%. Dividends are treated as income and are not subject to a withholding tax, if the appropriate amount of tax has already been paid on the company's income. Otherwise, the dividends are subject to a flat 28% rate.

Incentives are available for pioneer industries and for certain capital investments. Capital gains taxes are levied on the sale of real estate. Indirect taxes include a general 10% sales tax (5% for

essential items, 20% for liquor and 25% for cigarettes) and a 5% services tax.

### 37 CUSTOMS AND DUTIES

Import tariffs on textiles and other items already produced in Malaysia are applied in order to protect domestic industries. Rates vary from 0–300% and imports are also subject to a 10% sales tax and excise taxes. However, the average duty rate is less than 8.1%. In 2000, the government reduced duties on 136 categories of food products from 5–20% to 2–12%. Imported luxury goods have the highest rates. Items imported for industrial development, including machinery and raw materials imported for processing and re-export, are usually duty-free. Exports are generally free of control, except that licenses and export duties apply to exports of petroleum (25%), rubber, tin, palm oil, timber, and pepper.

As a member of the ASEAN free trade area, Malaysia is a part of the Common Effective Preferential Tariff Scheme (CEPT), which aims to liberalize trade in the region. As of 2003, all tariffs on manufactured goods were reduced to 0–5% between member countries, including Singapore, Brunei, Thailand, Philippines, and Indonesia. Vietnam, Laos, Myanmar, and Cambodia were scheduled to join the CEPT by 2008. Malaysia has bilateral trade agreements with 59 countries as well. There are several free zones and a free port at Port Klang.

### 38 FOREIGN INVESTMENT

The government encourages foreign investors with a tax holiday of up to 10 years for investments in new industries and assurance of convertibility and repatriation of capital and profits. In 1975, the Industrial Coordination Act established new equity participation guidelines that required a substantial majority of Malaysian ownership of new import-substitution industries catering to the domestic market and using local technology; 70% Malaysian ownership was stipulated for export industries. Export industries using imported raw materials could be 100% foreign owned. Some of

#### Public Finance – Malaysia (2003)

(In millions of ringgit, central government figures)

<b>Revenue and Grants</b>	<b>93,610</b>	<b>100.0%</b>
Tax revenue	69,470	74.2%
Social contributions	...	...
Grants	...	...
Other revenue	24,140	25.8%
<b>Expenditures</b>	<b>110,571</b>	<b>100.0%</b>
General public services	...	...
Defense	...	...
Public order and safety	...	...
Economic affairs	...	...
Environmental protection	...	...
Housing and community amenities	...	...
Health	...	...
Recreational, culture, and religion	...	...
Education	...	...
Social protection	...	...

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

these restrictions were eased under the fifth Malaysia plan (1986–90). The Promotion of Investment Act of 1986 allowed 100% foreign ownership if a company exported at least 50% of its product and did not compete with local industry, or if it exported at least 80% of its product regardless of competition. In 1998, 100% foreign ownership was granted to projects exporting at least 80% of output, 79% foreign ownership for exports of at least 51% of output, up to 50% foreign ownership for exporting at least 20% of output, and a maximum foreign ownership of 30% for projects exporting less than 20%, regardless of the origin of raw materials. Also, for new manufacturing projects, 100% foreign ownership is permitted in any project approved by the Malaysian Industrial Development Authority (MIDA). The MIDA screened all proposals for manufacturing projects to determine if they are compatible with the Second Industrial Master Plan (1996–2005), and government strategic and social policies.

In October 1990 the government established on the Federal Territory of Labuan as an International Offshore Financial Center (IOFC) to provide offshore banking and insurance, trust fund management, offshore investment holding and licensing companies, and other financial services for multinational companies. In the period following the 11 September 2001 terrorist attacks on the United States, Malaysia took the lead in seeking to institutionalize Islamic banking and attract Islamic investment. In November 2001 Malaysia was a founding member of the International Islamic Financial Market (IIFM), along with Bahrain, Indonesia, Sudan, and the Islamic Development Bank (IDB) based in Saudi Arabia. In June 2002 the Malaysian government took the lead in putting together the world's first global Islamic bond issue. The Labuan Offshore Financial Services Authority (OFSA) takes credit for initiating the idea of the establishment of the IIFM, and the Islamic Financial Service Organization (IFSO), which is taking the lead in formulating and developing standards for the regulation of Islamic financial institutions, is headquartered in Malaysia. More conventionally, as of 2006 14 free-trade zones (FTZs) were established in Malaysia. (FTZs are specially designated geographic areas with regulations, including minimum customs controls and formalities when importing raw materials, parts, machinery, and equipment, specifically designed to serve export-oriented industries.) There are specially designated FTZs for businesses engaged in commercial activities including trading, breaking bulk, grading, repackaging, relabeling, and transit. Within an FTZ, goods are allowed to be imported without being subject to customs procedures, provided the goods are ultimately exported after processing.

Assets attracting foreign investors to Malaysia are location, cultural ties with Singapore and Taiwan, economic and political stability, an increasingly competent labor force, and good infrastructure. The main barriers have been restrictions put on foreign investment and ownership as a part of the government's *bumiputera* policy, which sought particularly to insure Malay dominance of domestic markets. Nevertheless, before the sharp reduction in 2001, Malaysia was regularly listed among the top 25 best destinations for foreign investments.

Annual average foreign direct investment (FDI) in Malaysia 1985–1995 was close to \$3 billion, amounting to an average 14.5% of the country's annual gross fixed capital formation. In 1996, annual FDI rose above \$7 billion. A strong first half in 1997 brought the year's total to \$6.3 billion before falling over 57% to \$2.7 bil-

lion in 1998, reflecting the rapid disinvestments that precipitated the Asian financial crisis. Recovery was sharp, if incomplete, however; FDI reached \$3.89 billion in 1999, 22.2% of the gross fixed capital formation (GFCF), and \$3.8 billion (16.5% of GFCF) in 2000. However, in 2001, in the context of a worldwide contraction in foreign investment of almost 50%, FDI to Malaysia fell a precipitous 85.4% to \$554 million. Total stocks of FDI in Malaysia grew 83.6% in period 1995 to 2000, from \$28.7 billion to \$52.7 billion, and from 32.3% to 58.8% as a percent of GDP. In 2001, the total FDI stock increased only 1% as the total reached \$53.3 billion. The largest investment sources were the United States, Japan, Germany, Taiwan, Singapore, and Korea.

By 2006, cumulative US foreign direct investment in Malaysia had reached an estimated \$30 billion. In 2004, FDI inflows amounted to some \$3.5 billion, led by Germany with \$1.243 billion invested. Singapore (\$399 million), the United States (\$279 million), and Japan (\$266 million) followed. The majority of FDI went to the electronics sector (\$1.796 billion), followed by the paper and print sector (\$358 million); and petroleum sector (\$214 million). In 2004, Malaysia invested \$7.448 billion abroad, with \$666 million going to Singapore, \$296 million to Hong Kong, \$252 million to Chad, \$203 million to the United States, and \$181 million to Thailand.

In 1996 the government announced a list of 31 major infrastructure projects to be built between 1995 and 2020 at a cost of M\$163 billion. The Second Industrial Master Plan (1996–2005) outlined investment opportunities. These have drawn a huge influx of foreign investment. They include the Bukun hydroelectric dam in Sarawak (Southeast Asia's largest), and the projects involved in the development of the Multimedia Super Corridor (MSC): the Petronas Twin Towers, the world's tallest twin towers; one of the region's most modern airports; and Putrajaya, the new capital city and administrative center for electronic government, and Cyberjaya, Malaysia's center for computer technology.

Most foreign investment is concentrated in the production of electronic components, consumer electronics, and electrical goods (dominated by US and Japanese firms), petroleum production and distribution, textiles, vehicle assembly, steel, cement, rubber products, and electrical machinery.

Malaysian outward investments 1985–95 amounted to less than a quarter of inward investments, with an annual average of \$677 million. However, in 2001–02, this ratio had more than doubled to about 50%. A significant source of outward investments is Petrolim Nasional Berhad (PETRONAS), the state oil company incorporated in 1974. In 2002, domestic petroleum reserves had fallen to about 3 billion barrels of oil and 2.34 trillion cu m (82.5 trillion cu ft) of gas. Overseas investments in the upstream sectors (exploration, development and production) of the petroleum industries in 20 countries had, as of 2002, yielded an additional 3.25 billion barrels of oil equivalent. In international investments involving downstream operations (refining, distribution, marketing), PETRONAS's acquisition of the entire share holding of Engen Ltd., a South African oil company, increased its net refining capacity by almost 40%, to 361,500 barrels per day. The state company's other downstream activities include liquefied petroleum gas (LPG) terminalizing, bottling, and distribution in China, Vietnam, and the Philippines, and refining and retailing in Cambodia and Thailand.

### 3<sup>9</sup> ECONOMIC DEVELOPMENT

Malaysia's economy has been transformed from a protected low-income supplier of raw materials to a middle-income emerging multisector market economy driven by manufactured exports, particularly electronics and semiconductors, which constitute about 90% of exports. Since 1970 and the institution of the New Economic Policy (NEP) following deadly riots in 1969 against economically dominant ethnic Chinese, the government's commitment to the free market has been hedged by its *bumiputera* (literally, "sons of the soil") policies aimed at providing "constructive protection" for Islamic Malays against economic competition from other ethnic groups and foreign investors, particularly in the domestic market. In the Asian financial crisis of 1997, most of the major companies that the government had privatized and reserved for *bumiputera* leadership (including Proton, the national car company, Malaysian Airlines, the Renong engineering group, and the Malaysian Resources media group) had to be renationalized to prevent their collapse. A vigorous recovery program mounted by the government that was showing positive results in 1999 and 2000 ran abruptly into the wall of the 2001 global economic slowdown. Worldwide, foreign direct investment dropped almost 50%, and in Malaysia the decline was an even more precipitous 85%. Gross domestic product growth dropped to 0.7% for 2001, from its usual 7–9%.

Business in Malaysia remains dominated by non-Malays. In 1970, a government holding company, Perbadanan Nasional (PERNAS), was created to encourage Malay-controlled businesses; in 1975, the government attempted, through PERNAS, to strengthen Malaysian interests in the tin-mining sector. Also in 1974, the government established the National Oil Co. (PETRONAS), with the overall aim of acquiring majority control of the country's petroleum operations. The Industrial Coordination Act of 1975 attempted to accelerate indigenous Malay participation in the economy by setting limits on foreign participation in the processing, domestic distribution, and export of local raw materials. In 1971, the New Economic Policy (NEP) was adopted, with the aim of channeling a greater share of future economic growth into Malay hands. It specifically called for raising the level of corporate ownership by Malays to 30% by 1990, reducing corporate ownership by other Malaysians (i.e., Chinese and Indians) to 40%, and restricting foreigners to ownership of no more than 30%. Short-term investment strategies are set forth in a series of economic plans. The fourth Malaysia plan (1981–85) proposed a level of development spending of M\$42.8 billion and called for acceleration of the NEP goals for *bumiputera* economic participation. Major industrial and infrastructural development projects included a M\$900-million bridge between Pulau Pinang and the mainland and a M\$600-million automobile-manufacturing plant, both of which opened in 1985. Economic planning stressed a "look East" policy, with Malaysia attempting to emulate the economic successes of Japan and the Republic of Korea by importing technology from those countries. In response to deteriorating prices for oil and other exports, the fifth Malaysia plan (1986–90) moved away from the goals of the NEP, aiming instead at promoting foreign investment, particularly in export industries.

The year 1990 marked the culmination of several economic development plans: the fifth Malaysia plan (FMP), 1986–90; the conclusion of the first outline perspective plan (OPP1) 1971–1990;

and the completion of the new economic policy (NEP) 1971–1990. The FMP emphasized industrialization. Specific targets were formulated to ensure that the distribution of ownership and participation in the commercial and industrial sector would be characterized by ethnic group participation, 30% *bumiputera* (Malays and other indigenous peoples), 40% other Malaysians (Chinese and Indian descent), and 30% foreign. The government provided funds to purchase foreign-owned shareholding on behalf of the *bumiputera* population, increasing their equity to 20% by 1990. These policies are part of the new national development policy, although specific targets and timetables have been dropped.

A post-1990 NEP defined Malaysian economic strategy for full development by 2020. Three ten-year outline perspective plans, which included a new development plan and six five-year plans, made up the NEP. A second outline perspective plan (OPP2) 1991–2000 aimed to sustain growth momentum and to achieve a more balanced development of the economy. The sixth Malaysia plan called for an average annual growth rate of 7.5%, and expenditures on infrastructure were included to ensure prospects for further development. Development trends are toward privatization, encouraging the spread of industry throughout the country, increasing manufacturing in the free trade zones, and providing financing for industry through the establishment of specialized financing institutions.

A five-year development plan announced in 1996 forecasted average growth of 8% per year for 1996–2000. In 1997–98, low productivity, a skills shortage, and a gaping current-account deficit along with a global financial crisis based in Asia, combined to cause an economic downturn. Massive capital and infrastructure projects have attracted foreign investment and international respect.

The Ninth Malaysia Plan was announced in 2006 to focus on improving supply-side issues, such as the promotion of new sources of value-added economic growth, the liberalization of the financial sector, and further measures to strengthen small- and medium-sized firms. Reducing the deficit was a policy priority, as fiscal stimulus had increased the budget deficit in the early 2000s. The government—as with those in other Southeast Asian countries—was committed to finding ways to revive domestic consumption instead of relying primarily upon exports for economic growth, which would help insulate Malaysia from the vagaries of the global economy.

### 4<sup>0</sup> SOCIAL DEVELOPMENT

A provident fund provides lump-sum benefits for old age, disability, and death. Pensions are funded by 11% contributions of earnings by workers, and 12% of payroll by employers. Domestic servants, foreign workers, and the self-employed are not covered by the system. The retirement age is 55. Work injury insurance and disability pensions to low-income workers are available, with a special system for public employees.

The government has taken active measures to improve the rights and standing of women. The Islamic Family Law was revised to strengthen the inheritance rights of Muslim women and to increase their access to divorce. The government passed a domestic violence bill that allows the courts to protect victims of spousal abuse. However, this law falls short of making domestic violence a criminal act, and women's groups called for amendments in 2004.

Most Muslim women play subordinate roles in public and private life in spite of their growing legal rights. Although women make up more than half of university students, they represent only 15% of key posts in public sector jobs. Custom favors men in matters of inheritance.

Human rights abuses, include arbitrary arrest and detention, torture, and other types of prisoner abuse, exist. Caning is still used for some crimes. The government restricts the freedom of press, religion, association, and assembly.

#### 4<sup>1</sup> HEALTH

Malaysia enjoys a comparatively high standard of health, the result of long-established health and medical services. There are three main hospitals in Malaysia, all located in the capital, Kuala Lumpur: Subang Jaya Hospital, General Hospital, and Penang Adventist Hospital. Approximately 80% of the population had access to health care. As of 2004, there were an estimated 70 physicians, 135 nurses, 9 dentists, and 33 midwives per 100,000 people. In the same year, total health care expenditure was estimated at 2.5 % of GDP. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24.22 and 5.2 per 1,000 people. Approximately 51% of married women (ages 15–49) used contraception. Life expectancy was 72.24 years in 2005. It is estimated that 90% of the population had access to safe water, and 94% had adequate sanitation.

Under the tuberculosis-control campaign begun in 1961, the number of annual deaths from tuberculosis declined to 971 in 1970, to 672 in 1983; in 1999, there were 111 reported cases per 100,000 population.

As a result of the yaws-elimination campaign, begun in 1954, the disease was virtually eliminated in the late 1960s. A malaria-eradication program, begun in 1967, resulted in a drop in the number of hospital admissions for malaria from 25,400 in 1970 to 8,274 in 1984, although malaria remains a common disease in Malaysia.

It was estimated that 23% of children under five years of age were considered malnourished. Immunization rates for children up to one year old were quite high: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 93%; polio, 90%; and measles, 88%.

Among the main ethnic groups in Malaysia, those of Indian origins have the highest mortality rates compared to the Chinese and Malay. Similar trends exist for diabetes mortality. The HIV/AIDS prevalence was 0.40 per 100 adults in 2003. As of 2004, there were approximately 52,000 people living with HIV/AIDS in the country. There were an estimated 2,000 deaths from AIDS in 2003. The total fertility rate has dropped from 4.2 in 1980 to 3 in 2000. Infant mortality in 2005 was 8 per 1,000 live births. The maternal mortality rate was 39 per 100,000 live births.

#### 4<sup>2</sup> HOUSING

With about 61% of the population living in urban areas, the need for urban housing is acute. It has been estimated that over 20% of Kuala Lumpur's population consists of squatters living in overcrowded shantytowns with few urban amenities. The government has planned to build rental units in urban areas to assist low-income residents unable to purchase their own homes. In 2000, the housing stock was reported at about 5.7 million units. A total of 744,000 new housing units were built during 1970–80, and an es-

timated 923,300 units—43% public and 57% private—were part of the 1981–85 development plan.

#### 4<sup>3</sup> EDUCATION

Six years of free primary education are followed by three years of general lower secondary education. Two further years of education at the upper secondary level, in either a vocational or an academic program, are offered. Technical schools also offer secondary program, but students must have a strong math and science background in order to attend. A selective one-year pre-university course prepares students for admission to the universities. Malay is the medium of instruction in primary and secondary schools, with English as a compulsory second language. Muslim religious instruction is compulsory for all Muslim children while private Christian schools offer religious training to their students. The academic year runs from July to March.

In 2001, about 88% of all five-year-olds were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 93% of age-eligible students. The same year, secondary school enrollment was about 70% of age-eligible students (66% for boys and 74% for girls). It was estimated that about 92% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 19:1 in 2003; the ratio for secondary school was about 18:1.

The primary institutions of higher education include the Universiti Kebangsaan Malaysia (the National University of Malaysia), the University of Malaya, and the Technological University of Malaysia, all in or near Kuala Lumpur, and the University of Science Malaysia (formerly the University of Pinang). The MARA Institute of Technology is the largest postsecondary institute in the country. In 2003, about 29% of the tertiary age population were enrolled in some type of higher education program; 26% for men and 33% for women. The adult literacy rate for 2004 was estimated at about 88.7%, with 92% for men and 85.4% for women.

As of 2003, public expenditure on education was estimated at 8.1% of GDP, or 20.3% of total government expenditures.

#### 4<sup>4</sup> LIBRARIES AND MUSEUMS

The National Library of Malaysia, with more than 1.3 million volumes, was established in 1971 and has been charged with wide responsibilities under the National Library Act. Both the National Library and the National Archives are in Kuala Lumpur. The National University of Malaysia (Universiti Kebangsaan Malaysia) in Barga has 945,000 volumes. Other important libraries are those at the universities; the Sabah (380,000) and Sarawak (500,000) state libraries; Tun Abdul Razak Library at the MARA University of Technology (569,000); and the library of the Malaysian Rubber Board (120,000). The largest public libraries are in Denang, Malacca, and Selangor.

The National Museum of Malaysia in Kuala Lumpur, constructed on the site of the former Selangor Museum (destroyed in World War II), houses extensive collections of Malayan archaeology, ethnography, and zoology. The Perak Museum in Taiping, founded in 1883, has a varied collection exhibiting antiquities, ethnographic, and zoological materials. Also in Kuala Lumpur are the Museum of Asian Art (1974), the Postal Museum, the Air Force Museum, and the National Art Gallery (1958). Sabah and Sarawak maintain

anthropological and archaeological collections pertinent to East Malaysia. There is an Aboriginal Affairs Museum in Gombak.

#### 45 MEDIA

The government owns and operates a well-developed and well-equipped telecommunications system. Automatic dialing for the majority of exchanges is provided by a VHF radio circuit. In 2003, there were an estimated 182 mainline telephones for every 1,000 people; about 49,000 people were on a waiting list for telephone service installation. Also in 2003, there were approximately 442 mobile phones in use for every 1,000 people. Telegraph and radio-telephone connections link peninsular Malaysia with most foreign countries.

Radio-Television Malaysia (RTM) operates radio and television stations in Kuala Lumpur, Sabah, and Kuching, and there is a commercial station, Sistem TV-3 Berhad, in Kuala Lumpur as well. Broadcasts are in English, Malay, five Chinese dialects, Tamil, and numerous local languages and dialects. As of 2001 Malaysia had 35 AM and 391 FM radio stations and 1 television station. In 2000, there were 420 radios and 168 televisions sets for every 1,000 people. In 2001, there were 4.1 million Internet subscribers served by 7 service providers.

There are about 80 English, Malay, Chinese, and Tamil daily and weekly newspapers. The Malay-language press is the largest segment, followed by English, Chinese, Tamil, Punjabi, and Kadazan. In Kuala Lumpur, there are two major dailies published in Chinese, *China Press*, with a 2002 circulation of 210,000, and *Nanyang Siang Pau*, with a 2002 circulation of 183,800. There are also two major dailies published in Malay, *Berita Harian* (circulation 350,000 in 2002) and *Utusan Malaysia* (240,000). The *New Straits Times* is an English-language paper that had a daily circulation of 190,000 in 2002. *Malaysian Nanban* is a Tamil-language daily.

In Petaling Jaya leading newspapers include two Chinese publications, *New Life Post* (every other week, circulation 231,000 in 2002) and *Sin Chew Jit Poh* (daily, 227,070). *The Star* is published in English and had a 2002 circulation of 220,490 daily.

Though the constitution provides for freedom of speech and a free press, in practice the government is said to restrict the flow of information deemed "sensitive," including issues regarding citizenship of non-Malays and the special position of Malays in society. Under the Printing Presses and Publications Act, every publisher must obtain a license, to be renewed annually by the government. The government has the right to restrict or ban such publications if their content is considered to contain malicious or distorted views of the government. As such, the media generally practices self-censorship, providing laudatory, noncritical coverage of government activities.

#### 46 ORGANIZATIONS

The Malaysian government promotes thrift, credit, processing, marketing, farming, consumer, and housing cooperatives. The cooperative movement was introduced in Malaya in 1922. The Chinese are organized along clan, common dialect, or occupational lines into rural credit associations. These local associations set up and maintain schools, build temples, and provide burial, relief, and employment services. In the larger cities, chambers of commerce, organized along ethnic lines, promote the economic welfare of the group represented. Specialized trade and industry associations in-

clude the Pepper Marketing Board, Malaysian Pineapple Industry Board, and the Malaysia Cocoa Board. The National Chamber of Commerce and Industry of Malaysia is in Kuala Lumpur. Professional associations are available for a wide variety of occupations.

Cultural organizations include the multinational Royal Asiatic Society and the International Institute of Islamic Thought and Civilization. Educational and research organizations include the Malaysian Medical Association and the Malaysian Scientific Association. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions, such as the National Heart Association of Malaysia.

Youth organizations include the Federation of Malay Student Unions, Girl Guides Association of Malaysia, Malaysia Council of Churches Youth Division, Muslim Youth Movement of Malaysia, Junior Chamber, National Union of Malaysian Muslim Students, and the United Malaysian Youth Movement. YMCA/YWCA chapters are also active. There are several sports associations in the nation, including the regional Asean Football Federation. There are active branches of the Special Olympics.

Kiwanis and Lion's clubs have programs in the country. There are national chapters of the Red Crescent Society, Habitat for Humanity, UNICEF, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Most large hotels are in the major cities of Kuala Lumpur and George Town. The best-known hill resort areas are Cameron Highlands, Raub, and Pinang Hill. Island resorts off the coast of the peninsula are Langkawi and Pangkor. Horse racing, football (soccer), rugby, cricket, and sepak raga (a form of badminton) are popular spectator sports. Kite fighting and top spinning are traditional pastimes for children and adults, and silat (a Malay martial art) is popular in rural areas.

Passports are required of all entrants. Citizens of most countries, including the United States, Australia, and China, are required to have visas. Precautions against yellow fever, typhoid, and malaria are recommended before travel to Malaysia.

There were 10,576,915 foreign visitors who arrived in Malaysia in 2003. Tourist receipts totaled \$6.7 billion. Hotel rooms numbered 144,380 with an occupancy rate of 53%.

In 2004, the US Department of State estimated the daily cost of staying in Kuala Lumpur at \$129; and other areas, \$121.

#### 48 FAMOUS MALAYSIANS

Among the foremost Malaysian leaders of the past was Sultan Mahmud, 16th-century ruler of Malacca. A great figure in Malay culture was 'Abdallah bin 'Abd al-Kabir (surnamed Munshi', 1796–1854), sometimes called the greatest innovator in Malay letters. The best-known figure in the political life of modern Malaysia is Tunku Abdul Rahman Putra bin Abdul Hamid Halimshah (1903–1990), first prime minister of the Federation of Malaysia. Other political leaders are Tun Abdul Razak (1922–76), the nation's second prime minister (1970–76); Datuk Seri Mahathir bin Mohamed (b.1925), prime minister 1981–2003, succeeding Dato Onn bin Ja'afar (1895–1962), a founder of the United Malays National Organization; and Sir Cheng-lock Tan (1883–1960), leader of the Malaysian Chinese Association. Abdullah bin Haji Ah-

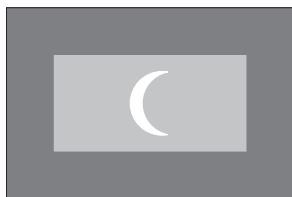
mad Badawi (b.1939) succeeded Mahathir bin Mohamed as prime minister in 2003.

#### 49 DEPENDENCIES

Malaysia has no territories or colonies.

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# MALDIVES

Republic of Maldives  
*Dhivehi Raajjeyge Jumhooriyyaa*

**CAPITAL:** Malé

**FLAG:** The national flag consists of a white crescent at the center of a green field which, in turn, is at the center of a red field.

**ANTHEM:** *Gavmii mi ekuverikan matii tibegen kuriime salaam (In National Unity Do We Salute Our Nation).*

**MONETARY UNIT:** The Maldivian rupee, or rufiyaa (MR), is a paper currency of 100 laris. There are notes of ½, 1, 2, 5, 10, 50, and 100 rufiyaa. The dollar circulates freely and is the only currency accepted at some resorts. MR1 = \$0.07813 (or \$1 = MR12.8) as of 2004.

**WEIGHTS AND MEASURES:** The metric system has been adopted, but some local units remain in use.

**HOLIDAYS:** National Day, 7 January; Independence Day, 26 July; Republic Day, 11 November; Fishermen's Day, 10 December. 'Id al-Fitr, 'Id al-'Adha, and Milad an-Nabi are some of the Muslim religious holidays observed.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

The smallest country in Asia, the Republic of Maldives consists of an archipelago of nearly 1,200 coral islands and sand banks in the Indian Ocean, some 200 of which are inhabited. The chain of islands sits astride the equator, s of India and w of Sri Lanka, extending 823 km (511 mi) but occupying an area of just 300 sq km (116 sq mi). The area occupied by Maldives is slightly more than 1.5 times the size of Washington, DC. Grouped in 26 atolls, with a total coastline of 644 km (400 mi), the northernmost atoll lies some 110 km (70 mi) s of India's Minicoy Atoll, about 480 km (300 mi) SE of India's Cape Comorin, and 649 km (400 mi) w of Sri Lanka.

Maldives' capital, Malé, is situated on a 2.5 sq km (1 sq mi) island, the largest in the entire chain, in the Malé Atoll. However, Hulhumale, a manmade island a short distance from Malé, is expected to be expanded to twice the size of Malé by about 2040.

## <sup>2</sup> TOPOGRAPHY

The islands vary from tiny banks to real islets. Some of the islands are in process of formation and are constantly increasing in size; others are gradually washing away. The islands are level and extremely low-lying, with elevations rarely exceeding 1.8 m (6 ft) above sea level. Many contain freshwater lagoons.

In 1997, the nation initiated a massive land reclamation project which involved the construction of a manmade island, Hulhumale, a short distance away from Malé. In 2004, the new island was about the same size as Malé; developers hope that by about 2040 Hulhumale will be twice the size of Malé and provide housing for 153,000 people.

The disastrous tsunami that struck Indonesia on 26 December 2004 also impacted Maldives. The tsunami was caused by an underwater earthquake 324 km (180 mi) south of Indonesia's Su-

matra island. Waves reaching 6 m (20 ft) were absorbed by Maldives' coral reefs before they could severely damage the atolls. The northernmost and southernmost islands suffered the brunt of the damage. More than 20,000 residents were left without homes in Maldives, and at least 55 were found dead.

## <sup>3</sup> CLIMATE

The Maldives' equatorial climate is generally hot and humid, with a mean temperature of about 27°C (81°F). The weather during the northeast monsoon (November–March) is mild and pleasant; the southwest monsoon (June–August) is violent and very rainy. The northern atolls are subject to more violent storms than those in the south. Annual rainfall in the south averages about 380 cm (150 in); in the north, 250 cm (100 in).

## <sup>4</sup> FLORA AND FAUNA

The islands are covered with a dense scrub. The northern and southern islands are more fertile than those in the central group, and the eastern islands generally are more fertile than the western. Coconut, breadfruit, plantain, papaya, mango, and banyan trees flourish. Shrubs and flowers are widespread. Rats, rabbits, and flying foxes are the only indigenous mammals. Birds include ducks, bitterns, crows, curlews, snipes, and various sea birds. Small scorpions, beetles, and land crabs are common. Inland lagoons and coastal reefs contain tropical ocean fish, crustaceans, and turtles; the surrounding waters contain sharks, swordfish, and porpoises.

## <sup>5</sup> ENVIRONMENT

Environmental issues in the Maldives include a dwindling freshwater supply and inadequate sewage treatment. Estimates indicated that the nation's water supply may be exhausted in the near future, and population increases have created a sanitation problem that threatens the waters surrounding this island nation. Another sig-

nificant environmental problem is a rise in sea levels due to global warming. The islands are particularly susceptible to flooding.

The country has invested in several massive land reclamation projects in an attempt to resolve the land and housing shortages. One major project includes the construction of the manmade island, Hulhumale, a short distance from Malé. The project began in 1997 specifically to address the overcrowding of Malé. By 2004, the land area of the new island was nearly the same as that of Malé; land area is expected to double within the next 40 years or so, making housing lands available for a population of about 153,000. Land reclamation projects also have been used to expand the area of Malé, but further additions to the islands land area are not possible due to the steep drops in the ocean floor surrounding the coast.

Environmental preservation is complicated by the unique problems of a nation consisting of 1,200 islands spread over 510 miles of the Indian Ocean. Preservation of the desert island ecology, protection of marine life and coral reefs, and coconut tree rehabilitation are additional environmental goals. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included two species of birds, two types of reptiles, and eight species of fish. The hawksbill turtle, green turtle, and blue whale are on the endangered list.

## 6 POPULATION

The population of Maldives in 2005 was estimated by the United Nations (UN) at 294,000, which placed it at number 169 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 36% of the population under 15 years of age. There were 106 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.4%. Despite a high fertility rate (5.1 births per woman), population growth is hampered by problems in health care and other areas of social and economic development. The projected population for the year 2025 was 398,000. The population density was 980 per sq km (2,538 per sq mi), concentrated on an island of only about 1.9 sq km (0.75 sq mi).

The UN estimated that 27% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 4.56%. The capital city, Malé, had a population of 83,000 in that year.

## 7 MIGRATION

Inter-island migration is limited to settlement in Malé; between 1967 and 2000, population in the capital rose from one-tenth to nearly one-quarter of the national total. In 1999 and 2005, the net migration rate was zero. The total number of migrants in 2000 was 3,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The original inhabitants of the Maldives are thought to have been of south Indian and Arab origin. The people of the northern atolls have, to some extent, intermarried with peoples from western India, Arabia, and North Africa. Inhabitants of the southern islands show stronger physical affinities with the Sinhalese of Sri Lanka. Black African slaves imported from Zanzibar and Arabia have in-

termarried with the Maldivians, and there are also some Caucasian and Malayan elements.

## 9 LANGUAGES

The Maldivian language, called Divehi, is similar to the old Sinhala (Elu) of Ceylon. It has contributed the word *atoll* to international terminology. In recent years, the language has been influenced by Arabic and Urdu. Thaana, developed during the 17th century, is the corresponding script, written from right to left. English is spoken by most government officials, but only by a small number of the Maldivian population.

## 10 RELIGIONS

Though there is evidence that the early Maldivians were Buddhists, their conversion to Islam dates from 1153. The 1997 constitution claimed Islam as the official religion. With few exceptions, the people are Sunni Muslims, and both land ownership and citizenship are limited to adherents to this faith. The president, who must be a Sunni Muslim, is also the supreme authority of the tenets of Islam. Non-Muslim foreigners working in or visiting the country are permitted to practice their own religion privately. There are no non-Muslim places of worship. Proselytizing for non-Muslim faiths is prohibited. The government's Supreme Council of Islamic Affairs regulates matters pertaining to religion.

## 11 TRANSPORTATION

Malé, the capital, and some other islands have fairly good streets. Most people travel by bicycle or on foot. Interatoll transportation still depends mostly on local sailing boats, called *batheli* and *odi*. Although some mechanized boats carry cargo and, occasionally, passengers between Malé and other atolls, interisland transport is mainly by means of *dhonis* (small boats). Only a few of the islands are big enough to support automobiles. As of 2005, the Maldives had a merchant fleet of 16 vessels with 1,000 GRT or more, totaling 57,118 GRT, serving worldwide destinations, and all controlled by Maldives Shipping Ltd., a public enterprise. In 2004, the Maldives had five airports, two of which had paved runways as of 2005. Hulule, Malé's international airport, 2 km (1 mi) away over water from the capital, was completed in 1966. Built with assistance by Sri Lanka under the Colombo Plan, it consists of two islands that were joined together to create a runway. It is served by Singapore Airlines, Air Lanka, various European tourist carriers, and Indian Airlines, the last also operating as Air Maldives on certain flights. Also in 2001 (the latest year for which data was available), 311,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The first inhabitants of the Maldives were probably Dravidian speakers from south India, followed by Indo-European speaking Sinhalese from Ceylon in the 4th and 5th centuries BC. The island chain first became known in the West through the writings of Ptolemy, during the 2nd century AD. The island chain may have been ruled in ancient times by the Chinese; later, its rulers paid an annual tribute to principalities of western India. Maldivians were converted to Sunni Islam from Buddhism by Arab traders from east Africa and the Middle East in the middle of the 12th century, and from 1153, an unbroken line of 92 sultans served as lo-

cal rulers for 800 years until 1953. In 1343, Ibn Battutah, the Arab traveler and historian, visited the islands and served for a time as a qadi.

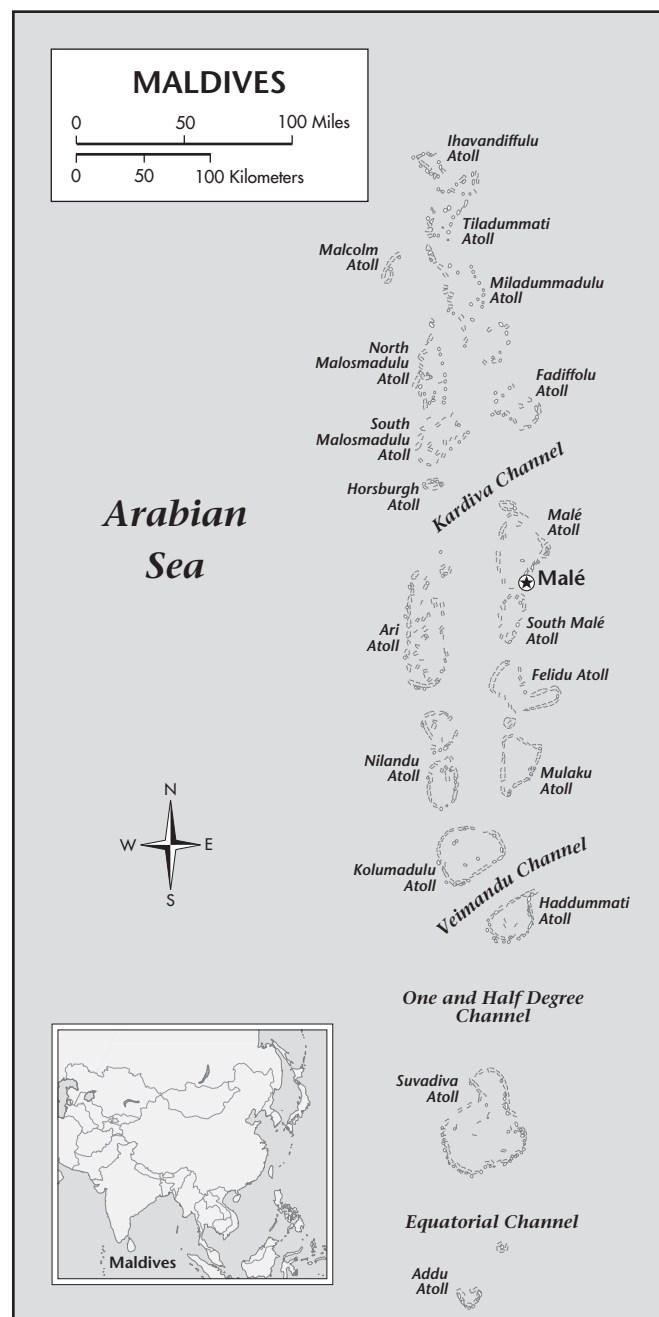
After their discovery by the Portuguese traveler Dom Lourenço de Alameida in 1507, the Maldives were occupied by the Portuguese and forced to pay a tribute to Goa, the center of Portugal's South Asian holdings. But the Portuguese were driven out in 1573 by Muhammad Thakurufaani al-Azam, who, after becoming sultan, introduced a monetary system, a new script, and a standing militia. In the 17th century, the Dutch, who controlled neighboring Ceylon (now Sri Lanka), made a treaty with the sultanate, which thereafter paid tribute to the rulers of Ceylon and claimed their protection.

The British completed their occupation of Ceylon in 1815 and British responsibility for the protection of the Maldives was formally recorded in 1887. By terms of the compact, the sultan recognized the suzerainty of the British sovereign and disclaimed all rights or intention to enter into any treaty or negotiations with any foreign state except through the (British) ruler of Ceylon. When Ceylon became independent in 1948, a new agreement was signed with the British government, providing for the Maldives to remain under the protection of the British crown, for external affairs to be conducted by or in accordance with the advice of the British government, for Britain to refrain from interfering in the internal affairs of the islands, and for the sultan to afford such facilities for British forces as were necessary for the defense of the islands or the Commonwealth. No tribute was to be paid by Maldives. New agreements reaffirming these provisions were signed in 1953, 1956, and 1960.

The sultanate, dominated by the Didi family since 1759, was abolished in 1953, and the Maldives was declared a republic. The first president, Amin Didi, ordered the emancipation of women and other reforms that were resented by more conservative elements among the people, and nine months later he was overthrown. His cousins Muhammad Farid Didi and Ibrahim Ali Didi became co-presidents in September 1953, and a month later the National Assembly voted to restore the sultanate. The new sultan, Muhammad Didi, was installed at Malé on 7 March 1954, and Ibrahim Ali Didi, the prime minister, formed a new government.

The government's agreement in 1956 to permit Britain to maintain an air base on Gan Island in the southern Maldives produced a public reaction so strong that Prime Minister Ibrahim was forced to resign in December 1957. Ibrahim Nasir, who succeeded him, asserted that the British base would violate Maldivian neutrality, but when his government sent a representative to Gan to tell the islanders to stop working for the British, the islanders attacked him.

Early in 1959, the people of Addu Atoll, in which Gan Island is located, declared their independence. At the same time, a rebellion broke out in the three southernmost atolls (including Addu). The rebel headmen declared the formation of the United Suvadiva Republic (with a population of 20,000) and demanded recognition from London. The British refused to comply, but the Nasir government made public its suspicions that the coup had been engineered by the British. In the event, government forces crushed the rebels in two of the atolls but made no attempt to interfere on Gan or any of the other seven main islands in the Addu group. By March 1960, the Suvadiva Republic was declared dissolved, and



LOCATION: 7°7' N to 0°43' S; 72°31' to 73°46' E. TERRITORIAL SEA LIMIT: 12 miles.

a committee ruling under the sovereign control of the sultan was set up, including among its members Abdallah Afif, leader of the rebellion.

In February 1960, the Maldivian government made a free gift to the British government of the use of Gan Island and other facilities in Addu Atoll for 30 years, and a fresh agreement was drawn up between the governments. In return, the British agreed to assist in bringing about a reconciliation between the Maldivian government and the disaffected inhabitants of the southern islands. But by 1962, resentment had grown against the British owing to their lack of progress in implementing the agreement; in late 1962 a Royal Navy frigate was sent to the capital island of Malé to protect

British citizens. Abdallah Afif was evacuated by the British to the Seychelles.

The Sultanate of the Maldives achieved complete independence on 26 July 1965, with the British continuing to retain use of the facilities on Gan in return for the payment of \$2,380,000, most to be spent over a period of years for economic development. In March 1968, a referendum resulted in an 81% vote to abolish the sultanate and to reestablish a republic. A new republican constitution came into force on 11 November 1968, establishing the Republic of Maldives, and Nasir—then prime minister—became president.

With the British secure in their control of facilities they shared with the United States outside the Maldives in Diego Garcia, 650 km (400 mi) east of Gan, Britain vacated the Gan air base on 31 December 1975, and the UK-Maldivian accord was formally terminated the following year.

Nasir declined re-nomination and was succeeded as president on 11 November 1978 by Maumoon Abdul Gayoom, who was chosen by the Citizens' Majlis (parliament) in June and was confirmed in a popular referendum by a majority of 90% on 28 July. Reelected president by the Majlis in August 1983, Gayoom won confirmation in a national referendum on 30 September with a majority of 95.6%. Gayoom was reelected to a third term in August 1988. He successfully resisted a brief attempt to overthrow him by Sri Lankan Tamil mercenaries in November 1988 with the help of an Indian military contingent flown to the Maldives at his request. In addition to the presidency, Gayoom is also minister of defense and minister for national security.

Gayoom was reelected for a fourth term as president in August 1993 and confirmed by popular referendum in September. He was reelected to a fifth term, unopposed, in 1998, and was reelected to a sixth term, again unopposed, in 2003. Gayoom's only principal rival for the presidency came in the 1993 election when his brother-in-law Ilyas Ibrahim ran against him. Ibrahim subsequently was tried in absentia for violation of the constitution, found guilty of treason, and sentenced to more than 15 years banishment from the islands. In June 2004, President Gayoom promised constitutional changes to limit the presidential term of office and to allow political parties to form. In June 2005, parliament voted to allow multiparty politics.

The Maldives has been concerned for two decades about the effects of global warming on the islands. At the UN World Summit on Sustainable Development held in August and September 2002 in Johannesburg, South Africa, President Gayoom warned that his country could be submerged if a rise in sea levels due to the melting of polar ice caps continued. "A mere one-meter rise would mean the death of a nation," he stated. As world temperatures rise, the effects on the Maldives would include coastal erosion, increasing salinity of fresh water sources, altered tidal ranges and patterns, and the gradual destruction of the coral reefs that form the islands and their breakwaters.

In 2003, the human rights organization Amnesty International accused the Maldives government of political repression and torture. It said arbitrary detentions, unfair trials, and long-term imprisonment of government critics are commonplace. That September, unprecedented antigovernment riots broke out in Malé; Amnesty International blamed the unrest on political repression and human rights abuses. In August 2004, a state of emergency

was imposed after a pro-democracy demonstration became violent. Nearly 100 people were jailed.

On 26 December 2004, the Maldives suffered severe damage as a result of a massive tsunami triggered by a powerful underwater earthquake off the coast of Indonesia. Scores of people were killed, and the government said the disaster set back development work by 20 years.

### **13 GOVERNMENT**

The constitution of the Republic of Maldives that came into force in 1968 (and amended in 1970, 1972, and 1975) was repealed and replaced by a new constitution in 1997. It came into force on 1 January 1998. The Citizens' Majlis (parliament) nominates a single candidate for the presidency, who is confirmed in office thereafter by popular referendum. The president heads the executive branch and appoints the cabinet and is constitutionally permitted to have as many vice presidents as he desires. The president serves a five-year term of office.

The unicameral Majlis is a body of 50 members, 42 of whom are directly elected (2 from each of the 20 inhabited atolls and 2 from the capital island of Malé) by universal suffrage of citizens over 21. Eight members are appointed by the president. Members serve five-year terms. The Majlis drafts legislation that becomes law after ratification by the president. The Majlis also nominates the president by secret ballot. The candidate is then approved by referendum of the population.

Elections to the Majlis are held individually and do not necessarily coincide with its sessions. Elections were held in December 1994, December 1999, and January 2005.

### **14 POLITICAL PARTIES**

There are no organized political parties. While not banned, they are officially discouraged. Candidates for office stand for election as independents and campaign on their family and personal stature.

### **15 LOCAL GOVERNMENT**

The Maldives is divided administratively into 20 districts, each a discrete atoll headed by a government-appointed verin, or chief, who functions in the manner of a district officer. On each inhabited island a khatib, or headman, also appointed by the government, supervises and carries out the orders of the government under the supervision of the atoll chief. Malé and Hulhulé (the island of the international airport) are geographically in Kaafu Atoll, but are treated as a separate administrative entity.

### **16 JUDICIAL SYSTEM**

Justice is meted out according to traditional Islamic law (Shariah) by the high court and lower courts appointed for that purpose by the president, and functioning under the Ministry of Justice. Civil law is also applied but remains subordinate to Shariah. Judges must be Muslims.

On the capital island, Malé, there is a high court which hears a range of cases as a court of first instance and also serves as a court of appeal. Lower courts each deal with a specific area such as theft, property, or family law issues. The 1995 presidential decree gives power to a five-member advisory council appointed by the president to review the high court's decisions. The president also has

authority to affirm judgments of the high court, to order a second hearing, or to overturn the court's decision.

On the other islands, there is one all-purpose lower court in which cases are often adjudicated by traditional legal practitioners. Complex cases are referred to the appropriate specialized court in Malé. There are also general courts on the islands.

In criminal cases there is no jury trial. The accused may call witnesses and may be assisted by a lawyer. There are, however, few professionally trained lawyers in Maldives, and the court does not provide a lawyer to an indigent defendant. The judiciary is subject to executive influence. The president may grant pardons and amnesties.

## 17 ARMED FORCES

The armed forces of the Maldives consist of a paramilitary national security service and a militia of a few hundred people. Armed boats patrol the territorial waters to protect the local fishing industry. Military expenditures amounted to \$34.5 million in 2001, or 8.6% of GDP.

## 18 INTERNATIONAL COOPERATION

The Maldives, which joined the United Nations (UN) on 21 September 1965, is a member of ESCAP and several nonregional specialized agencies, such as the FAO, ICAO, IFC, IMF, the World Bank, UNESCO, UNIDO, and the WHO. Maldives is also a member of the Asian Development Bank, the Commonwealth of Nations, the Colombo Plan, G-77, the Organization of the Islamic Conference (OIC), the South Asia Cooperative Environment Program (SACEP), the Alliance of Small Island States (AOSIS), and the 7-member South Asian Association for Regional Cooperation (SAARC).

An active member of the Nonaligned Movement, Maldives has led efforts to declare an Indian Ocean Peace Zone, free of nuclear arms. Sri Lanka has traditionally served as the Maldives' focus in its external affairs. However, this has been broadened in the last few decades as the Maldives entered into diplomatic relations with more countries, and communication and transportation have opened up the outside world.

In environmental cooperation, the Maldives is part of the Basel Convention, the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea and Climate Change.

## 19 ECONOMY

As of 2003, the Maldives remains on the United Nations (UN) list of least developed countries, yet economic progress has been steady. The first tourist resort was opened in 1972. In 1989 the government lifted import quotas and liberalized some sectors of trade. Gross domestic product growth rates averaged about 10% in the 1980s and about 7% in the 1990s. In the 1990s, the peak was 16% (1990) and the low 4% (1993). In 1998 and 1999, real GDP growth reached 9.1% and 8.5%, respectively, but fell to 4.8% in 2000, following a decline of -2.3% in agriculture (including coral and sand mining) and of -0.5% in industry. Growth recovered to 5.7% in 2001.

Fishing, tourism, and shipping are the mainstays of the economy, employing over half of the work force. The tourism industry has become particularly important, accounting for about 20%

of GDP, 31% of government revenues, and more than 60% of the country's foreign exchange earnings in 2002. The government is seeking to continue diversifying the economy through further promotion of tourism, processing industries, and garment production. Besides tourism, GDP is composed of distribution, 4.5%; construction, 3%; fisheries, 6%; agriculture, 3%; transportation and communication, 16%; government administration, 12%; and manufacturing and electricity, 8%.

The economy was on an upward surge in 2004, with a GDP growth rate of 8.8% (up from 8.4% in 2003, and 6.5% in 2002). In December 2004, a major tsunami devastated most of the country, killing 100, leaving 12,000 displaced, and causing damages of over \$300 million. As a result, economic growth was expected to decrease to 1.0% in 2005. The inflation rate has been fluctuating, but it did not pose a problem to the economy; in 2004 it reached 6.4%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Maldives's gross domestic product (GDP) was estimated at \$1.3 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$3,900. The annual growth rate of GDP was estimated at 2.3%. The average inflation rate in 2005 was 5.6%. It was estimated that agriculture accounted for 20% of GDP, industry 18%, and services 62%.

## 21 LABOR

There were approximately 72,000 members of the Maldives workforce in 2002, one-third of whom were foreign workers. About 20% of the workforce in 1999 was employed in fishing; 15% in industry; 10% in tourism; and 55% in other sectors. The unemployment rate in 2003 was negligible.

Union organization is not prohibited, but the government does not recognize union organization or striking as a right. However, some associations have been formed to address workers' rights.

The minimum working age is 14 (16 for government work) and there were no reports of children working in the formal economic sector in 2001. However, children work in family agricultural and fishing enterprises. There are no specific statutory provisions regarding working hours, the workweek length, or overtime pay. Administrative orders from the president's office have set a seven-hour workday and a five-day workweek. There is no national minimum wage, but wage floors exist for certain kinds of work. Although no statutory provisions are in place, employers offer competitive pay and working conditions. Wages generally provide a family with a decent standard of living.

## 22 AGRICULTURE

Only 10% of the land is estimated to be cultivable. Millet, corn, pumpkins, sweet potatoes, pineapples, sugarcane, almonds, and many kinds of tropical vegetables and fruits are successfully grown, largely in homestead gardens. Coconut palms provide copra and coir, the most important exports after fish. Virtually all rice, a staple food for the population, must be imported. Breadfruit, mangoes, papayas, limes, bananas, pumpkins, watermelon,

taro, and chili peppers are also valuable crops. As of 2004, small amounts of corn, millet, and sorghum were cultivated. Production in 2004 included 35,000 tons of coconuts and 30,000 tons of vegetables and melons.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Fodder is insufficient for more than a few head of cattle, but there are many goats and chickens.

## 2<sup>4</sup> FISHING

Fishing is the chief industry (accounting for 11% of GDP), with the main catch being skipjack and yellowfin tuna. About half the annual harvest is frozen, canned, or dried and exported to Thailand, Europe, and Sri Lanka. The Maldivian fisheries sector underwent a major transformation during the 1980s and became increasingly productive through modernization of catch collection and processing methods. Expansion of the canning industry and investment in fisheries diversification is ongoing. The fish catch in 2003 totaled 155,415 tons; exports of fish were valued at \$76.4 million that year. Annual per capita consumption of fish and shellfish during 1999–2001 averaged 187.3 kg/412 lb (live-weight equivalent), greater than that of any other nation. Shell gathering is a relatively important activity in the Maldives, with large quantities of cowries exported for use as ornaments. Several rare shell species are also collected.

## 2<sup>5</sup> FORESTRY

There are no forests as such. Coconut wood, however, is used for building boats and houses. Imports of forest products amounted to \$4.2 million in 2004.

## 2<sup>6</sup> MINING

There were no known mineral resources.

## 2<sup>7</sup> ENERGY AND POWER

The Maldives, as of 1 January 2004, had no known reserves of oil or natural gas, nor any crude oil refining capacity, and therefore, must rely upon imports to meet its oil and natural gas needs.

In 2002, imports of refined oil products averaged 5,600 barrels per day, with consumption averaging 4,190 barrels per day, leaving an average of 1,410 barrels per day to be exported.

In 2002, the country's electric power generating capacity came to 0.037 million kW, of which all was dedicated to fossil fuels. Electric output in that year came to 0.133 billion kWh, with consumption in that year placed at 0.124 billion kWh.

## 2<sup>8</sup> INDUSTRY

The manufacturing sector is small and limited by the shortage of domestic labor. Important traditional industries in the Maldives include boat building, the manufacture of coir, a rope made from dried coconut fibers, and lacemaking (handmade pillow lace), introduced by the Dutch in the 17th century. Maldivian lacquerwork and finely woven mats are famous for their quality and design. Coconuts, copra, shells, tortoiseshell, bone dust, red stone, ambergris, and handicrafts are also produced locally as well as exported. All fishing is done by the traditional line and pole method, as the use of nets is illegal. The country's fishing fleet of small,

flat-bottomed boats have, however, shifted from using sails and oars to outboard motors. In May 2001, the government ended its monopoly on the export tuna sector, and in 2002 four Maldivian operations were licensed to buy and export fresh tuna. Modern industry is limited to tuna canneries and other fish-processing, several apparel factories, built during the past decade, a soft drink bottling plant, and small scale manufacturing enterprises that produce PVC pipe, soap, furniture, and food products. Tourism has been developing since the first resort was built in 1977. As of November 2000, there were 84 resorts in operation, and in 2001, the Ministry of Tourism introduced cruise tourism.

Manufacturing, together with agriculture, continued to play a decreasing role in the economy, as a result of domestic labor shortage and vanishing agriculture lands. Tourism continued to create capital needed for establishing additional industries—engine repairs, bottling of aerated water, and garment production are some of the latest additions to the Maldives' industrial base.

## 2<sup>9</sup> SCIENCE AND TECHNOLOGY

Mechanized fishing operations have been the focus of research and development efforts since the 1980s, with the help of the United Nations Development Program (UNDP).

## 3<sup>0</sup> DOMESTIC TRADE

Malé Island is the chief commercial center. Sri Lankan and Indian merchants in Malé act as their own importers, exporters, and wholesalers. The importing of rice and exporting of ambergris are government monopolies. Tourism and its related services are a major portion of the economy. Most shops are open from 8 AM to 1:30 PM and from 2:30 to 5 PM, Sunday through Thursday. Banks and government offices are open from 9 AM to 1 PM on the same days. Most establishments are closed on Fridays.

## 3<sup>1</sup> FOREIGN TRADE

In 1989, the government initiated an economic reform program that lifted import quotas and opened exports of some commodities to the private sector (until then, exports had been entirely controlled by a state trading organization). In 2000, exports consisted almost exclusively of fish products and apparel. Manufac-

### Principal Trading Partners – Maldives (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	113.0	470.8	-357.8
United States	36.5	5.9	30.6
Thailand	18.5	23.9	-5.4
Sri Lanka	15.3	64.7	-49.4
Japan	11.7	10.4	1.3
United Kingdom	11.0	8.3	2.7
Indonesia	4.8	12.4	-7.6
Germany	4.3	6.4	-2.1
Singapore	3.3	117.1	-113.8
China, Hong Kong SAR	2.1	9.6	-7.5
Malaysia	1.0	36.2	-35.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Maldives (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>-30.4</b>
Balance on goods	-262.3	
Imports	-414.3	
Exports	152.0	
Balance on services	311.1	
Balance on income	-37.0	
Current transfers	-42.2	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>56.3</b>
Direct investment abroad	...	
Direct investment in Maldives	13.5	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	28.3	
Other investment liabilities	14.4	
<b>Net Errors and Omissions</b>		<b>0.3</b>
<b>Reserves and Related Items</b>		<b>-26.2</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tured goods, machinery, fuels, and food are the main imports.

In the late 1970s, Mauritius, Japan, and Pakistan comprised almost 90% of the country's export market. The vast majority of Maldives' commodity exports are fish (53%) and apparel (46%).

In 2004, exports totaled \$123 million (FOB—Free on Board), while imports grew to \$645 million. Most of the exports went to the United States (26.5%), Thailand (23.5%), Sri Lanka (12.3%), Japan (11.7%), the United Kingdom (9.8%), and Germany (4.9%). Imports primarily came from Singapore (24.9%), Sri Lanka (10.6%), the United Arab Emirates (10.3%), India (10.2%), Malaysia (7.6%), and Bahrain (5.4%).

**32 BALANCE OF PAYMENTS**

Balance of payments deficits during the first half of the 1980s were caused largely by the international shipping recession, the collapse of world tuna prices, and a brief downturn in tourism caused by the violence in nearby Sri Lanka. The government began an economic reform program in 1989, lifting import quotas and opening some exports to the private sector. In recent years, it has encouraged more foreign investment by liberalizing regulations.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Maldives' exports was \$88 million while imports totaled \$372 million, resulting in a trade deficit of \$284 million.

The International Monetary Fund (IMF) reported that in 2001 Maldives had exports of goods totaling \$110 million and imports totaling \$348 million. The services credit totaled \$354 million and debit \$109 million.

Exports of goods and services totaled \$686 million in 2004, up from \$584 million in 2003. Imports grew from \$535 million in 2003 to \$681 million in 2004. The resource balance was consequently positive, but on a downward path—from \$49 million in 2003 to \$6 million in 2004. A similar trend was registered for the current account balance, which deteriorated from -\$32 million in

2003 to -\$90 million in 2004. Foreign exchange reserves (including gold) increased to \$204 million in 2004, covering less than four months of imports.

**33 BANKING AND SECURITIES**

The Maldives Monetary Authority, established 1 July 1981, issues currency, advises the government on banking and monetary matters, supervises commercial banks, and manages exchange rates and exchange assets. Other banking services are provided by the Bank of Maldives (created in 1982) and commercial banks with headquarters in India, Pakistan, and Sri Lanka. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$135.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$271.6 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 6.8%.

There is no securities exchange.

**34 INSURANCE**

No recent information was available.

**35 PUBLIC FINANCE**

Public enterprises, including the State Trading Organization, the state shipping line, and public utilities, account for nearly half of government revenues; customs and tourist receipts make up most of the rest.

The US Central Intelligence Agency (CIA) estimated that in 2002 Maldives' central government took in revenues of approximately \$224 million and had expenditures of \$282 million. Revenues minus expenditures totaled approximately -\$58 million. Total external debt was \$281 million.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government

**Public Finance – Maldives (2003f)**

(In millions of rufiyaa, central government figures)

<b>Revenue and Grants</b>	<b>2,940</b>	<b>100.0%</b>
Tax revenue	1,130.9	38.5%
Social contributions	...	...
Grants	113.4	3.9%
Other revenue	1,695.7	57.7%
<b>Expenditures</b>	<b>3,826.5</b>	<b>100.0%</b>
General public services	935.5	24.4%
Defense	343.2	9.0%
Public order and safety	123.4	3.2%
Economic affairs	645.6	16.9%
Environmental protection	...	...
Housing and community amenities	560.6	14.7%
Health	395.9	10.3%
Recreational, culture, and religion	...	...
Education	698.5	18.3%
Social protection	123.8	3.2%

(...) data not available or not significant. f = forecasted or projected data.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

revenues were MR2,940 million and expenditures were MR3,826.5 million. The value of revenues was us\$230 million and expenditures us\$299 million, based on a market exchange rate for 2003 of us\$1 = MR12.8 as reported by the IMF. Government outlays by function were as follows: general public services, 24.4%; defense, 9.0%; public order and safety, 3.2%; economic affairs, 16.9%; housing and community amenities, 14.7%; health, 10.3%; education, 18.3%; and social protection, 3.2%.

### **3<sup>6</sup>TAXATION**

Generally, there is no income or sales tax in the Maldives, although bank profits are subject to a 25% tax. Government revenues are generated by taxes on imports, tourism, lease rentals on resorts, and on earnings by state owned enterprises. License fees are charged for boats and motor vehicles. Uninhabited islands are leased for farming to individuals, who pay annual dues to the government. Over 90% of these absentee landlords reside in Malé, the capital city. As of 2005, 90% of revenues came from import duties and tourism taxes.

Given the growing wealth in the country, the government considered bolstering government development revenues in 2002 by instituting a personal income tax, though concerns remain that enforcement may prove difficult.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

Customs duties are a primary source of government revenues and vary depending upon the type of import. A 10% duty is imposed on petrol, kerosene, and diesel oil. A 25% duty is placed on lubricating oils and textiles. Electricity generators are subject to a 20% duty. All imports and exports are subject to a 0.01% stamp duty. The primary importer is the State Trading Organization (STO), which imports 80% of the country's imported staple commodities such as rice, wheat, flour, sugar, and specified medicines. Import duties for luxury items, such as automobiles or goods considered to be environmentally dangerous, are subject to duties that can go as high as 200%.

### **3<sup>8</sup>FOREIGN INVESTMENT**

Assistance has been received from IBRD, WHO, UNDP, UNICEF, the European Union, the Colombo Plan, CARE, and other international agencies, mostly in the form of grants and low-interest loans. In the 1990s, funds from donors averaged over 8% of GDP annually, although in 2000, when, according to UNCTAD, the Maldives received \$13.3 million from donors, ODA (Official Development Assistance) was only 2.4% of GDP. Liberalized foreign investment policies have been adopted in recent years in order to attract needed development capital, especially for hotel and resort construction and other businesses related to the tourism industry.

Resort management is currently the main area of investment. Other attractive sectors include accounting services, banking, telecommunications, air transport, and manufacturing. Government projects to develop the island of Hulhumale and use it both as a residential settlement (meant to take the pressure of the overcrowded and neighboring Malé island) and a duty-free zone will likely attract more investments in the area.

## **3<sup>9</sup>ECONOMIC DEVELOPMENT**

The government has implemented a series of development programs to improve and expand fishing and related industries, textile manufacturing, food processing, tourism, communications, and health and education services. In 1986, Malé's new commercial harbor was opened, considerably speeding up cargo handling from 200–300 tons to 1,500 tons a day. Also in the late 1980s, Malé's international airport was upgraded in the late 1980s, representing a critical factor in the growth of the country's tourism sector. Effective 1 July 1997, the Companies Act governed the formation, registration, and management of companies doing business in Maldives. Part of the economic thrust has been to lessen the reliance on fishing and to diversify the economy.

Continued expansion of tourism has been particularly targeted in government development plans for the immediate future, along with facilitating a spread of economic activity to outlying island groups. Water taxis and scheduled sea vessel and light aircraft transportation services were developed in the late 1990s for this purpose. The Foreign Investment Services Bureau (FISB), established in August 1986 as a "one-stop service" for investors, was encouraging investment projects in 2002 that were (1) capital intensive; (2) enhance technology transfer; (3) introduce new skills and offer training to local employees; and (4) are environmentally friendly.

The December 2004 tsunami created havoc in the Maldives, and it is expected that around \$304 million will be needed to implement a recovery and reconstruction strategy. Tourism will continue to be the main economic driver even in the post-tsunami period, with 600,000 visitors expected to arrive annually.

## **4<sup>0</sup>SOCIAL DEVELOPMENT**

The government has focused its spending on social services and preventive health services. There is no organized social welfare system. Assistance is traditionally provided through the extended family. Employees are entitled to medical and maternity leave.

In spite of traditional Islamic restrictions on the role of women, they have increased their participation in public life. Under the terms of the constitution, men and women are considered equal before the law. Women usually receive pay equal to men in similar positions. A Gender Equality Council was created to assist the government in strengthening the role of women in society. However, Islamic law discriminates against women in matters of divorce and inheritance. Women are less able to initiate and obtain a divorce. Few women choose to participate in politics, largely because of tradition and custom. Violence against women and domestic abuse were not widespread problems. Penalties for rape include flogging and banishment. Although children's rights are explicit in law and provisions are in place to protect children from abuse, education is not compulsory. Female children are much more likely to be withdrawn from school than boys.

Human rights violations by the government include arbitrary arrest and detention and infringement of the freedoms of assembly, association, the press, and religion.

## **4<sup>1</sup>HEALTH**

As of 2004, there were an estimated 78 physicians, 123 nurses, and 185 midwives per 100,000 people. There is a relatively modern 86-

bed hospital in Malé, backed by a 12-bed regional hospital and medical rescue services in the outlying atolls, and the new Indira Gandhi Memorial Hospital.

In 2002 the estimated fertility rate was 5.4. It was estimated that 30% of children under five were underweight. The under five mortality rate has improved greatly during the last decades. As of 2002, the crude birth rate and overall mortality rate were estimated at 37.4 and 7.86 per 1,000 people, respectively. Life expectancy was estimated at 64.06 years, as of 2005, and the infant mortality rate was 56.52 per 1,000 live births. Around 96% of the country's children had been vaccinated against measles. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 100 people living with HIV/AIDS in the country.

Safe water is available to urban dwellers. Four desalination plants were completed by 1988 and a nationwide project is providing sewage systems to the atolls. Approximately 88% of the population had access to safe water and 40% had access to adequate sanitation. Malaria and diarrheal diseases have been drastically reduced. Water-borne disease epidemics have occurred, often caused by contamination of wells.

## 42 HOUSING

Some of the houses on Malé are built in imitation of those in Colombo. Most residential units throughout the country have brick walls, some of which are also plastered, and roofs of galvanized metal sheets. The poorest homes are made from thatch and sticks. According to a 2000 housing census, there were about 43,556 residential units nationwide. About 96% were detached dwellings and around 325 were apartments. The average dwelling size is from three to six rooms. About 48% of all dwellings were built from 1990–2000. Nearly 68% of the population relies on rain water as a primary source of water; 43% of all dwellings have septic tanks. About 84% of households have electric lighting, but firewood and oil are the primary heating and cooking fuels.

## 43 EDUCATION

Primary level education is for seven years and secondary education is for five years. Education is compulsory for seven years. There are three streams of Maldivian education: traditional religious schools (*makhtabs*), which teach the Koran (Quran), basic arithmetic, and the ability to read and write Divehi; modern Divehi-language primary schools; and modern English-language schools. Primary and secondary schooling is based on the British educational system. Distance educational courses and educational programs on the radio are also provided.

Primary school enrollment in 2003 was estimated at about 92% of age-eligible students. The same year, secondary school enrollment was about 51% of age-eligible students. The student-to-teacher ratio for primary school was about 20:1 in 2003; the ratio for secondary school was about 15:1.

Maldivians must go abroad for higher education. In the 1990s, the government began making large investments in secondary, vocational, and postsecondary education. Currently the Science Education Center in Malé provides pre-university courses, and the center may evolve into a university. The adult literacy rate for 2004 was estimated at about 96.3%.

As of 2003, public expenditures on education were estimated at 3.7% of GDP, or 11.2% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

A National Library, founded in 1945, is the only nationally funded public library in the country; it contains over 35,000 volumes. Most primary and secondary schools have small libraries; these facilities suffered major damage during the 2004 tsunami and reconstruction and restocking was underway in 2005. There are a few private libraries in the country, including two health libraries: one at the Institute of Health and another at the main hospital in the country. The Ministry for Agriculture and Fisheries and the Ministry of Finance have small libraries as well. A National Museum was founded in 1952 in Malé to conserve and display historical items.

## 45 MEDIA

Inter-atoll communication is through a network of high-frequency transceivers; within atolls, communication between islands and with boats is by walkie-talkie. A satellite earth station was installed in 1977 to facilitate external communications. In 2002, there were 28,700 mainline phones and 41,900 mobile phones in use nationwide.

The Voice of Maldives has been transmitting radio broadcasts since 1962 in Divehi and English. Television Maldives is the country's only television station. As of 2005, there were two radio station and one television station, all government owned. In 1999, there were 35,000 radios and 10,00 television sets throughout the country. In 2002, there were 15,000 Internet subscribers.

There are two major daily newspapers, *Aafathis* (2002 circulation 300) and *Haveeru* Daily (circulation 4,500). Both papers are published in Divehi and English. As of 2001, there were about 200 other newspapers and periodicals in circulation.

The Penal Code prohibits speech against Islam or the government, though it is said that journalists are more self-confident than in the past and that self-censorship has abated. There are legal prohibitions on the import of foreign publications.

## 46 ORGANIZATIONS

Several sport clubs and a Muslim religious organization operate in Malé. The Maldives National Chamber of Commerce and Industry is also in Malé along with the Maldives Traders' Association. The Maldives National Youth Council was formed in 1984 to assist in organizing national programs for youth. Scouting programs are available for youth as well as through the Scout Association of Maldives and the Girl Guides. The Society for Health Education in Malé addresses concerns of health and social welfare.

## 47 TOURISM, TRAVEL, AND RECREATION

The principal industry and leading foreign exchange earner, tourism, was damaged in 2004 when a tsunami hit some of the islands of Maldives. Although there was damage to various hotels and tourism facilities, much of the tourism infrastructure remains intact.

Natural attractions are crystal-clear lagoons and white sand beaches that are ideal for swimming, fishing, snorkeling, and scuba diving. Modern, one- and two-story tourist facilities have been built on various otherwise uninhabited islands, mainly in the Malé atoll but also in neighboring atolls. Developed with European, Sri Lankan, and Indian assistance and part ownership, such

resorts are confined to these individual islands, thus allowing the conservative Islamic government to profit from the presence of foreign tourists while shielding its citizens from the presence and consumption of alcoholic beverages and other un-Islamic holiday practices of tourists. Maldivian resort workers maintain their homes and families on other islands, and non-Maldivians—often Sri Lankans—are hired to serve the alcohol. Passports are required of all visitors, as are yellow fever vaccination certificates for those arriving from infected areas.

In 2003, there were 563,593 tourist arrivals. Hotel rooms numbered 8,557, with 17,114 beds and an occupancy rate of 77%. The average length of stay was eight nights.

#### **48 FAMOUS MALDIVIANS**

Ibn Battutah (Muhammad bin 'Abdallah bin Battutah, b.Tangier, 1304–77), the remarkable Arab traveler and geographer, lived in the Maldives for several years, served as a quadi there, and mar-

ried the daughter of a Maldivian vizier. Sultan Iskandar Ibrahim I, who reigned for nearly 40 years during the 17th century, had the Hukuru Miskit (the principal mosque on Malé Island) built in 1674. Modern-day leaders include Amir Ibrahim Nasir (b.1926) and Maumoon Abdul Gayoom (b.1937).

#### **49 DEPENDENCIES**

Maldives has no territories or colonies.

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# MARSHALL ISLANDS

Republic of the Marshall Islands

**CAPITAL:** Majuro, Majuro Atoll

**FLAG:** The flag, adopted in 1979, is blue, with two diagonal strips of orange over white; in the canton is a white star with 4 large rays and 20 shorter ones.

**ANTHEM:** *Ij iokwe lok aelon eo ao ijo iaar lotak ie (I Love My Island, Where I Was Born).*

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** The government has not legislated official holidays.

**TIME:** 11 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Marshall Islands is located in the central Pacific Ocean, just north of the equator. Isolated from major population centers, Majuro, the capital, lies 3,438 km (2,136 mi) w of Honolulu, 3,701 km (2,300 mi) SE of Tokyo, and 3,241 km (2,014 mi) SE of Saipan, the former trust territory capital. The country consists of 29 atolls and 1,152 islands, 5 of which are major islands, extending over a sea area exceeding 1,942,500 sq km (750,000 sq mi). The main land area is only about 181 sq km (70 sq mi).

Comparatively, the area occupied by the Marshall Islands is slightly larger than Washington, DC. The atolls and islands form two almost parallel chainlike formations: the Ratak ("Sunrise"), or Eastern, group and the Ralik ("Sunset"), or Western, group. The largest atolls in the Ratak group are Mili, Majuro, Maloelap, Wotje, Likiep, and Bikini; in the Ralik group, Jaluit, Kwajalein, Wotho, and Enewetak. The Marshall Islands have a coastline of 370.4 km (230 mi).

The capital city of the Marshall Islands, Majuro, is located on the island of Majuro.

## <sup>2</sup>TOPOGRAPHY

The majority of islands are in typical atoll formations, consisting of low-lying narrow strips of land enclosing a lagoon. Soils are porous, sandy, and of low fertility. Kwajalein Atoll in the Ralik, or Western, atoll is the largest atoll in the world.

## <sup>3</sup>CLIMATE

The maritime tropical climate is hot and humid, with little seasonal temperature change. Diurnal variations generally range between 21–34°C (70–93°F). Trade winds from the northeast cool the high temperatures from December through March.

Rainfall averages about 30–38 cm (12–15 in) per month, with October and November the wettest and December to April the driest. Average rainfall increases from the north to the south; the northern atolls average 178 cm (70 in) annually, compared with 432 cm (170 in) in the southern atolls.

## <sup>4</sup>FLORA AND FAUNA

The flora and fauna of the atolls are limited in number and variety. The flora consists of species resilient to porous soils, salt spray, and relatively strong wind force. The dominant tree species include coconut palms, pandanus, breadfruit, and citrus trees. The reef systems of the islands support about 160 coral species. Fauna include rodents and indigenous strains of pig.

## <sup>5</sup>ENVIRONMENT

Among the Marshall Islands' more significant environmental problems are water pollution due to lack of adequate sanitation facilities, inadequate supplies of drinking water, and the rise of sea levels due to global warming. Any rise in the sea level is a constant and serious threat to an island nation whose land mass is 2–3 meters (6–10 ft) above sea level.

The Marshall Islands Environmental Protection Agency, established in 1984, is concerned with programs for water quality standards, solid waste disposal, earthworks, and use of pesticides. The environments of the Bikini, Enewetak, Rongelap, and Utirik atolls were contaminated by nuclear testing. Nuclear tests were carried out in the region from 1946 to 1958. The long-term environmental effects on these atolls and their populations remain undetermined.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 type of mammal, 2 species of birds, 2 types of reptiles, 7 species of fish, and 1 type of mollusk. The hawksbill turtle and green turtle are on the endangered species list.

## <sup>6</sup>POPULATION

The population of Marshall Islands in 2005 was estimated by the United Nations (UN) at 59,000, which placed it at number 185 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was

expected to be 3.0%, a rate the government viewed as too high. The growth rate has declined due to emigration, but the fertility rate stood at 5.7 births per woman. The projected population for the year 2025 was 83,000. The population density was 328 per sq km (849 per sq mi). About 60% of the total population resided on two atolls, Majuro and Ebeye. Of the 34 atolls and major islands, 24 are inhabited.

The UN estimated that 68% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.43%. The capital city, Majuro, Majuro Atoll, had a population of 25,000 in that year.

## **7 MIGRATION**

Population has been steadily migrating from the outer atolls to the urban concentrations on Majuro and Ebeye. As a result, outer atolls have been left with unbalanced population structures of children, females, and the aged. In 2000 the total number of migrants was 2,000.

Provisions under the Compact of Free Association with the United States permit unrestricted entry into the United States and allow high-school graduates to join the US armed forces. In 2005, the net migration rate was an estimated -5.91 a change from zero in 1999.

## **8 ETHNIC GROUPS**

The Marshallese people are Micronesians, who are physically similar to the Polynesian peoples. The largest non-Marshallese ethnic group is from Kosrae in the Federated States of Micronesia. There are also small numbers of Americans and Filipinos.

## **9 LANGUAGES**

English is universally spoken and is the official language. Two major Marshallese dialects are also spoken. Marshallese is a Malayo-Polynesian language and the common source of each of the atolls' dialects. Both English and Marshallese are used in official communications and in commerce. Japanese is also spoken.

## **10 RELIGIONS**

The people are almost entirely Christian, primarily Protestant, as a result of the arrival of American and Hawaiian Protestant missionaries in the 1860s. The United Church of Christ is the principal denomination, representing some 55% of the population. The United Church of Christ is the successor of the Congregationalists from New England and Hawaii who converted the islanders in the latter half of the 19th century. Other religious denominations represented include Assemblies of God (26%), Roman Catholics (8%), Bukot Nan Jesus (also called Assembly of God Part Two, 3%), the Church of Jesus Christ of Latter-Day Saints (2%), Seventh Day Adventists (1%), Full Gospel (1%), and the Baha'i Faith (1%). About 1% are Muslims, Jehovah's Witnesses, and members of the Salvation Army. Certain Christian holidays are celebrated as national holidays.

## **11 TRANSPORTATION**

There are 64.5 km (40 mi) of paved road on the Majuro atoll and on the Kwajalein atoll with less than 10% of those roads on Kwajalein in 2002. On the outer islands, roads consist primarily

of cleared paths and roads surfaced with stone, coral, or laterite. There are few motor vehicles.

The many scattered atolls separated by long distances make sea and air transportation essential. Domestic sea transportation is provided by interisland ships, which service each of the outer islands about once every three months. Two commercial dock facilities in Majuro and one in Ebeye furnish port facilities for international shipping. In 2005, the merchant fleet consisted of 540 ships with a capacity of 1,000 GRT or more totaling 25,102,401 GRT.

Also in 2004, the Marshall Islands had an estimated 15 airports, only 4 of which had paved runways as of 2005. Majuro International Airport, completed in 1974, accommodates aircraft up to Boeing 707 size. The government-owned Airline of the Marshall Islands (AMI), established in 1980, provides service to all outer islands with airstrips. International airline connections are provided to Tarawa in Kiribati, Funafuti in Tuvalu, and Nadi in Fiji. Air Micronesia/Continental Airlines links Majuro with major foreign destinations, including Hawaii, Guam, Manila, and Tokyo. In 2001 (the latest year for which data was available), 18,800 passengers were carried on domestic and international airline flights.

## **12 HISTORY**

Sighting of the islands was first recorded by the Spanish navigator Alvaro de Saavedra in 1529. The British captain John Marshall, after whom the islands are named, explored them in 1788. Throughout the late 1800s and early 1900s, foreign powers ruled the islands for such advantages as trade, religious propagation, exploitation of resources, strategic considerations, and maintenance of sea routes. Spain claimed the islands in 1874, but sold them to Germany in 1899. At the outbreak of World War I, Japanese naval squadrons took possession of the Marshalls and began formal administration under a League of Nations mandate in 1920.

In World War II, after bitter fighting between US and Japanese forces that included battles for Kwajalein and Eniwetok (now Enewetak), the islands came under US control. In 1947, the Marshalls became a district of a UN trusteeship, called the Trust Territory of the Pacific Islands, which was administered by the United States.

The United States used Bikini and Enewetak atolls as nuclear testing sites from 1946 to 1958, exploding 66 atomic and nuclear tests during this period. Radiation contamination from the nuclear testing program resulted in the displacement of the indigenous people of Bikini and Enewetak.

The Marshallese people adopted a constitution in 1978, under which the Marshalls were designated the Republic of the Marshall Islands. In 1979, the constitution went into effect and the republic became a self-governing territory, with Amata Kabua elected the Republic's first president. In 1983, a Compact of Free Association with the United States, providing for full self-government except for defense, was approved by plebiscite. Section 177 of the compact stated that the United States would provide a \$150 million settlement for damages resulting from the nuclear testing. The money formed the basis of a trust fund which was to generate enough money to provide annual proceeds of \$18 million through 2001, to be distributed to benefit the people on the affected atolls.

In January 1986, the compact was ratified by the United States, and on 21 October 1986 it went into effect. The people of Bikini and Enewetak, along with those exposed to radioactive fallout in

the 1954 Bravo Blast, fought for compensation from the United States, which in February 1990 agreed to pay \$45 million to the victims of the nuclear testing program. In October 1999, the United States, through the Majuro-based Nuclear Claims Tribunal, paid nearly \$2.3 million toward the \$45 million originally promised in 1990, bringing the amount paid toward the total to \$39.4 million.

The UN Security Council voted in December 1990 to terminate the Marshall Islands' status as a UN Trust Territory. The Republic became an independent state and joined the UN in September 1991. Because of the US promise to care for the Islanders until they could return to their home, Bikinians made US president Bill Clinton their king and expected him to look after his people.

The Compact of Free Association with the United States expired in 2001, but the provisions of the compact were subsequently extended though September 2003, with the level of yearly assistance to continue at \$37 million. US president George W. Bush signed the Amended Compact of Free Association in December 2003. The 20-year compact provided for a trust fund of more than \$800 million, and granted the United States exclusive military access to the Marshall Islands, in return for which the United States would provide protection against any third parties. Marshallese concerns were raised when the trust funds lost value following the September 2001 terrorist attacks in the United States. In January 2005, the Bush administration rejected efforts on the part of the Marshall Islands to get an additional \$3 billion in compensation for the tests, stating there was no legal basis for additional payments.

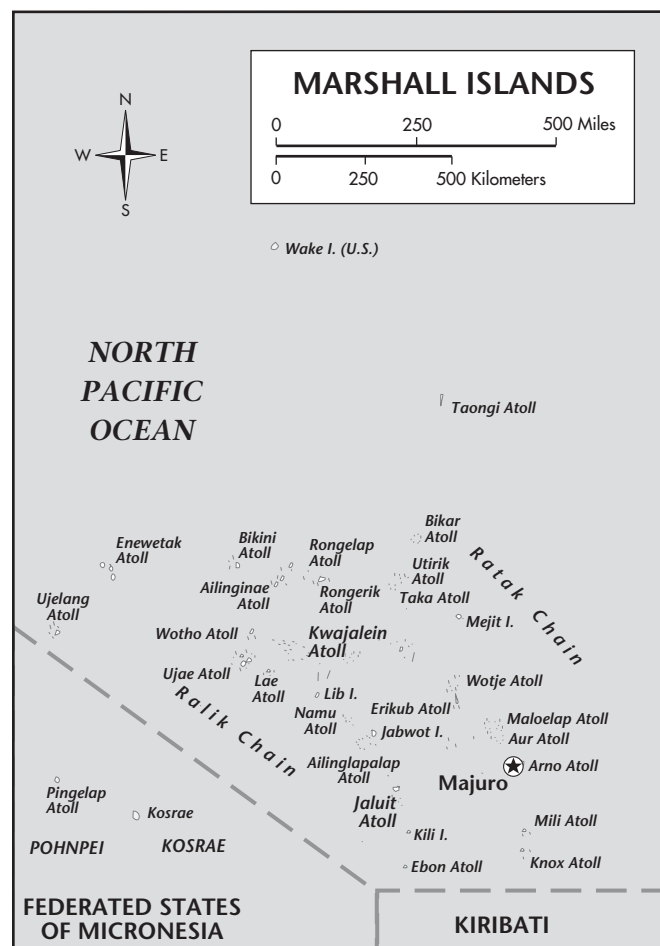
Fifty years after testing began, Bikini Island began to attract a few tourists; scientific surveys have declared the island habitable again, although there is still a danger in eating too many of the local coconuts. Despite the scientific assurances, the US government has yet to issue a statement saying that the island is safe to inhabit. In addition, global warming and the possibility of rising sea levels have raised concern over the long-term prospects for the islands in the middle of the Pacific Ocean. The Marshall Islands, along with Kiribati and Tuvalu, rise only a few feet above sea level. The Intergovernmental Panel on Climate Change has suggested that the sea could rise 18 inches by 2100, but that figure could be much lower or higher.

Following the passing in China of an anti-secession law which would theoretically authorize a Chinese invasion of Taiwan, the Marshall Islands aligned itself with Taiwan, sending Taiwanese president Chen Shui-bian a letter of support.

### 13 GOVERNMENT

The Marshall Islands is an independent republic. The constitution effective on 1 May 1979 incorporates a blend of the British and American constitutional concepts. It provides for three main branches of government: the legislature, the executive, and the judiciary.

Legislative power is vested in the Parliament, known as the Nitijela, which consists of 33 members elected from 24 electoral districts, each corresponding roughly to an atoll. The Council of Iroij (Chiefs) has 12 members, whose main functions are to request reconsideration by the Nitijela of any bill affecting customary law, traditional practice, or land tenure, and to express an opinion to the cabinet on any matter of national concern.



LOCATION: 4° to 14° N; 160° to 173° E.

Executive power is vested in the cabinet, headed by the president, who is also head of state. The president serves a four-year term. The president, a member of the Nitijela, is elected by a majority of that assembly. The constitution requires the president to nominate not more than 10 or fewer than 6 members of the Nitijela as ministers. All citizens who have attained the age of 18 are eligible to vote.

In late 1999 and early 2000, two major political changes took place. For the first time, an opposition party, the newly formed United Democratic Party (UDP), gained a majority in parliament in the November 1999 elections. Then, in January 2000, Kessai Note, the Speaker of the Nitijela, was elected to the presidency, becoming the first president of the Marshall Islands who is a commoner (not a traditional chief). He was reelected in January 2004. The next elections were to be held in 2007.

### 14 POLITICAL PARTIES

There is no tradition of organized political parties in the Marshall Islands; what has existed more closely resembles factions or interest groups because they do not have party platforms, headquarters, or party structures. However, two major groupings have competed in legislative balloting. The Kabua Party of former President Amata Kabua was in ascendance from 1979 to 1999; during that time, Kabua was elected to five 4-year terms as president. Following his death in December 1996, the newly-formed United Democratic

Party (UDP), led by Litokwa Tomeing, became more powerful, gaining a majority in parliament in November 1999, and again in the November 2003 elections. Kessai Note was elected president in legislative sessions in 2000; in January 2004, he was reelected to a second 4-year term by a vote of 20 to 9.

The next legislative elections were to be held no later than November 2007.

## **15 LOCAL GOVERNMENT**

There are 24 local governments for the inhabited atolls and islands. Typically, each is headed by a mayor, and consists of an elected council, appointed local officials, and a local police force.

## **16 JUDICIAL SYSTEM**

The judiciary consists of the Supreme Court, the High Court, the District Court, and community courts. The Supreme Court has final appellate jurisdiction. The High Court has trial jurisdiction over almost all cases and appellate jurisdiction over all types of cases tried in subordinate courts. The District Court has limited civil and criminal jurisdiction nationwide.

Community courts in local government areas adjudicate civil and criminal cases within their communities. In 1984, a traditional rights court was established to determine questions relating to titles or land rights and other legal interests involving customary law and traditional practice.

The constitution provides for an independent judiciary. The constitution also provides for the right to a fair trial. It prohibits the arbitrary interference with privacy, family, home, or correspondence. Government authorities respect these provisions in practice.

## **17 ARMED FORCES**

There are no armed forces in the Marshall Islands. Under the Compact of Free Association, the United States provides defense for a minimum 15-year period and operation of the Kwajalein Missile Range for 30 years.

## **18 INTERNATIONAL COOPERATION**

The Marshall Islands was admitted to the United Nations on 17 September 1991, and participates in several specialized agencies including the FAO, IAEA, the World Bank, UNCTAD, UNESCO, and the WHO. In 1992, it became a member of ESCAP. The country is also a member of the ACP Group, the Asian Development Bank, G-77, Sparteca, and the Pacific Island Forum.

In 1996 the Marshall Islands joined with 38 other nations to form the Alliance of Small Island States (AOSIS). The Alliance, concerned with global warming and rising sea levels, wants the industrialize nations to reduce greenhouse gas emissions. In other environmental cooperation, the Marshall Islands is part of the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

The Marshall Islands operates under the Compact of Free Association signed with the United States on 25 June 1983. Amendments to the CFA went into effect on 1 May 2004. These amendments provide the Islands with a promise \$62 million over the 10 years and access to US programs and services. Under the compact, the United States has full authority and responsibility for securi-

ty and defense of the Marshall Islands. In return, the Marshallese government must conduct foreign affairs in cooperation with US security and defense responsibilities.

## **19 ECONOMY**

The economy consists of a monetary sector and a nonmonetary subsistence sector. The monetary sector is localized in Majuro and Ebeye and is sustained largely by expenditures of the government and Kwajalein Missile Range employees. In turn the government is heavily dependent on grants from the US government provided, particularly those under the Compact of Free Association, which went into effect in 1986. These grants, averaging ranging from \$40 million/year to \$60 million/year, are given in exchange for furnishing military facilities and comprise roughly 60–70% of total government revenues, and 40% to over 50% of total GDP (though individual estimates are subject to statistical deficiencies due to the uncertainties in the collection of data). Copra (dried coconut meat) production provides a source of cash income for outer-atoll families engaged in subsistence activities.

The labor force has increased 160% from 1988 to 1999, to about 28,700, with the percent in industry doubling from 10% to 21%. Among the 21% engaged in agriculture and fishing, the main activities are copra (dried coconut meat) production, and the cultivation of breadfruit, taro, and pandanus. The nascent tourist industry employs less than 10% of the labor force, and efforts to capitalize on beautiful beaches enlivened with WWII relics are hampered by fears of radioactive fallout from the atomic testing done in these remote islands in the 1950s. At least half of the population still suffers from the effects of this fallout. In services, there have been attempts to develop offshore financial and ships registry services taking advantage of the time-space convergences in the computer age. In 1993, the Marshall Islands led all other countries in the passage of legislation decentralizing procedures for ship registry and mortgages so that they could be handled from distant offices, an important advantage for a country whose nearest neighbor, Hawaii, is over 2,100 miles away. By April 2001, the Marshall Islands had become the ninth-largest flag of convenience registry in the world in terms of tonnage. However, attempts to offer competitive offshore services have also put the Marshall Islands on virtually every blacklist developed during the 1990s to crack down on tax havens and regulatory avoidance, including the US Financial Action Task Force (FATF) for inadequate safeguards against money laundering and the OECD's blacklist for open registry countries with poor health and safety records.

The islands have few natural resources, and imports exceed exports by factors ranging from 11 to 18, a gap that is also financed by grants from the United States under the Compact Agreement. Negotiations to extend the terms of the agreement with the United States were initiated in 1999, although the long-term goal was to substitute grants under the Compact with returns from a Marshall Island Intergenerational Trust Fund (MIITF). In the meantime, the Compact arrangements were extended through 31 October 2003. Savings for an MIITF were expected to come out of decreased expenditures on debt servicing.

The economy underwent a recess in 2004, contracting by -1.5%, down from positive growth figures in 2003 (2.0%), and 2002 (4.0%). The inflation rate was relatively stable, and at 2.4% in 2004 it did not pose a problem to the overall economy. There are no of-

ficial numbers for the unemployment rate, but it is estimated to hover somewhere around 30%. US assistance remains the major source of income for this tiny country, and tourism is expected to play an increasingly important role in the future.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 the Marshall Islands's gross domestic product (GDP) was estimated at \$115.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,600. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2001 was 1.8%. It was estimated that agriculture accounted for 14% of GDP; industry, 16%; and services, 70%.

## **21 LABOR**

The labor force numbered 28,698 in 2002. Approximately 58% of the labor force was engaged in the service sector, with 21% in industry and 21% in agriculture. In 1999, the estimated unemployment rate was estimated at around 31%.

Although the constitution provides for the freedom of association, and the government construes this to include labor organization, as of 2002, no labor unions existed. There is no statutory provision permitting strikes by workers nor is there a right to collectively bargain or organize. Generally wages are set in accordance with the minimum wage regulation and determined in part by market influence.

There is no prohibition against child labor but the law requires compulsory education until the age of 14. In practice this requirement is not effectively enforced, and many children work, especially in the fishing industry. A minimum wage of \$2 per hour was in place by the government in 2002. There are no laws concerning maximum work hours or health and safety in the workplace.

## **22 AGRICULTURE**

The traditional interplanting of root crops and other vegetables with coconuts, which maintained self-sufficiency in food and provided the Marshallese with dietetic variety before modern times, is still widely practiced as a subsistence activity. Some 6,500 hectares (16,000 acres) of coconut palm are productive. Dried coconut meat, known as copra, is produced on almost all islands and atolls; production in 2004 amounted to about 5,000 tons. Taro, breadfruit, and pandanus are also grown.

## **23 ANIMAL HUSBANDRY**

Livestock on the islands consists of pigs and poultry. Most families raise pigs for subsistence and for family and community feasts. In 1981, pigs were imported from New Zealand to improve the strains of the local breed.

## **24 FISHING**

While subsistence fishing for inshore species is carried out from all atolls, there is little domestic commercial fishing in the nation's 1,942,500 sq km (750,000 sq mi) of sea. The total catch in 2003 amounted to 38,475 tons. Principal marine resources include tuna, prawns, shrimp, seaweed, sponges, black pearls, giant clams,

trochus, and green mussels. Colorful baby giant clams for ornamental aquariums are grown for export to the United States.

A fisheries base with a freezer plant (200 tons capacity) and a chilling plant (50 tons capacity) was constructed in Majuro with Japanese government assistance. In 1986, the Marshall Islands Maritime Authority (MIMA) was reestablished to organize all marine resource activities, including protection, management, and development, under one agency. During the mid-1990s, about 10,500 foreign fishing vessels annually operated in the Marshall Islands' waters, about three-fourths of them Japanese.

The Marshall Islands has an exclusive economic zone of over 2,000,000 sq km (770,000 sq mi) of ocean that supports significant stocks of tuna. The government collects license revenue from other nations for access to tuna resources in the exclusive economic zone. These fees have been decreasing since 2002, due to migrating patterns of fish away from Marshall Islands waters.

## **25 FORESTRY**

Some 8,900 hectares (22,000 acres) are planted with coconut palm. Replanting has been undertaken on Arno, Lae, Maloelap, Rongelap, Ujae, Wotho, and Wotje. Pine species are under experimentation in a windbreak tree project on Ebeye. In 1984, a sawmill was purchased for processing coconut trunks and other tree species as lumber. In 2004, forest product imports totaled \$1.9 million.

## **26 MINING**

There was no mining of mineral resources. However, preliminary surveys have revealed the presence of phosphate and manganese nodules in the seabed within the territorial waters. Lagoon dredging of sand and coral for construction purposes was undertaken in Majuro and Ebeye.

## **27 ENERGY AND POWER**

The Marshall Islands is nearly 100% dependent on imported fossil fuels for electric power generation. In 1988, fuel imports amounted to \$3.6 million, or 10% of total imports. In 1995, mineral fuels and lubricants accounted for about 25% of merchandise import expenditures. The urban centers of Majuro and Ebeye have major generating facilities. The Majuro power plant, commissioned in 1982, has an installed power capacity of 14,000 kW. A 5,200 kW power plant was commissioned in Ebeye in 1987. The low power requirements in the outer islands are met by solar-powered systems. However, as of 2003, there were still outer island residents without adequate access to electricity because they were not supplied with solar power. Electricity production was 57 million kWh in 1994.

## **28 INDUSTRY**

The economy's small manufacturing sector, localized largely in Majuro, accounts for less than 4% of the gross revenues generated in the private sector. The largest industrial operation is a copra-processing mill under a government and private-sector joint enterprise. (Copra is dried coconut meat.) The rest of the manufacturing sector consists of small-scale and domestic operations, such as coir making, furniture making, handicrafts, and boat making. In 1986, a government-owned dairy factory was established in Majuro, producing liquid milk, ice cream, and yogurt from imported milk powder and butterfat. In 1987, a small tuna cannery began

production in Majuro but did not survive the economic downturns of the late 1990s. Manufacturing output increased rapidly in the early 1990s climbing from \$853 million in 1991 to a peak of \$2.7 billion in 1995, a 215% increase. The growth was not sustained, and by 1998, manufacturing output had fallen almost 45% to \$1.48 billion. Coconut oil was again the Marshall Islands' only appreciable manufactured export.

At the end of 1999 a tuna loining plant was opened in Majuro, an operation that performed all but the canning of tuna, which was done at a StarKist cannery in American Samoa. By 2000 manufacturing output had climbed to \$1.72 billion. In the period from 1988 and 1999, the percent of the work force engaged in industry more than doubled, from 10% to 21%. The sector is dominated by small-scale, labor-intensive operations, however, and only accounts for 16% of GDP.

The tuna factory closed in 2005 due to lack of government assistance and interest. Although the plant employed 400 fully trained workers (mostly women), and although it pumped around \$6 million in the economy, government officials did not provide any incentives to keep it open. This only accentuated the country's reliance on imports and aid from the United States.

## **2<sup>9</sup> SCIENCE AND TECHNOLOGY**

While there are no institutions involved in scientific research or training, the College of Micronesia nursing facility and science center, located in the Majuro Hospital, provides instruction in nursing technology and science.

## **3<sup>0</sup> DOMESTIC TRADE**

Domestic trade accounts for the majority of the total gross trade revenue from urban private enterprises. The modern commercial/retail sectors are located in Majuro and Ebeye and consist mainly of service establishments and imported goods, although increasing amounts of locally produced vegetables and fish were being marketed. Most imports are purchased and consumed at these two main locations. Other islanders are primarily employed in subsistence farming or in production of copra and woven handicrafts. Domestic trade in outer island areas is primarily for basic necessities.

## **3<sup>1</sup> FOREIGN TRADE**

Heavy and increasing trade deficits result from limited exports and dependency on imports for consumer and capital goods. Over 90% of the value of exports is accounted for by fish, coconut oil, and copra cake (made of dried coconut meat). The major imports are foodstuffs, machinery and equipment, fuels, beverages, and tobacco.

In 2000, exports totaled \$9 million (FOB—Free on Board), while imports grew to \$54 million. In 2004, most of the exports went to the United States, Japan, Australia, and China. Imports primarily came from the United States, Japan, Australia, New Zealand, Singapore, Fiji, China, and the Philippines.

## **3<sup>2</sup> BALANCE OF PAYMENTS**

The economy suffers from a long-standing imbalance of trade, with imports far exceeding exports. A comprehensive record of

international transactions in the form of standardized balance-of-payments accounts was not maintained during the trusteeship period (prior to 1986). The chronic trade deficit is offset by official unrequited transfers, predominantly from the United States.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of the Marshall Islands' exports was \$9 million while imports totaled \$54 million resulting in a trade deficit of \$45 million.

Exports of goods and services totaled \$4 million in 2004, while imports grew to \$75. The resource balance was consequently negative, and on downward path—from -\$51 million in 2003, to -\$55 million in 2004. The current account balance was however positive, at \$24 million in 2003, and \$14 million in 2004. This discrepancy between a negative resource balance and a positive current account balance can be attributed to the aid the Marshall Islands receive from the United States. Foreign exchange reserves (including gold) increased to \$18 million in 2003, covering less than three months of imports.

## **3<sup>3</sup> BANKING AND SECURITIES**

Financial services are provided by three commercial banks: the Bank of Guam and the Bank of Marshalls, located in Majuro, and the Bank of Hawaii, located in Ebeye. The Marshall Islands Development Loan Office in Majuro was established as an independent government corporation in 1982. There were four credit unions, operated by over 2,000 members.

The Marshall Islands has no stock issues or securities trading.

## **3<sup>4</sup> INSURANCE**

Two foreign insurance companies, located in Majuro, provide coverage. A US insurance company provides loan protection policies to credit unions.

## **3<sup>5</sup> PUBLIC FINANCE**

Government revenues are derived from domestic sources and US grants. Domestic revenues are from taxes and nontax sources (fishing rights, philatelic sales, and user charges). The leading areas of expenditure include health services, education, public works, and transportation and communication.

The US Central Intelligence Agency (CIA) estimated that in 1999 the Marshall Islands' central government took in revenues of approximately \$42 million and had expenditures of \$40 million. Revenues minus expenditures totaled approximately \$2 million. Total external debt was \$86.5 million.

## **3<sup>6</sup> TAXATION**

Income tax is applied to wages and salaries at graduated rates. Business tax is applied to gross revenues of service-related enterprises generated anywhere in the Marshall Islands, the Federated States of Micronesia, and Palau, except on Kwajalein. A sales tax is applied only in Kwajalein. There is also a fuel tax.

### **37 CUSTOMS AND DUTIES**

Import taxes are generally ad valorem; duties range from 5–75%. The average rate is 10%. Specific duties apply to cigarettes, soft drinks, beer, spirits, wine, gasoline, and other gases and fuels.

### **38 FOREIGN INVESTMENT**

The government favors joint ventures with foreign private investors but efforts to attract foreign investment and develop new export products have been largely unsuccessful. The IMF has urged the reduction in the minimum wage and the reserved list for small scale investment as means to secure more foreign direct investment. Foreigners may lease but not own land. The US department of defense operates a missile testing range on behalf of the strategic defense command in Kwajalein.

A tuna canning plant that was opened in 1999 was subsequently closed in 2005, drawing with it disinvestments of almost \$6 million annually.

### **39 ECONOMIC DEVELOPMENT**

The first five-year national development plan (1985–89), which was rephased to 1986/87–1990/91, to meet the requirements of the Compact of Free Association with the United States, constituted the first phase of a 15-year development program. The plan focused on economic development, with emphasis on private-sector expansion, personnel development and employment creation, regional development, population planning and social development, and cultural and environmental preservation. Total funding across the 15 year span of the agreement was envisioned at about to \$1 billion or about \$65 million dollars per year in financial aid from the United States. Aid was gradually decreased across the 15 year period, and a down-step in 1996 caused a budget deficit that the government filled with debt financing. Paying off the bond obligations kept government expenditures and investment strapped until they were paid off in 2001. By that time, the size of the government had been significantly reduced. Compared to 1994/95, 2002 expenditures were 25% less in current dollar terms. Also, US aid had dropped to an estimated \$39 million. Under Title 11 of the Compact of Free Association, funding was scheduled to expire in 2001, with provision of a two year extension equal to the average level of assistance over the last 15 years. This increased US grant aid to almost \$60 million for 2001, above the average of \$45.33 million for 1997 to 2001.

Tourism was under development in the late 1990s with the opening of a first-calls resort hotel, the first in the Marshall Islands.

In 2001 the government paid off all commercial debt but usable fiscal resources remained short because of a need to set aside about \$30 million in 2001 and 2002 for the initial capitalization of the Marshall Islands Intergenerational Trust Fund (MIITF). The MIITF is the government's long-term solution to the island's public finance needs, but is not projected to provide substantial yearly dividends until at least 2024. In the meantime, the government renegotiated the terms of Title II of the Compact. In an agreement signed 23 April 2002 to go into effect in 2004, US aid was extended for 20 years, to 2024, with a base grant of \$37 million. The base grant was to be reduced by \$500,000 each year with the

decrement to be deposited in the MIITF, which was also to receive an initial \$8 million contribution from the United States. Inflation indexation was set with a cap of 5%, down from 7% under the old agreement. It also agreed to establish a RMI-US Joint Economic Review Board (JERB) to monitor and oversee the spending of the grant money. The priority targets set for spending are education, health, and infrastructure. The agreement requires amendment to the Compact of Free Association, which requires passage by both houses of the US Congress.

Another agreement reached in April 2003 was a 50-year extension of the US lease of land on the Kwajalein atoll as a defense site, with an option to extend an additional 20 years. As the current lease was set to expire in 2016, this meant an extension to 2066. In calculating its assistance to the Marshall Islands, the United States includes not only the \$13 million a year paid for the Kwajalein lease under the Military Use and Operating Rights Agreement (MUORA) but also an estimated \$21 million in tax dollars that are infused through salaries, tax payments and telecom services, plus an estimated \$10 million worth of federal programs, like the postal service. The RMI government expressed concerns that the assistance is insufficient to prevent economic stagnation, and social and infrastructure deterioration, and/or prevent recourse to debt financing to fill revenue shortfalls.

### **40 SOCIAL DEVELOPMENT**

Private-sector provision of community and social services is mainly through the Marshalls Community Action Agency, a non-profit organization. Among government agencies, the Ministry of Social Services is involved in five major areas: housing, women's and youth development, feeding programs, aging, and other community development welfare programs. Funding of these services is provided almost entirely by the United States. A social security system provides old age, disability, and survivor benefits, paid for by employers and employees. The program is funded by 7% contributions from both employers and employees. Retirement is set at age 55.

The Marshallese society retains a traditional matrilineal structure. Each person belongs to the bwij, or clan, of his or her mother, and has the right to use the land and other property of the bwij. The head of the bwij is called an alap. The alap is the spokesperson between the clan members and the members of the iroij, or royal clan. Inheritance of traditional rank and of property is matrilineal, and women occupy important positions within the traditional social system. However, within the economic system, many hold low-paid dead-end jobs. Spousal abuse is common, usually in conjunction with alcohol use. No overt instances of sex discrimination have been reported. The government is committed to protecting and promoting the rights of children.

The government fully respects the human rights of its citizens. No human rights organizations exist, but there are no legal restrictions against their formation.

### **41 HEALTH**

There are two hospitals: the Armer Ishoda Hospital in Majuro, with an 81-bed capacity, and a renovated hospital in Ebeye. Both

hospitals provide dental services. In 2004, there were an estimated 47 doctors, 298 nurses, and 185 midwives per 100,000 people.

Rudimentary health care on the outer atolls is provided through 69 dispensaries staffed by health assistants. Emergency cases are sent to the Majuro or Ebeye hospital and, when necessary, to hospitals in Honolulu. Dental services to the outer atolls are provided by periodic visits by dental teams from Majuro and Ebeye. Once the site for nuclear testing, the Marshall Islands government has once again considered testing on the uninhabitable islands of Bikini and Enewetak.

Infant mortality was an estimated 29.45 per 1,000 live births as of 2005. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 44.98 and 6.1 per 1,000 people. Life expectancy was 70.01 years in 2005. Immunization rates were as follows: diphtheria, tetanus, and pertussis, 67%; measles, 59%; polio, 62%; and tuberculosis, 96%. The prevalence of anemia in children under five years of age was 43%. No polio, measles, or neonatal tetanus cases were reported. Alcoholism and drug abuse are common and there is a relatively high incidence of sexually transmitted diseases.

## 42 HOUSING

In 1999, there were about 6,478 households with an average of 7.8 people per household. About 70% of households relied on rain water as a primary water source, 38% of households had access to flush toilets (either inside their own residence or outside), and 63% had access to electricity for lighting and/or cooking.

Houses in the urban centers are usually simple wooden or cement-block structures, with corrugated iron roofs; because of the limited land availability, houses are heavily crowded. In the outer atolls houses are constructed of local materials, with thatched sloping roofs and sides of plaited palm fronds.

The Ministry of Social Services provides housing grants, principally to low-income families, through a low-cost housing program and a grant-in-aid program. Government housing is administered by the Public Service Commission.

## 43 EDUCATION

Education is compulsory for nine years. Primary school covers six years of study, followed by six years of secondary school. A high school entrance examination is given to all eighth graders in order to determine the 300 or so students who will be admitted into the two public high schools each year. For students who are admitted to high school, a comprehensive four-year program of secondary education provides instruction in general studies, college preparatory courses, and vocational training.

Primary school enrollment in 2003 was estimated at about 76% of eligible students. The same year, secondary school enrollment was about 65% of eligible students. The student-to-teacher ratio for primary school was at about 17:1 in 2003; the ratio for secondary school was also about 17:1. In 2003, private schools accounted for about 24% of primary school enrollment and 34% of secondary enrollment.

Higher education is provided through formal programs of teacher training and the provision of grants for university training abroad. The Majuro campus of the College of Micronesia opened its School of Nursing and Science Center in 1986. In 1991, the Marshall Islands campus separated from the College of Micronesia

system and became accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association for Schools and Colleges (WASC). On 1 April 1993, the College of the Marshall Islands was established as an independent institution with its own Board of Regents. In 2001, about 18% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 1999 was estimated at about 93.7%.

As of 2003, public expenditure on education was estimated at 11.2% of GDP.

## 44 LIBRARIES AND MUSEUMS

The College of Marshall Islands Library has about 10,000 volumes, while the High Court Library holds 50,000. In Majuro, the Alele Museum, which also houses a library, was completed in 1973. Alele Museum showcases both the traditional and colonial history of the Marshalls. The library houses historical documents and photographs from the trust territory archives. More than 2,000 glass-plate negatives taken between 1890 and 1930 are on loan to the museum. One of Alele's latest attractions was the elaborate shell collection from Mili Atoll.

## 45 MEDIA

The inter-island communications network consists of shortwave outer-island radio stations, which link all major islands and atolls. In 2003, there were 4,500 mainline phones and 600 mobile phones in use nationwide. The island of Ebeye is linked to Majuro by radio and also by satellite.

As of 2001, there were two radio stations. The government radio station, which has advertising, relays world news from Voice of America and Radio Australia. AFN Kwajalein operates one television station and one radio station for the US military. In 2003, there were 1,400 Internet users in the country served by 6 Internet hosts.

There are no daily newspapers. A weekly newspaper, *The Marshall Islands Journal* (2002 circulation 3,700), is published in Majuro in English and Marshallese. *The Marshall Island Gazette*, established in 1982, is a free four-page government newsletter, printed in English.

The constitution provides for free expression and the government is said to respect these provisions in practice.

## 46 ORGANIZATIONS

A number of consumers' cooperatives are in operation. The Chamber of Commerce is located on Majuro. Marshallese society is matrilineal and organized on the basis of the clan (*bwij*). The head of the clan (*alap*) serves as spokesman between clan members and members of the royal clan.

At the community level there are youth organizations, including Boy Scouts and Girl Scouts, women's organizations, and various religiously affiliated social organizations. Sports associations exist for such activities as tennis, weightlifting, baseball, and track and field. A national women's organization began in 1986. The Red Cross is also active.

## 47 TOURISM, TRAVEL, AND RECREATION

Tourist attractions include the sandy beaches on the atolls, protected lagoons, underwater coral reefs, and abundant marine life,

including large game fish. Diving and fishing tours are also popular. The outer atolls of Mili, Maloelap, Wotje, and Jaluit offer many Japanese and American relics from World War II. Tourist facilities are available in Majuro, the capital, however, tourism remains limited in the outer atolls and there are few accommodations for visitors.

There were 7,195 tourists who visited the Marshall Islands in 2003. United States citizens are not required to have a visa. A vaccination certificate may be required if traveling from an infected area. An AIDS test may be necessary if staying for over 30 days.

In 2005, the US Department of State estimated the daily cost of staying in Kwajalein Atoll at us\$112.

#### **48 FAMOUS MARSHALLESE**

Amata Kabua (1928–96), president from 1979 until his death, was founder and leader of the Political Movement for the Marshall Islands Separation from Micronesia in 1972. He previously served as a member of the Congress of Micronesia and guided his country to self-governing status under the US-administered UN trusteeship. He was a graduate of the Mauna Olu college in Hawaii and taught secondary school before starting his political career. Kunio Lemari (b.1942) was in office for a month in 1996–97; Imata Ka-

bua (b.1943) was president from 1997 to 2000. Kessai Hesa Note (b.1950) was elected president in 2000 and reelected in 2004.

#### **49 DEPENDENCIES**

The Marshall Islands have no territories or colonies.

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# MICRONESIA, FEDERATED STATES OF

Federated States of Micronesia

**CAPITAL:** Palikir, Pohnpei Island

**FLAG:** Adopted in 1978, the flag is light blue, bearing four five-pointed stars arranged in a diamond in the center.

**ANTHEM:** *Patriots of Micronesia* (adopted in 1991).

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** New Year's Day, 1 January; Federated States of Micronesia Day, 10 May; Independence Day, 3 November; Christmas Day, 25 December.

**TIME:** In Pohnpei and Kosrae, 10 PM = noon GMT; in Yap and Truk, 9 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Federated States of Micronesia (FSM) is located in the western Pacific Ocean within the Carolinian archipelago. The four states consist of 607 islands with a total area of 7,866 sq km (3,037 sq mi), comprising 702 sq km (271 sq mi) of land, and 7,164 sq km (2,766 sq mi) of lagoons. Comparatively, the area occupied by the FSM is slightly less than four times the size of Washington, DC. Kosrae, the smallest and easternmost state, consists of five closely situated islands. Pohnpei consists of the single large island of Pohnpei and 25 smaller islands within a barrier reef, in addition to 137 outer islands, of which the major atolls are Mokil, Pingelap, Kapingamarangi, Nukjuoro, and Ngatik. Truk includes the large Truk lagoon, enclosing 98 islands, and major outer island groups, including the Mortlocks, Halls, Western, and Namwunweito islands. Yap, the westernmost state, consists of 4 large islands and 7 smaller islands surrounded by barrier reefs, in addition to 134 outer islands, of which the largest groups are Ulithi and Woleai. The cumulative coastline distance is 6,112 km (3,798 mi).

The capital city of the Federated States of Micronesia, Palikir, is located on the island of Pohnpei.

## <sup>2</sup>TOPOGRAPHY

The 607 islands constituting the four states include large, mountainous islands of volcanic origin and coral atolls. Kosrae is largely mountainous, with two peaks, Fenkol (634 m/2,080 ft) and Matanti (583 m/1,913 ft). Pohnpei contains a large volcanic island, with the highest elevation that of Mt. Totolom (791 m/2,595 ft). Truk contains 14 islands that are mountainous and of volcanic origin. Yap contains four large high islands, with the peak elevation that of Mt. Tabiwol (178 m/584 ft). The outer islands of all states are mostly coral atolls. Though the country is not generally known to have major earthquakes, a 6.6 magnitude quake occurred on Yap on 16 January 2005.

## <sup>3</sup>CLIMATE

The climate is maritime tropical, with little seasonal or diurnal variation in temperature, which averages 27°C (80°F). The islands are subject to typhoons. The short and torrential nature of the rainfall, which decreases from east to west, results in an annual average of 508 cm (200 in) in Pohnpei and 305 cm (120 in) in Yap.

## <sup>4</sup>FLORA AND FAUNA

There is moderately heavy tropical vegetation, with tree species including tropical hardwoods on the slopes of the higher volcanic islands and coconut palms on the coral atolls. The only native land mammal is the tropical bat. A rich marine fauna inhabits the open sea, reefs, lagoons, and shore areas.

## <sup>5</sup>ENVIRONMENT

Solid waste disposal in urban areas is a continuing problem and the land is threatened by toxic pollutants from mining operations. Micronesia's water supply is also threatened by industrial and agricultural pollutants. Population increases in urban areas. Untreated sewage and contaminants from industrialized countries in the region add to the problem of water pollution.

United Nations (UN) research shows that global warming and the rise of sea levels are a threat to Micronesia's forests, agricultural areas, and water supply. Pollution from industrial and agricultural sources also threatens the nation's mangrove areas. The fish population is endangered by waterborne toxins and explosives used in commercial fishing. The country also has a problem with the degeneration of its reefs due to tourism. In 1984, the government established an FSM Environmental Protection Board.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included six types of mammals, eight species of birds, two types of reptiles, six species of fish, four types of mol-

larks, and four species of plants. Threatened species include the chuuk flying-fox, the chuuk monarch, and the Mortlock Islands flying-fox. The Kosrae crane and the Kosrae mountain starling have become extinct.

## **6 POPULATION**

The population of Federated States of Micronesia in 2005 was estimated by the United Nations (UN) at 108,000, which placed it at number 177 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 102 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.1%, a rate the government viewed as too high. The projected population for the year 2025 was 115,000. The overall population density was 154 per sq km (400 per sq mi). The majority of the population lives in the coastal areas of the high islands, leaving the mountainous interiors largely uninhabited.

The UN estimated that 22% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.17%. The capital city, Palikir, Pohnpei Island, had a population of 7,000 in that year. Population estimates for other large urban areas included 53,700 in Truk; 34,486 in Pohnpei; 13,900 in Yap; and 7,317 in Kosrae.

## **7 MIGRATION**

No significant permanent emigration has occurred; most emigration has been undertaken temporarily for higher education. The total number of migrants in 2000 was 3,000. In 2005, the net migration rate was -21.01, a significant change from 11.65 migrants per 1,000 population in 1999. The government views the emigration levels as too high.

## **8 ETHNIC GROUPS**

The islanders are classified as Micronesians of Malayo-Mongoloid origins. The people of the Nukuoro and Kapingamarangi atolls in southwestern Pohnpei are of Polynesian descent. In total, there are nine ethnic Micronesian and Polynesian groups. Noncitizens are prohibited from owning land and holding certain occupations. Non-Micronesians are generally not granted citizenship.

## **9 LANGUAGES**

English is the official language and is taught in the schools. The indigenous languages are of the Malayo-Polynesian family. Yapese, Ulithian, Woleaian, Trukese, Pohnpeian, and Kosraean are classed as Malaysian. Kapingamarangi and Nukuoro, spoken on two isolated atolls of the same names in Pohnpei, are Polynesian languages.

## **10 RELIGIONS**

Roman Catholicism and Protestantism have been widely accepted throughout the country following their introduction by missionaries in the 1880s. Protestantism is predominant in Kosrae. The largest Protestant denomination is the United Church of Christ. Others include Baptist, Seventh-Day Adventist, Mormon, the Salvation Army, Jehovah's Witness, and Assemblies of God. Roman Catholics are dominant on Chuuk and Yap. There is a small Bud-

dhist community of Pohnpei. There are also a small number of Baha'is in the country. The constitution provides for religious freedom and a bill of rights specifically prohibits the establishment of a state religion.

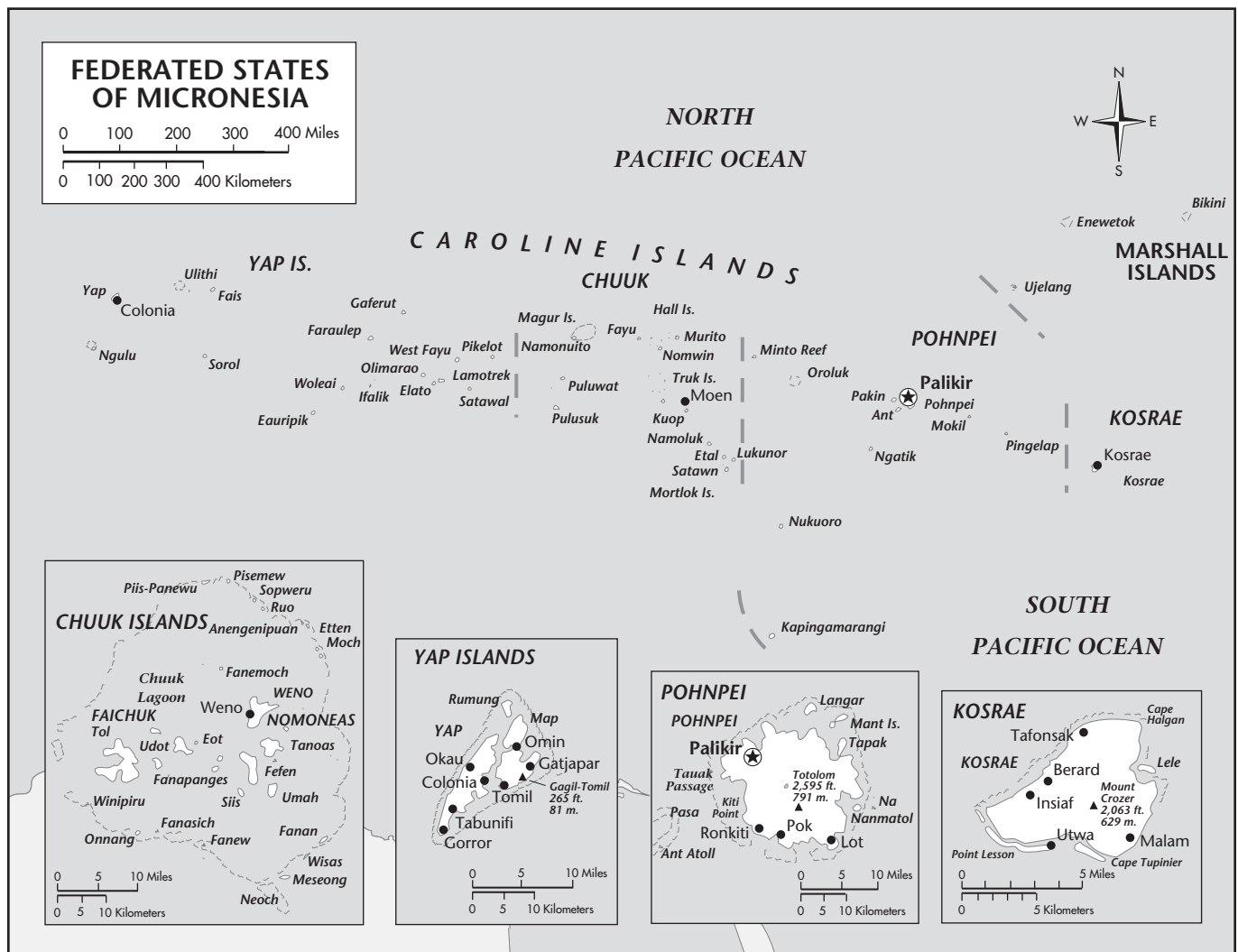
## **11 TRANSPORTATION**

As of 2002, there were 240 km (149 mi) of roadways on the major islands, of which 42 km (26 mi) are paved. Over 90% of all vehicles are located on the main islands of Pohnpei, Moen (in Truk), Kosrae, and Yap. The state of Yap provides public bus transportation, primarily used by students. International shipping services are provided by eight companies, some of them Japanese. There are commercial harbor facilities at Kolonia, Moen, Okat, and Colonia. The Federated States of Micronesia's merchant fleet, as of 2005, consisted of two vessels (one cargo and one passenger/cargo of 1,000 GRT or more) totaling 2,423 GRT. Interisland shipping service is provided by six government-owned vessels. In 2005, there were an estimated six airports, all of which had paved runways. International and interstate scheduled airline services are provided by Continental/Air Micronesia, Air Nauru, and Pacific Missionary Aviation.

## **12 HISTORY**

The Carolinian archipelago was sighted by European navigators in the 16th century. In 1686 the Spanish captain Francisco Lezcano named Yap Island "La Carolina" after King Charles II of Spain; the name was later generalized to the islands as a whole. Until the end of the 19th century, the islands were under Spanish colonial administration. In 1899 following the Spanish-American War, Spain sold the islands to Germany. Japanese administration commenced at the end of World War I, and in 1947, following World War II, the four states of the FSM came under US administration as part of the UN Trust Territory of the Pacific Islands. Beginning in the 1960s, the people of Micronesia began making clear their desire for political independence. The United States, ever interested in maintaining good relations with the strategically significant Pacific islands, gave in to such demands and helped Micronesia to form a consultative body, called the Congress of Micronesia, in 1967. The congress declared the area sovereign in 1970. The history of the FSM as a political entity began on 12 July 1978, when a constitution drafted by a popularly elected constitutional convention was adopted; it went into effect on 10 May 1979. The government of the FSM and the government of the United States executed a Compact of Free Association in October 1982; in November 1986, that compact went into effect. Under the Compact of Free Association, the United States is responsible for defense and security issues. The UN Security Council voted in December 1990 to terminate the FSM's status as a UN Trust Territory. A new capital was built about 10 km (6 mi) southwest of Kolonia in the Palikir Valley; it has served the FSM since 1990.

The FSM became an independent state and joined the UN in September 1991. John R. Haglegam of Yap was elected FSM's president in 1987. In May 1991 Bailey Olter of Pohnpei defeated Haglegam in the presidential election. Olter was reelected to a second term in 1995, as was vice president Jacob Nena. On 18 July 1996 Olter suffered a stroke and underwent treatment in Texas. Nena served as acting president while Olter was incapacitated.



LOCATION: 0° to 14° N; 135° to 166° E.

When Olter was unable to resume his duties, Nena became the FSM's fourth president on 8 May 1997. In a new election Leo A. Falcum, of Pohnpei, was elected vice president. In the May 1999 elections Falcum was elected president and Redley Killion, of Chuuk, was elected vice president. Joseph J. Urusemal was elected president in 2003, and Redley Killion vice president.

The first Compact of Free Association between the FSM and the United States expired in 2001. Prior to beginning negotiations and before any other assistance was considered, the United States requested a full accounting of the approximately \$3 billion in US funding provided to FSM since 1986. During further discussions of the compact in 2000, the United States suggested that restrictions on Micronesian immigration might be tied to future funding. In May 2003, after four years of discussion, negotiators agreed upon an amended document providing 20 years of ongoing assistance in the amount of approximately \$76 million per year; US president George W. Bush signed the compact in December 2003. The payments were to be made according to a schedule of reduced annual grants, with the goal that FSM would establish trust funds and attain greater financial independence. In 2005, the US Gov-

ernment Accounting Office (GAO) expressed concern that FSM was handling the funds without sufficient accountability and oversight, and went so far as to suspend some funds earmarked for education in Chuuk because they were misused.

Faichuk has been seeking independence from Chuuk since the 1960s. In March 2005 a congressional bill was introduced formally seeking that Faichuk become the fifth state of the FSM.

Beginning in the late-1990s and continuing into the new millennium, global warming and the possibility of rising sea levels have raised concern over the long-term prospects for the islands in the middle of the Pacific Ocean. The Intergovernmental Panel on Climate Change has suggested that the sea could rise by about .5 m (18 in) by 2100, but that figure could be much lower or higher. The existence of low-lying nations such as FSM would be threatened by any rise in sea level.

### 13 GOVERNMENT

The national executive branch includes the president and vice president, elected by the congress from its membership, who serve

a four-year term and may not be from the same state. The principal officers of the executive branch are appointed by the president, with the advice and consent of congress. The judiciary consists of a Supreme Court that applies criminal and civil laws and procedures closely paralleling those of the United States. The legislature consists of a unicameral congress of 14 senators. Of the senators, four are elected at large on the basis of state equality and ten on the basis of population apportionment, with five from Truk, three from Pohnpei, and one each from Yap and Kosrae. The four at-large senators serve four-year terms and the remaining senators serve two-year terms. Congressional elections were held in all four states (Chuuk, Kosrae, Pohnpei, and Yap) to fill the ten two-year seats in March 2005. The next elections for the legislature were scheduled to be held in March 2007; elections for president were scheduled for May 2007.

#### **14 POLITICAL PARTIES**

There are no formal political parties.

#### **15 LOCAL GOVERNMENT**

The state executive branch consists of state governors and lieutenant-governors, popularly elected for four-year terms. The state legislative branch consists of members popularly elected on the basis of proportional representation, numbering 20 in Pohnpei, 30 in Truk, 13 in Kosrae, and 9 in Yap. Municipalities are districts composed of a number of small communities (sections), some of which may be located in different islands.

Municipal government is considered by many to be the most important level of government in Micronesia. The leaders of local bodies are generally tribal chiefs, who are considered by a sizable body of Micronesians to be more important figures than nationally elected politicians. The Council of Chiefs can veto any legislation it considers detrimental to traditional ways.

#### **16 JUDICIAL SYSTEM**

The national judiciary consists of a Supreme Court, headed by a chief justice, and such subordinate courts as are established by statute. Justices are appointed by the president, with the advice and consent of Congress, and serve for life. The Supreme Court has both trial and appellate divisions. It may review cases heard in state or local courts if they require interpretation of the constitution, national law, or treaties, and it may hear appeals from the highest state court where permitted by a state's constitution.

State and municipal court systems have been established in each of the states. State courts have jurisdiction over all matters not within the exclusive jurisdiction of the national courts. Municipal courts have jurisdiction over civil and criminal matters arising within their municipalities.

The Micronesian constitution and judicial system are modeled after those of the United States. The civil and criminal laws also parallel those of the United States.

The constitution provides for an independent judiciary and the government respects this provision in practice.

#### **17 ARMED FORCES**

The Federated States of Micronesia maintains no armed forces. External security is the responsibility of the United States.

#### **18 INTERNATIONAL COOPERATION**

The FSM became a member of the United Nations on 17 September 1991; it is a part of ESCAP and serves on nonregional specialized agencies such as the FAO, the World Bank, the IFC, IMF, UNESCO, and the WHO. The FSM participates in the ACP Group, the Asian Development Bank, G-77, the Pacific Island Forum, Sparteca, and the Alliance of Small Island States (AOSIS).

The FSM and the United States signed the Compact of Free Association on 3 November 1986. Amendments to the compact went into effect on 1 May 2004. Under these amendments, the United States has full authority and responsibility for the defense of the FSM and promises to provide \$92 million in assistance over 20 years.

In environmental cooperation, the FSM is part of the Basel Convention, the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

#### **19 ECONOMY**

Other than US payments, the Micronesian economy is markedly underdeveloped. A clothing plant in Yap employs 500 workers in the country's largest private-sector industrial enterprise. The subsistence economy is thought to generate about 25% of GDP, but statistics from the government are incomplete and unreliable.

In 1993, the United States, whose aid constitutes a large share of GDP, enlisted the Asian Development Bank (ADB) in a plan to devise and implement an economic development scheme for the country. In 1995, an economic summit was convened to discuss some solutions. Privatization was high on the list of recommendations and Yap has already initiated a plan to reduce government employment by 37%. The ADB-led summit also recommended resources be spent in the development of fisheries and tourism, two sectors with substantial potential. In the late 1990s and early 2000s, licensing fees paid by foreign fisherman for tuna fishing in Micronesia's exclusive economic zone have provided \$18–24 million annually.

The Second National Development Plan, for the years 1992–96, featured as its primary objective decreasing dependence on aid and, at the same time, making better use of its aid. As of 2005, little progress had been made, however. It was estimated that after US-led grants end, per-capita GDP could drop to below \$500.

The economy underwent a recess in 2004, contracting by 3.3%, down from positive growth figures in 2003 (3.2%), and 2002 (0.8%). The inflation rate was relatively stable, and at 1.5% in 2004; inflation did not pose a problem to the overall economy. There are no recent official numbers for the unemployment rate, but it is estimated to hover somewhere around 22%. US assistance remains the major source of income for this tiny country and the local private sector is fragile and with few future perspectives. The country's isolated position and its poor infrastructure will continue to hinder its long-term growth prospects.

## 20 INCOME

The US Central Intelligence Agency (CIA) reported that in 2005 Micronesia's gross domestic product (GDP) was estimated at \$277.0 million. GDP was supplemented by grant aid, averaging perhaps \$100 million annually. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,000. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2001 was 2%. It was estimated that agriculture accounted for 50% of GDP, industry 4%, and services 46%.

It was estimated that in 2002 about 26.7% of the population had incomes below the poverty line.

## 21 LABOR

In 2003 the government reported that Micronesia's national labor force was estimated at about 23,190 in 1994 (the latest year for which data was available). Two-thirds of the workforce in 2002 were government employees. The unemployment rate in FSM was 22% in 2000, up from 16% in 1994. The unemployment rate varied by state, with the highest rate on Chuuk, at 34%, followed by Kosrae (17%), Pohnpei (12%), and Yap (4%). While unemployment remains high, the economy faced shortages of skilled workers, since over 44% of the population was under 16 years of age.

The law provides the right to form or join unions, and government employees are granted the right to form associations to proffer their views. However, no such associations have been formed as of 2002. The country is not affiliated with the International Labour Organization (ILO).

While labor laws are applied mostly without variance in all four states, the minimum wage varies from state to state. Minimums for government-employed workers in 2002 ranged from \$0.80 per hour for Yap to \$2.00 per hour in Pohnpei. Only Pohnpei had a minimum wage for private sector workers. In 1999, it stood at \$1.35 an hour. There is no minimum working age for children and many children assist their families in subsistence farming activities.

## 22 AGRICULTURE

Agricultural production has traditionally been for subsistence and was based on a system of shifting cultivation in the high islands. Staple crops include taros, sweet potatoes, bananas, cassavas, and breadfruit. Yams are grown on Pohnpei, Kosrae, Yap, and Fais islands. Other vegetables, such as cucumbers, eggplant, head cabbage, Chinese cabbage, bell peppers, green onions, and tomatoes, are also produced. Other fruits include mangoes, papayas, pandanus, pineapples, lemons, and limes, with oranges and tangerines also produced on Kosrae. The ubiquitous coconut palm is used for a wide range of subsistence purposes, and copra is the main cash crop and the nation's leading export. Crop production in 2004 included (in thousands of tons): coconuts, 140; cassava, 11.8; and bananas, 2. Black and white peppers were introduced to Micronesia in 1938, but pepper growing only began in Pohnpei (the FSM's most important pepper-producing island) in 1960.

Rich volcanic soil and heavy rainfall make gourmet Pohnpei peppers highly regarded.

## 23 ANIMAL HUSBANDRY

Livestock in 2005 included some 13,900 head of cattle, 32,000 pigs, and 4,000 goats. Pigs, traditionally kept by many households for ceremonial purposes, are being upgraded through the introduction of improved strains. Two pig farms operate on Pohnpei. The largest cattle herd is on Pohnpei Island. Eggs are produced commercially and limited success has been achieved by commercial poultry chicken projects in the states of Pohnpei and Chuuk. Chickens are kept by many households. Goat projects are also operating in Kosrae and Chuuk. A few head of water buffalo are privately raised on Pohnpei and on Pata in Chuuk. In the mid-1990s, the government started encouraging domestic feed production in order to decrease the reliance on imported feed meal.

## 24 FISHING

Inshore marine resources of the reefs and lagoons are harvested mainly for subsistence. The FSM's exclusive economic zone covers some 2.6 million sq km (1 million sq mi) of ocean which contain the world's most productive tuna fishing grounds. Although the FSM now has sole ownership of tuna stocks capable of a sustained yield of well over 100,000 tons per year, there is virtually no national participation in its exploitation. The total catch in 2003 was 32,191 tons, including 23,788 tons of skipjack tuna, 5,708 tons of yellowfin tuna, and 994 tons of bigeye tuna. The tuna catch is valued at about \$200 million annually. The Micronesian Maritime Authority and the National Fisheries Corporation assist in the development and promotion of commercial fisheries. Pohnpei and Kosrae have embarked on the construction of cold storage and tuna processing plants, and the Yap Fishing Corporation began upgrading its fleet. Total fisheries exports were valued at \$19 million in 2003.

## 25 FORESTRY

The nation has abundant forestry resources, particularly on the high islands, consisting of approximately 15,000 hectares (37,000 acres) of forests. Two privately owned commercial sawmills are operated on Pohnpei—one in Kitti logging mangrove cedar and one in Kolonia utilizing upland timber. Exploitation of the nation's forestry resources is limited and virtually all lumber used in construction is imported (\$2.1 million in 2004). Mangrove timber is used for handicrafts and furniture making.

## 26 MINING

There were deposits of phosphates on Fais Island in Yap and bauxite in Pohnpei, Truk, and Yap, but there was no commercial exploitation. Clays, coral, sand, rock aggregate, and quarry stone works supplied construction materials.

## 27 ENERGY AND POWER

The nation is dependent on imported petroleum, which supplied about 80% of the total energy requirements. Fuel wood for household use provided most of the remainder. Diesel fuel, which accounted for over two-thirds of petroleum imports, was

used primarily for electrical generation and ship services. In 2002, Micronesia produced 192 million kWh, with demand that year at 178.6 million kWh. Electricity was generated by government power stations located in each state center. About half the electricity produced was used by the government. Small quantities of electricity are produced in outer island communities.

## **2<sup>8</sup> INDUSTRY**

Manufacturing activity is nearly nonexistent and accounts for only a fraction of a percent of GDP. Cottage industries involving handicrafts and small-scale processing are carried out in all states and constitute an important source of income for those not integrated into the monetary economy. In Truk, a small industries center, a garment factory, a coconut-processing plant, a boat-building plant, and a breadfruit flour plant were in operation; in Pohnpei, a coconut processing and soap and oil plant, a feedmill, an ice production plant, a brick-manufacturing plant; in Yap, a cottage industries program; and in Kosrae, a small industries center and a wood-processing plant. In late 1999, a tuna processing plant opened in Majuro.

In 2000, the industry had a 4% share in the economy, with services accounting for 46%, and agriculture for 50%. More than two-thirds of the country's labor force are employed by the government.

## **2<sup>9</sup> SCIENCE AND TECHNOLOGY**

There are no institutions for advanced instruction or research and development in science and technology. (The College of Micronesia (COM), which has five campus locations, does not provide advanced degrees). A medical school was established in Pohnpei in 1987.

## **3<sup>0</sup> DOMESTIC TRADE**

Domestic commercial activity is dominated by wholesale and retail trade, which is highly localized in the four state centers of Kolonia, Tofol, Moen, and Colonia. Nearly half of the population is employed in subsistence farming and fishing. The country relies heavily on imports of food and manufactured goods.

## **3<sup>1</sup> FOREIGN TRADE**

The FSM sustains a severe trade deficit. Exports include agricultural products (coconuts, bananas, betel nuts, cassava, and sweet potatoes), pigs, chickens, and re-exports of fish. Copra, formerly the country's largest export crop, suffered a severe decline in the late 1990s.

In 2000, exports totaled \$22 million (FOB—Free on Board), while imports grew to \$149 million. In 2004, most of the exports went to Japan, the United States, and Guam. Imports primarily came from the United States, Australia, and Japan.

## **3<sup>2</sup> BALANCE OF PAYMENTS**

Foreign receipts are predominantly grants and rental payments from the United States and aid from other sources. Economic aid totaled \$77.4 million in 1995.

The US Central Intelligence Agency (CIA) reported that the purchasing power parity of Micronesia's exports was \$22 million

while imports totaled \$149 million resulting in a trade deficit of \$127 million.

Exports of goods and services totaled \$40 million in 2004, same as in 2003. Imports grew from \$172 million in 2003, to \$184 million in 2004. The resource balance was consequently negative, and on a downward path—from -\$131 million in 2003 to -\$145 million in 2004. A similar trend was registered for the current account balance, which deteriorated from \$2 million in 2003 to -\$25 million in 2004. Foreign exchange reserves (including gold) decreased to \$55 million in 2004, covering less than four months of imports.

## **3<sup>3</sup> BANKING AND SECURITIES**

Commercial banking operations are regulated by the FSM Banking Board. There are two foreign commercial banks: the Bank of Hawaii, with branches in Pohnpei, Yap and Kosrae; and the Bank of Guam, with branches in Pohnpei and Truk. There is also a domestic Bank of the FSM that operates branches throughout the islands. The FSM Development Bank commenced operations in 1982. It provides loans for projects that meet criteria based on the government's development priorities and is authorized to provide loan guarantees to other financial institutions in the FSM. However, it can only make loans of up to \$200,000 because of capital limitations. The FSM Employees Credit Union was chartered in 1986. Tradable securities are not issued by the FSM government, state governments, or enterprises residing in the FSM. The currency is the US dollar.

In 1996, national and state governments considered measures designed to cope with the winding down of US funding under the Compact of Free Association (under which payments were scheduled to end in 2001). The restructuring of national government was underway as of 2005, with the aim of reducing the number of employees and departments. In 2003 the compact with the United States was amended to provide an additional 20 years of assistance by the United States. The FSM government was charged to seek ways to improve basic infrastructure through private-sector investment; infrastructure improvements should in turn encourage growth of the private sector. In 1999, the FSM Trust Fund was established to foster financial independence. The International Monetary Fund reported that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$21.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$115.3 million.

## **3<sup>4</sup> INSURANCE**

The Public Service System administers life insurance and workers' compensation programs. In 1984, a government employee group health insurance program was instituted, and in 1987, a retirement pension program—for both state and national government employees—was initiated.

## **3<sup>5</sup> PUBLIC FINANCE**

The state and national governments had a series of surpluses in the late 1980s, followed by years of deficits in the early 1990s. Government revenues remained nearly constant during the 1990s,

while spending was unrestrained. By the late 1990s, the deficits had come under control.

The US Central Intelligence Agency (CIA) estimated that in 1998 Micronesia's central government took in revenues of approximately \$161 million and had expenditures of \$160 million. Revenues minus expenditures totaled approximately \$1 million. Total external debt was \$53.1 million.

### **36 TAXATION**

National taxes on wages and salaries are levied, as well as a business gross receipts tax. The states are constitutionally limited in the types of taxes they may impose; they may levy sales taxes on alcoholic beverages, soft drinks, and cigarettes. The municipal governments usually levy head taxes and boat license and business license fees.

An important tax revenue service is from the sale of tuna fishing rights, which rose from \$12.7 million in 1990 to \$18.2 million in 1994. In 1999, FSM, Palau, and the Republic of Marshall Islands agreed to cooperate in policing illegal fishing in the region.

### **37 CUSTOMS AND DUTIES**

As of 1988, specific duties were levied on cigarettes, beer and malt beverages, wine, distilled alcohol, and gasoline and diesel fuel. Ad valorem duties were levied as follows: tobacco, 50%; perfumes, cosmetics, and toiletries, 25%; soft drinks, 2% per 12 fl oz; food-stuffs for human consumption, 1%; and all other products, 3%. Micronesia's import taxes are among the lowest in the Pacific.

### **38 FOREIGN INVESTMENT**

There is little foreign private investment. The Foreign Investment Act of 1997 was enacted to prohibit foreign investment in specific business activities, namely arms manufacture, minting of coins or printing of currency notes, and nuclear power or radioactivity-related businesses. The Act also restricts investment by foreigners in banking, telecommunications, fishing, air transport, and shipping.

### **39 ECONOMIC DEVELOPMENT**

The first national development plan (1985–89) was the initial stage of the government's 15-year program designed to achieve national self-sufficiency. Funds accruing under the Compact of Free Association were required for implementing the plan, and rephasing of the plan was necessary. A multi-million dollar US-implemented capital improvement plan was completed in the early 2000s. It included new airports, docks, water and sewage systems, paved roads, and hospitals. Under the terms of the Compact of Free Association, the United States provided \$1.3 billion from 1986–2001 in grant aid.

A Second National Development Plan covering the years 1992–96 sought to diversify Micronesia's economy; mainly to wean it from dependence on US aid. Little was accomplished. In late 1999, representatives of the United States and Micronesia began negotiations aimed at renewing some provisions of the Compact of Free Association. The Amended Compact of Free Association with the United States, which provided that aid to Micronesia would continue until 2023 and would be consolidated through a trust fund

to provide annual payouts in perpetuity after that year. The country's medium-term perspectives were bleak though, due to its isolation and poorly developed infrastructure, and due to the reduction in 2003 of US assistance.

## **40 SOCIAL DEVELOPMENT**

The extended family and clan system, headed by traditional leaders or chiefs, is retained in varying degrees, especially in the outer islands. A social insurance system includes old age, disability, and survivor benefits. Employees contribute 6% of their earnings; employers make a 6% payroll contribution. The basic retirement pension benefit is 16.5% of the first \$10,000 and marginal rates beyond that level. Survivor payments totaled 60% of the descendant's pension.

In spite of constitutional safeguards, sex discrimination and violence against women are serious problems. Women's roles within the family remain essentially the traditional ones. Sexual abuse and domestic violence are increasing. Women, however, face no discrimination in education. In 2004, women were well represented in middle and lower levels of government and generally received equal pay for equal work.

Minorities generally do not face discrimination or prejudice. Noncitizens, however, are prohibited from owning land. Human rights are generally respected.

## **41 HEALTH**

There are hospitals in each state center. In 1986, a community health center was established in Pohnpei and in 1987, a medical school was started. In the outer islands, primary medical services are provided through dispensaries staffed by health assistants. In 1982, a superdispensary was initiated in the Lower Mortlock Islands to serve 3,769 people scattered on seven atolls. Tertiary medical treatment is provided through patient referral to hospitals in Guam and Hawaii. All of Micronesia had access to safe water and sanitation. In 2004, there were an estimated 60 physicians per 100,000 population.

The infant mortality rate in 2005 was 30.21 per 1,000 live births, and the life expectancy was 69.75 years. In the same year, the general mortality rate was 6 deaths per 1,000 people and the fertility rate was 3.9 children per woman. The maternal mortality rate was 121 per 100,000 live births. Immunization rates for Micronesian children under one year of age were as follows: measles, 80%; tuberculosis, 50%; polio, 77%; and diphtheria, tetanus, and pertussis, 78%. Although polio has been eradicated, there have been cases of tuberculosis, and measles. Anemia was seen in 33% of children under the age of five.

## **42 HOUSING**

At the 2000 census, there were 15,273 occupied households, with about 44.4% on Chuuk, 35.8% on Pohnpei, 12.9% on Yap, and 6.9% on Kosrae. The average number of members per household was 6.8. About 26.8% of households had nine or more members. An estimated 30% of the housing stock was built in 1993 or later, with another 8.8% of all housing built in 1969 or earlier. Materials for housing construction are generally imported. Metal sheeting and concrete are the most common materials for walls and

roofs. About 53.6% of all households had electricity and 50% had access to piped water. Only 25% of all households have access to improved sanitation systems.

### **4<sup>3</sup> EDUCATION**

The state governments are responsible for the provision of education. Elementary education is compulsory up to the eighth grade or until age 15. In 1986 there were 142 primary schools, nine of them private, with 968 teachers and 23,636 pupils. Secondary education was provided through five public high schools (one in each state center and one in Falalop on the Ulithi atoll, serving Yap's outer islands) and five private secondary schools (two in Truk and three in Pohnpei).

The only postsecondary institution is the College of Micronesia (COM), which has five campus locations. FSM students are eligible for postsecondary education grants from the US government and attend institutions mainly in Guam, Hawaii, and the US mainland. Vocational education is provided by the Pohnpei Agriculture and Trade School and the Micronesian Occupational College in Palau.

A 2000 census report indicated that of all citizens aged 25 years or older, 12.3% had no formal schooling, 36% had completed only an elementary school education, 32.3% had completed their high school education, and about 18.4% had completed some college education.

### **4<sup>4</sup> LIBRARIES AND MUSEUMS**

Library materials are contained in the primary and secondary schools, and at the College of Micronesia, which holds about 33,000 volumes and serves as the depository for documents from the trust territory government's archives in Saipan. The Pohnpei Public Library has about 30,000 books. A Chuuk Public Library was being organized in 2002. The library of the Congress of the Federated States of Micronesia holds 15,000 book volumes. There is a small museum in Kolonia, Pohnpei. The Nan Madol archaeological site was designated a historical landmark in 1986.

### **4<sup>5</sup> MEDIA**

The FSM Telecommunications Corp. provides interstate telecommunications via its satellite ground station in each state center and international connections through the Pohnpei and Truk stations. An interstate and international telex service has been available through the Pohnpei station since 1984. Telecommunications services to all inhabited outer islands are provided by radio links with the Pohnpei, Truk, and Yap stations. In 2001, there were 10,100 mainline phones in use nationwide. In 2002, there were an additional 1,800 mobile phones in use nationwide.

Most of the papers and newsletters are sponsored by the state governments. *The National Union* is published twice monthly. State publications include *Mogethin* (Yap), *Yap Networker*, *Uss Me Auus*, (Truk), *Pohnpei Reports*, *Kaselehile Press Pohnpei State*, *Sinlaku Sun Times* (Kosrae), and *Kosrae State Newsletters*.

As of 2001, there is one state-owned radio station in each state capital, broadcasting in English and local languages. There is one private radio station owned by a religious group. In 1997, there

were 127 radios and 10 television sets per 1,000 population. In 2002, there were 6,000 Internet subscribers.

The constitution provides for free speech and a free press, and the government is said to respect these rights in practice.

### **4<sup>6</sup> ORGANIZATIONS**

There are Community Action Agencies in Yap, Truk, and Pohnpei, which organize youth clubs and community self-help projects. Private institutions, most of them church-affiliated, play an active role in youth and community development. There are sports associations representing such pastimes as weightlifting, lawn tennis, tae kwon do, and track and field. Many municipalities sponsor local women's organizations and community centers. There is a national chapter of the Red Cross Society.

### **4<sup>7</sup> TOURISM, TRAVEL, AND RECREATION**

Limited tourist facilities have been developed in each state. Tourist attractions include the spectacular beauty of the high islands; the rich marine environment; World War II artifacts, including sunken Japanese ships in the Truk lagoon; and remains of an ancient culture on Yap Island, including stone platforms and large circular stones used as money. All visitors must have an onward/return ticket and a present proof of citizenship or passport that must be valid for 120 days after leaving Micronesia. A valid entry permit is also necessary if staying for more than 30 days. There are no vaccination requirements unless traveling from an infected area.

In 2003, there were 18,168 tourist arrivals, almost 41% of whom came from the United States. According to the 2005 US Department of State estimates, the daily cost of staying in Yap was us\$283; in Chuuk, us\$187; and in Pohnpei, us\$167.

### **4<sup>8</sup> FAMOUS MICRONESIANS**

John Hagllegam, a former senator in the congress, was president of the FSM from 1987 to 1991. Jacob Nena (b.1941) served as the fourth president from 1996 to 1999. Leo Falcam (b.1935) served as the fifth president from 1999 to 2003. He was succeeded by Joseph John Urusemal (b.1952). In 2000, FSM's first five-story building (and first building with an elevator) opened; it was named for Raymond Setik (d.1997), a successful businessman and one of the first members of the legislature in 1979.

### **4<sup>9</sup> DEPENDENCIES**

The FSM has no territories or colonies.

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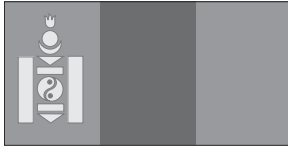
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# MONGOLIA

*Mongol Uls*



**CAPITAL:** Ulaanbaatar

**FLAG:** The national flag, adopted in 1946, contains a blue vertical stripe between two red stripes; in gold, on the stripe nearest the hoist, is the *soyombo*, Mongolia's independence emblem.

**ANTHEM:** *Bügd Nayramdah mongol ard ulsyn töriin duulal* (State Anthem of the Mongolian People's Republic).

**MONETARY UNIT:** The tugrik (₮) of 100 mongos. There are coins of 1, 2, 5, 10, 15, 20, and 50 mongos and notes of 1, 3, 5, 10, 20, 25, 50, and 100 tugriks. ₮1 = \$0.00084 (or \$1 = ₮1,187.17) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Constitution Day, 13 January; Women's Day, 8 March; Mother and Children's Day, 1 June; Naadam Festival, 11–13 July; Mongolian Republic Day, 26 November. Movable holidays include Mongol New Year's Day, in February or March.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Situated in east-central Asia, Mongolia has an area of 1,565,000 sq km (604,250 sq mi), extending 2,368 km (1,471 mi) E–W and 1,260 km (783 mi) N–S. Comparatively, the area occupied by Mongolia is slightly smaller than the state of Alaska. The largest landlocked country in the world, Mongolia is bordered on the N by Russia and on the E, S, and W by China, with a total boundary length of 8,162 km (5,072 mi).

## <sup>2</sup> TOPOGRAPHY

Mongolia is essentially a vast plateau with an average elevation of 914 to 1,524 m (3,000 to 5,000 ft). Mongolia comprises a mountainous section in the extreme west, where the peak of Nayramadlin Orgil (Huyten Orgil) of the Mongolian Altay Mountains rises to a height of 4,374 m (14,350 ft). Other mountain ranges are the Hentiyn, along the Soviet border, and the Hangayn, in west-central Mongolia. The southern part of the country is occupied by the Gobi, a rocky desert with a thin veneer of shifting sand. Explorations have uncovered large reservoirs of water 2–3 m (7–10 ft) beneath the desert surface. The largest lakes are found in the northwest. These include the nation's largest lake, Uvs Lake, a saltwater lake with an area of about 3,366 sq km (1,300 sq mi).

## <sup>3</sup> CLIMATE

Mongolia has an arid continental climate with a wide seasonal range of temperature and low precipitation. In winter, it is the site of the great Siberian high, which governs the climate of a large part of Asia and gives Mongolia average winter temperatures of -21° to -6°C (-6° to -22°F) and dry, virtually snowless winters. In summer, remnants of the southeasterly monsoon bring most of the year's precipitation. Annual precipitation ranges from 25 to

38 cm (10 to 15 in) in mountain areas to less than 10 cm (4 in) in the Gobi.

## <sup>4</sup> FLORA AND FAUNA

Mongolia is divided into several natural regions, each with its characteristic plant and animal life. These regions are the mountain forests near the Soviet Siberian border; the mountain steppe and hilly forest farther south; the lowland steppe grasslands; the semidesert; and finally the true desert. Larch and Siberian stone pine are characteristic trees of the northern forests, which are inhabited by bear, Manchurian red deer, snow panther, wild boar, and elk. The saiga antelope and the wild horse are typical steppe dwellers. As of 2002, there were at least 133 species of mammals, 274 species of birds, and over 2,800 species of plants throughout the country.

## <sup>5</sup> ENVIRONMENT

Environmental problems facing Mongolia include desertification, inadequate water supply, and air and water pollution. Areas affected by deforestation and excessive grazing are eventually overtaken by the desert. After a winter of little snow, wildfires spread across northern Mongolia from March until June of 1996. The fires were the most extensive since records were first compiled in 1978, resulting in 26 deaths and nearly 800 people injured or rendered homeless. An estimated 20% of Mongolia's coniferous forest was damaged in the blaze. In 2000, only about 6.8% of the total land area was forested.

Water pollution is a particularly significant problem in Mongolia because the water supply is so limited. The country has only 35 cu km of renewable water resources. In 2002, only 87% of city dwellers and 30% of the people living in rural areas had access to improved water sources.

The country's air pollution problems are due to increased industrial activity within the country, including the burning of soft coal, and airborne industrial pollution from the former Soviet Union and the People's Republic of China. The heavy concentration of factories in Ulaanbaatar has polluted the environment in that area.

In 2003, about 11.5% of the total land area was protected, including six Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 13 types of mammals, 22 species of birds, 1 species of fish, and 3 species of invertebrates. Przewalski's horse (also called takh) is considered to be the last existing ancestor of the modern domesticated horse. The species was extinct in the wild of Mongolia by 1970, but a special government project of breeding the remaining animals in captivity has resulted in more than 1,500 horses reintroduced to a nature reserve at Hustain Nuruu. Threatened species included the Bactrian camel, the snow leopard, and the saiga.

## 6 POPULATION

The population of Mongolia in 2005 was estimated by the United Nations (UN) at 2,646,000, which placed it at number 135 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 31% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 3,390,000. The population density was less than 1 person per sq km (1 per sq mi).

The UN estimated that 57% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.74%. The capital city, Ulaanbaatar, had a population of 812,000 in that year. Darhan has a population of 90,000; Erdenet, 72,300.

## 7 MIGRATION

Few Mongolian nationals live outside the country, but 3.4 million persons of Mongolian extraction lived in the Inner Mongolia province of China. About 500,000 live in Russia—in the Buryat and Kalmyk republics. Between 1955 and 1962, some 20,000 Chinese laborers entered Mongolia to work on construction projects, but in 1964 Mongolia expelled about 2,000 Chinese nationals who had refused to take part in an agricultural resettlement program. In addition, Mongolia expelled 7,000 ethnic Chinese between 1983 and 1993. Since the independence of Kazakhstan, many Kazakhs have emigrated.

Nomadic herders account for nearly half of Mongolia's population. Mongolia is one of the only developing countries where internal migration to rural areas exceeds migration to cities. The number of families formally registered as nomadic herders grew from an estimated 74,000 in 1990 to 170,000 in 1995. In 2000 the total number of migrants was 8,000, with virtually no refugees. There were no reports of refugees or asylum seekers in 2004.

In 2004 some 2,259 Mongolians sought asylum in Europe, mainly in France and the United Kingdom.

In 2005, the net migration rate was estimated as zero, a significant change from 2000 when the rate was -6.5 per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

According to latest estimates, about 85% of the population are ethnic Mongols; they are primarily Khalkha, which account for about 90% of all Mongols. The remainder include Durbet Mongols of the north and Dariganga Mongols in the east. Turkic speakers (including Kazakhs, Turvins, and Khotans) account for about 7% of the population. Other groups include those of Chinese and Russian origin.

## 9 LANGUAGES

Khalkha Mongolian, the official language, is spoken by about 90% of the population. It is one of a large dialect group in the Mongolic branch of the Altaic language family. Early in the 13th century, the Mongols adopted an alphabet written in vertical columns from the Turkic Uighurs, and they retained that script until modern times. The literary language differed increasingly from the living spoken language and, in 1941, the Mongolian government decided to introduce a new phonetic alphabet that would accurately reflect modern spoken Mongolian. The new alphabet consisted of the Cyrillic letters used in Russian, except for two special characters needed to render the Mongolian vowels represented as *ö* and *ü* in Western European languages. After a period of preparation (1941–45), the new alphabet was introduced in 1946 in all publications and in 1950 in all business transactions, but, following independence, the traditional script was due to be restored in 1994.

The differences between the Khalkha language spoken in Mongolia, the Buryat language spoken in the Buryat Republic of the Russian Federation, the Chahar and Ordos languages of China's Inner Mongolian Autonomous Region, and other Mongolian dialects are comparatively small and chiefly phonetic. A characteristic phonetic feature of Mongolian is the law of vowel harmony, which requires that a word contain either the so-called back vowels, represented as *a*, *o*, and *u* in Western European languages, or the so-called front vowels, represented as *e* (*ä*), *ö*, and *ü*, but not an association of the two types of vowels. Turkic, Russian, and Chinese are also spoken.

## 10 RELIGIONS

Before the government's campaign against religion in the 1930s, there were about 700 Buddhist monasteries with about 100,000 lamas in Mongolia. During 1936–39, the Communist regime closed virtually all monasteries, confiscated their livestock and landholdings, tried the higher lamas for counterrevolutionary activities, and induced thousands of lower lamas to adopt a secular mode of life. In the mid-1980s, only about 100 lamas remained. Since the new constitution of 1992 established freedom of religion, Mahayana Buddhism has made a surprising resurgence. Former monasteries have been restored, and there is a seminary at Gandantegchinlen Hiyd. In 1992, Roman Catholic missionaries were also encouraged to come to Mongolia to continue the presence they had initiated earlier in the century.

A 2004 report indicated that about 50% of the population practiced some form of Buddhism, mostly Lamaist (or Tibetan) Buddhism. About 4% of the population were ethnic Kazakh Muslims. There were small Christian communities throughout the country, including Roman Catholics, Russian Orthodox, and Protestants.



LOCATION: 87°47' to 119°54'E; 41°31' to 52°16'N. BOUNDARY LENGTHS: Russia, 3,441 kilometers (2,138 miles); China, 4,673 kilometers (2,904 miles).

It is believed that some natives practice shamanism. About 40% of the population still claims no religious affiliation.

The constitution provides for freedom of religion and the separation of church and state. However, the government has reserved the right to place some restrictions on religious activities. For instance, the government can limit the number of churches and clergy allowed for each religious organization. Religious groups are required to register through the Ministry of Justice and Home Affairs.

## 11 TRANSPORTATION

The Trans-Mongolian Railway, about 1,496 km (930 mi) in length, connects Mongolia with both China and Russia. Ulaanbaatar has been connected to the Trans-Siberian Railway via Bayantumen since 1939 and via Sükhbaatar since 1950, and to the Chinese Railways via Dzamin üüd since the end of 1955. Choybalsan is also connected to the Trans-Siberian system via Ereenstav. Ulaanbaatar Railways has been linked to Nalayh since 1938 and to Darhan and Tamsagbulag since 1964. The Sharin Gol Open-Pit Coal Mining Industry was connected to the Darhan industrial center

during the third five-year plan (1961–65) by a 60-km (37-mi) rail line. A 200-km (124-mi) railroad line connects Erdenet, a copper-molybdenum mining and industrial center near the Russian border, with the Trans-Mongolian Railway. The total length of railroads in 2004 was 1,810 km (1,125 mi), all of it broad gauge.

Mongolia had 49,256 km (30,637 mi) of roadways in 2002, of which 1,724 km (1,068.8 mi) were paved. Although Mongolia, as of 2004, had 580 km (360 mi) of navigable waterways, only Lake Hovsgol (135 km) was in regular use. The 270 km (168 mi) Selenge River and the 175 km (109 mi) Orhon River, while navigable, carry little traffic. In addition, the country's lakes and rivers are only open from May through September due to freezing in winter. Although land-locked, Mongolia, as of 2005, had a merchant fleet of 65 vessels of 1,000 GRT or more, totaling 339,423 GRT.

There were an estimated 46 airports in 2004. As of 2005, a total of 14 had paved runways, and there were also two heliports. Mongolia's first air service began operating between Ulaanbaatar and Verkhneudinsk in eastern Siberia in 1926. Miatair Mongol is the principal airline. In 2003, about 295,000 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Archaeological investigations show that the land now known as Mongolia has been inhabited since the Lower Paleolithic period, more than 130,000 years ago. By about 1000 BC, animal husbandry of the nomadic type had developed, and by the 3rd century BC, a clan style of organization based on horsemanship had emerged. The Huns, a Turkic-speaking people, driven westward during the Han dynasty in China (206 BC–AD 220), created a nomadic empire in central Asia that extended into Europe, beginning about AD 370. It reached almost to Rome under the leadership of Attila (r.433?–453) and declined after his death. Mongolia first played an important part in world history in AD 1206, when the Mongol tribes united under the leadership of the conqueror Temujin, or Genghis Khan. The Mongols set up their capital at Karakorum and established a vast empire extending from the northern Siberian forest to Tibet and from the Caspian Sea to the Pacific. After the death of Genghis in 1227, his empire was divided among his sons into Mongol states, or khanates: the Great Khanate of East Asia, which included the Yüan dynasty of China, and reached its peak under Kublai Khan (r.1260–94), who established his capital at Cambaluc (now Beijing); the Khanate of Chaghadai (Djakhattai) in Turkestan; the Hulagid Khanate, founded by Hulagu Khan in Persia; and the Golden Horde in southern Russia, founded by Batu Khan, who invaded Poland and Hungary in 1240. Having crossed the Danube River, Batu withdrew in 1241. The Mongols' century of dominance in Asia allowed for great trade and cultural interchange but also led to the spread of the bubonic plague to Europe.

During the 14th century, the great Mongol states disintegrated. The Yüan dynasty in China collapsed in 1368, to be replaced by the Ming dynasty; the western part of the Turkestan Khanate was incorporated into the empire of Timur in 1390; Hulagu's Persian empire disintegrated after 1335; and the Golden Horde was attacked and shaken by the forces of Prince Dmitry Donskoy in Russia in 1380 but ruled South Russia into the 15th century. In 1369, at the age of 33, Timur, also called Timur Lenk ("Timur the Lame") or Tamerlane, proclaimed himself ruler of all the land lying between the Tien Shan and the Hindu Kush mountain ranges. The Mongols retired to their original steppe homelands, splitting into three major groups: the northern Khalkha Mongols, north of the Gobi Desert; the southern Chahar Mongols, south of the Gobi; and the western Oirat Mongols. Babur, a descendant of Timur, founded the Mughal (or Mogul) Empire (so called from the Farsi word for "Mongol") in India in 1526; it lasted until the 18th century. Buddhism, which had been introduced by Tibetan monks in the 15th century, became widespread in the 16th and 17th centuries.

A cleavage developed between the northern (outer) Mongols and the southern (inner) Mongols, who had been more closely associated with Mongol rule in China. In the course of conquering China, the Manchus subdued the southern Mongols in 1636, placing them under the eventual rule of China's Qing (Ch'ing) or Manchu dynasty (1644–1911). The northern Mongols, who had been fighting with western Mongols for supremacy, sought Manchu aid against their foes and accepted Manchu suzerainty in 1691. Finally, the Manchus destroyed the western Mongols as a historical force in 1758. The Russian-Chinese border treaties of Nerchinsk (1689)

and Kyakhta (1727) confirmed Chinese rule over both the southern and northern Mongols but assigned the Buryats to Russia.

Following the overthrow of the Manchu dynasty by the Chinese revolution in 1911, northern Mongol princes proclaimed an autonomous Outer Mongolia under the rule of Bogdo Khan, the Living Buddha (Jebtsun Damba Khutukhtu) of Urga, an earlier name of Ulaanbaatar. A treaty with the tsar's government pledged Russian assistance for the autonomous state. After the Bolshevik Revolution, the Chinese exploited Russia's weakness, reoccupying Outer Mongolia in 1919 and ending its autonomy. In early 1921, the Chinese were driven out by Russian counterrevolutionary forces under Baron von Ungern-Sternberg. He, in turn, was overcome in July 1921 by the Mongol revolutionary leaders Sukhe Baatar and Khorloin Choybalsan, assisted by the Soviet Red Army. Under Soviet influence, a nominally independent state, headed by the Living Buddha, was proclaimed on 11 July 1921 and lasted as a constitutional monarchy until his death in 1924.

The Mongolian People's Republic (MPR), the second communist country in world history, was proclaimed on 26 November 1924. With the support of the former USSR, Communist rule was gradually consolidated. Large landholdings of feudal lords were confiscated, starting in 1929, and those of monasteries in 1938. A 10-year mutual assistance treaty, signed in 1936 and renewed for another 10 years in 1946, formalized the close relations between the former USSR and the MPR. In the summer of 1939, with Soviet support, the Mongolians fought invading Japanese along the border with Manchuria, ending with a solid defeat for the Japanese in September. After a virtually unanimous plebiscite by the Mongolians in favor of independence, the Nationalist government of the Republic of China formally recognized the MPR in 1945 (it withdrew its recognition in 1953) and the Nationalists on Taiwan still claim Mongolia as part of China. On 14 February 1950, the People's Republic of China and the former USSR signed a treaty that guaranteed the MPR's independence. In October 1961, the MPR became a member of the United Nations. Conflicting boundary claims between the MPR and China were settled by treaty on 26 December 1962, and on 30 June 1964 the MPR and the former USSR signed a 20-year treaty of friendship, cooperation, and mutual assistance. In June 1987, the MPR and the United States established diplomatic relations. With the growth of cities around the mining industry, Mongolian society shifted from being 78% rural in 1956 to being 52% urban in 1980 to 57% in 2005.

With their close ties with the former USSR, Mongolians were well aware of Soviet policies of *glasnost* (openness) and *perestroika* (restructuring) and of the democratic movements in Eastern Europe after the mid-1980s. The MPR initiated its own policy of "openness" (*il tod*) and began economic reforms to serve as transitional steps away from a centrally planned, collective economy and toward a market economy. Following the first popular demonstrations calling for faster reforms, in Ulaanbaatar in December 1989, the ruling Mongolian People's Revolutionary Party (MPRP) opted for political as well as economic reforms. The MPRP's leadership resigned in March 1990 and in May the constitution (of 1960) was amended to allow for new, multiparty elections, which took place in July. The MPRP won a majority (85% of the seats) in the legislature, the People's Great Hural (PGH), which took office in September. The PGH elected as president a member of the

MPRP, Punsalmaagiyn Ochirbat, but invited the opposition parties to join in forming the new government.

During 1991, the new government discussed Mongolia's economic and political transformation. It issued vouchers to all citizens for the purchase of state property as a step toward privatization. Economic reform was made more difficult by the economic collapse of the former Soviet Union. In 1991, Russia insisted on trade based on cash rather than barter and dramatically cut aid. By 1992, Mongolia faced severe energy shortages. In 1991, the PGH also discussed the writing of a new constitution, which took effect in February of the next year. Based on that constitution, elections in June 1992 created a new legislature (with a MPRP majority), the State Great Hural (SGH) and, in June 1993, President Ochirbat was reelected (but with the support of a coalition of new parties, not the MPRP) in the first direct presidential elections. By September 1992, some 67,000 former Soviet troops (in Mongolia since 1966 when Sino-Soviet tensions increased) completed a process of withdrawal begun in 1990.

In the 1996 parliamentary elections, discontent, especially among the young, led to the defeat of the MPRP. The leaders of the winning Democratic Union Coalition (DUC), mostly political novices, promised to intensify market reforms. The election results marked the first smooth transfer of power in Mongolia's modern history and one of the most peaceful among all the former communist nations. In the following years, however, the stability and effectiveness of Mongolia's democratic government were hobbled by disunity within the majority DUC and by the political stalemate between the DUC and the ex-communists of the opposition MPRP. In late 1996 and early 1997, the MPRP prevailed in local elections, and its candidate, Natsagiyn Bagabandi, was elected president. After the resignation of two prime ministers, the nation was left with an interim government in the second half of 1998, as Bagabandi rejected multiple DUC nominees for the post.

In October 1998 the country was shaken by the murder of Sanjaasurengiyn Zorig, a pro-democracy leader and government minister who had been tapped to be the next DUC nominee for prime minister. By August 1999, yet another DUC government had fallen, and Rinchinnyamiin Amarjargal, the 38-year-old former foreign minister, became Mongolia's third prime minister in 15 months.

On 2 July 2000, parliamentary elections were held that resulted in an overwhelming victory for the MPRP. The MPRP took 72 of 76 seats in the State Great Hural, with only 4 seats going to opposition members. Nambaryn Enkhbayar was named prime minister. On 20 May 2001, Bagabandi was reelected president with 58% of the vote, giving the MPRP control of both the presidency and parliament. The elections were characterized by international observers as free and fair.

In November 2002, the Dalai Lama visited Mongolia, a trip denounced by China. China warned Mongolian officials not to meet with the Tibetan spiritual leader, and briefly suspended train services with the country. Thousands of Mongolian Buddhists attended the Dalai Lama's speech on 6 November.

As of early 2003, the country continued to face problems of high unemployment, poor welfare and education systems, corruption, crime, and harsh winters. This was due, in part, to a steep drop in world prices for Mongolia's two largest exports, cashmere and copper. The severe winter of 2001 killed at least 1.3 million livestock;

approximately 40% of Mongolians depend upon the country's 30 million livestock for their livelihood. Mongolia, though engaging in increased privatization of state-owned enterprises to speed the country's alignment with free market principles, has been careful to dedicate a percentage of the resulting revenues to social programs. Growth improved from 2002 at 4% to 2003 at 5%, due largely to high copper prices and new gold production, with the government claiming a 10.6% growth rate for 2004 that was unconfirmed. The unemployment rate for 2005 was 6.7%. Mongolia's economy continued to be heavily impacted by its neighbors, particularly since it imports a large majority of its energy and oil from Russia. Mongolian economy also largely consists of a 'black' or 'gray' market. The World Bank estimated that this underground economy is equal to or greater than the official economic statistics. Mongolia, which joined the World Trade Organization in 1997, seeks to expand its participation and integration into Asian regional economic and trade regimes.

Due to stagnant unemployment and poverty, Bagabandi made an increased effort to align Mongolia with the international community. Bilateral talks were held in China and the United States in 2004 which led to increased trade and cooperation. The United States is particularly interested in Mongolia due to its strategic geographical position and that it holds relations with North Korea. Mongolia also reopened relations with Russia, due mainly to the Russian decision to resolve a large portion of Soviet-era debt. This allowed Mongolia to fully pay off all debt to Russia in 2004.

MPRP candidate Nambaryn Enkhbayar was elected president in May 2005. He won 53.4% of the vote, thereby avoiding a runoff election. His closest rival, Mendsaikhan Enkhbaatar of the Democratic Party, took 20%. Enkhbayar's declared that the largest problem during his tenure would be the poverty experienced by many Mongolians; over 1/3 of the population lives in poverty.

### 13 GOVERNMENT

A new constitution went into effect 12 February 1992, replacing the 1960 constitution and completing Mongolia's transition from a single-party state to a multiparty, parliamentary form of government. At that time, the country's name was officially changed from "Mongolian People's Republic" to "Mongolia." Suffrage is universal at age 18. The unicameral legislature, the State Great Hural (SGH), has 76 members, who are elected by district to four-year terms. The SGH meets twice each year. It can enact and amend laws, set domestic and foreign policy, ratify international agreements, and declare a state of emergency.

A president, the head of state and commander-in-chief of the armed forces, is selected by direct, popular vote for a four-year term, with a limit of two terms. The president nominates the prime minister and can call for the dissolution of the government, initiate and veto legislation (subject to override by two-thirds vote of the SGH), and issue decrees which take effect with the signature of the prime minister.

A prime minister, the head of government, is nominated by the president and confirmed by the SGH to a four-year term. The prime minister selects a cabinet which must be confirmed by the SGH. The government dissolves when the prime minister resigns, when half the cabinet resigns simultaneously, or upon a vote for dissolution by the SGH.

## 14 POLITICAL PARTIES

The Mongolian People's Revolutionary Party (MPRP), which had been the single ruling party since 1924, legalized opposition parties in 1990. In addition to the MPRP, major parties prior to the 2004 elections included the Motherland Democratic Party (MDP), which included the Mongolian National Democratic Party (MNDP), the Mongolian Social Democratic Party (MSDP), the Green Party (NYAM), and the Mongolian Democratic Party of Believers (MDPB); Mongolian Conservative Party (MCP); Democratic Power Coalition, which included the Mongolian Democratic Renaissance Party (MDRP) and Mongolian People's Party (MPP); Mongolian National Solidarity Party (MNSP); Bourgeois Party/Capitalist Party; United Heritage Party (UHP), which included the United Party of Herdsman and Farmers, Independence Party; Traditional United Conservative Party, and Mongolian United Private Property Owners Party; and the Mongolian Workers Party.

In the first election for the State Great Hural (SGH) 28 June 1992, the MPRP won 56.9% of the vote and 71 of 76 seats in the SGH. In the first direct presidential election, 6 June 1993, President Punsalmaagiyn Ochirbat (first elected president 3 September 1990) was reelected with 58% of the vote. A former member of the MPRP, Ochirbat defeated that party's candidate, running as head of a coalition of the SDP and MNDP.

In the elections of 30 June 1996, the Democratic Union Coalition (which included the MNDP, the MSDP, and two smaller parties) defeated the MPRP, winning 50 of 76 seats (an increase of 44 seats). The MPRP won 25 seats, and the remaining seat went to the MCP. The DUC campaign platform included the Mongolia's Contract With Voters, which promised to cut government spending, reduce welfare, and reorganize the transformation of the government.

In the July 2000 parliamentary elections, MPRP candidates won 72 of the 76 seats, with the remaining 4 seats won (one each) by MNDP, the Civil Courage Party or Civil Will Party (CWP) in alliance with the Mongolian Green, the Motherland Alliance (the Mongol Democratic New Socialist Party and the Mongolian Labor Party), and an independent nonpartisan candidate.

General elections held in 2004 resulted in an impasse, as neither the MPRP or nor the main opposition, the Motherland Democratic Party (MDP), held the 39 seats required to form a government. The MPRP was dealt a devastating blow with a reduction in parliamentary seats from 72 to 36. Electoral fraud was suspected on the part of the MDC and a recount was ordered. Parliament was not able to meet for the first half of 2004 as neither side wished to pursue legislation while the electoral investigation was ongoing. In August, the MPRP formed a coalition with the MDC and Tsakhilganiin Elbegdorj retained his post of prime minister for a second term.

## 15 LOCAL GOVERNMENT

Mongolia administratively consists of 21 provinces (*aymag*), divided into 334 counties (*soums*) and lesser administrative units called *baghs*, as well as one autonomous city, Ulaanbaatar, which is divided into districts and *horoos*. Each level of local administration has its own legislative body, or *hural*. These *hurals* nominate

the provincial governors, who are then appointed by the prime minister.

## 16 JUDICIAL SYSTEM

Prior to the 1992 constitution, justice was administered through a Supreme Court elected by the People's Great Hural; province and city courts, elected by the corresponding assemblies of people's deputies; and lower courts. The 17-member Supreme Court remains the highest judicial body with a Constitutional Court vested with sole authority for constitutional review. The local courts (people's courts) handle most routine civil and criminal cases. Provincial courts hear more serious cases and review local court decisions. The Supreme Court hears appeals from the local and provincial courts. The old specialized military justice and railway courts have been abolished. All courts are now organized under a single unified national system.

The General Council of Courts nominates and the president appoints the lower and the Supreme Court judges. The new constitution provides for a completely independent judiciary. It also promises procedural due process rights to a fair trial, legal assistance, right to appeal, and access to requests for pardons.

A 1999 media law banned censorship of public information, and many independent newspapers and media outlets exist. However, to the extreme poverty in the country, the main source of news is the state-owned Radio Mongolia. Internet access and Western news media are available in all major cities and not hampered by government censorship. Parliamentary meetings are also broadcast to the public.

Trade unions are legal, although with the continued sale of many state factories, membership in trade unions has declined to approximately one-half the population in 2005. Strikes and collective bargaining are legal except in what the government considers "essential sectors", which are transportation, law enforcement and utilities.

The constitution bars arbitrary arrest, although this continued to occur. Prisoners also report beatings and torture while in detention. Deaths in prison are reported, although this is most likely due to disease exacerbated by poor conditions like lack of food, heat and medical services. Mongolia vowed to concentrate resources on prison reform by 2010.

Military service is mandatory for all men aged 18–28 for 12 months. In 2003 the army had approximately 7,500 soldiers and the Air Defense Force had about 800 personnel.

Mongolia is a member of most international organizations including the United Nations, International Court of Justice and the World Trade Organization.

## 17 ARMED FORCES

In 2005, Mongolia's armed forces had 8,600 active personnel, with reserves of 137,000. The Army had 7,500 personnel, whose equipment included 370 main battle tanks, 120 reconnaissance vehicles, 310 armored infantry fighting vehicles, 150 armored personnel carriers, and 570 artillery pieces. The Air Force had 800 personnel whose major equipment included 11 attack helicopters and 9 fixed wing transport aircraft. Paramilitary forces consisted of a border

guard numbering 6,000 and 1,200 internal security troops. Mongolia's defense budget in 2005 totaled \$17.6 million.

## 18 INTERNATIONAL COOPERATION

Admitted to the United Nations on 27 October 1961, Mongolia participates in ESCAP and several nonregional specialized agencies, such as the FAO, IAEA, ILO, IMF, UNESCO, UNIDO, WHO, and the World Bank. It is a member of the WTO, the Asian Development Bank, the Colombo Plan, the European Bank for Reconstruction and Development, the ASEAN Regional Forum, the Pacific Economic Cooperation Council, and the G-77. Mongolia is a partner in the OSCE and an observer of the Shanghai Cooperation Organization (SCO), an agreement signed in June 2001 between the leaders of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan to fight terrorism and ethnic and religious militancy while promoting trade.

The principal ally of Mongolia was the former USSR, which provided substantial economic and military assistance over the years. In 1986, the MPR made efforts toward normalizing relations with China, which had become strained after the expulsion of Chinese laborers in 1983, by establishing the first five-year trade agreement between the two countries, restoring air service and improving rail service between them, and exchanging consular delegations for the first time. In the 1990s, Mongolia expanded its political and financial relationships with the United States, Japan, and the European Union. However, it remains dependent upon Russia and China for the development of its economy and trade. Mongolia is part of the Nonaligned Movement.

In environmental cooperation, Mongolia is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

After 70 years as a centrally planned economy, Mongolia has undergone a difficult transition towards a free market system since 1990. With the help of active government promotion, the country's industrial sector grew steadily for several decades, expanding from 7% of the national income in 1940 to 35% by 1997, as agriculture's share of total production declined from 79% to 31%. Despite these changes, animal husbandry has remained a dominant sector of the economy, with live animals and animal products accounting for a major share of exports, and livestock providing much of the raw material processed in the country's industrial sector. Total Soviet assistance at the height of Soviet support amounted to 30% of GDP. A number of factors, including the sudden cessation of economic aid from the former Soviet Union and allied countries, the disruption of trade with traditional trading partners, as well as a severe winter in 1990/91, caused a steep decline in the country's economic activity in the early 1990s. The annual growth rate of the GDP dropped steeply from 8.3% to -9.5% in 1992, and -3% in 1993.

Despite these difficulties, the government continued its economic transformation program involving the privatization of most previously state-owned enterprises and other policy reforms. In 1994, GDP grew by 2.3%, followed by further increases

of 6.3% in 1995, 2.6% in 1996, 4% in 1997, 3.5% in 1998, 3.2% in 1999, 1.1% in 2000 and 1.4% in 2001. Although the economy has grown steadily since 1994, the economic wellbeing of most people is still in decline. Inflation reached a peak of over 325% in 1992, accelerating faster than wages, but dropping to about 4% in 1995. In 1999, inflation jumped to 10%, and was at 8% and 8.1% in 2000 and 2001. Development of the country's rich oil and mineral resources continues to be a high priority, and negotiations for the exploitation of oil, gold and rare earth elements with foreign companies are being actively pursued.

The GDP growth rate was 6.0% in 2004, up from 5.1% in 2003, and 3.9% in 2002; in 2005, the economy was expected to expand by 5.5%. This growth was mainly fueled by higher commodity prices (for gold, copper, etc.) requested from Mongolia's main trading partner—China. Inflation, reduced to insignificant levels in 2002—0.9%, started growing again in 2003 (5.1%), and 2004 (8.7%). The unemployment rate reached 14.2% in 2003, but it is believed that a large part of the jobless population is actually employed by the grey economy.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Mongolia's gross domestic product (GDP) was estimated at \$6.0 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,200. The annual growth rate of GDP was estimated at 5.5%. The average inflation rate in 2005 was 11%. It was estimated that agriculture accounted for 20.6% of GDP, industry 21.4%, and services 58%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$56 million or about \$23 per capita and accounted for approximately 4.4% of GDP. Foreign aid receipts amounted to \$247 million or about \$100 per capita and accounted for approximately 19.7% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Mongolia totaled \$894 million or about \$361 per capita based on a GDP of \$1.3 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

It was estimated that in 2004 about 36.1% of the population had incomes below the poverty line.

## 21 LABOR

In 2003 (the latest year for which data was available), the workforce was estimated at 1.488 million people. Of that total that same year, 42% were involved in agriculture/herding, 4% in mining, 6% in manufacturing, 14% in trade, 29% in services, 5% in the public sector and 3.7% in undefined occupations. In 2003, unemployment was put at 6.7%. A shortage of skilled labor has required the procurement of a large supplementary workforce from the former USSR and Eastern Europe.

The right to organize trade unions and professional organizations is granted by the 1990 constitution. In that year, the Association of Free Trade Unions, (AFTU) which includes about 70

unions, was chartered. In 2002, there were 400,000 unionized workers, amounting to less than 50% of the workforce. Nonessential workers have a right to strike.

According to the labor code, the working week is fixed at 40 hours, and for those under 18, at 36 hours. Children as young as 14 or 15 may work with parental permission. In reality, regulations regarding child labor are not effectively enforced. The legal minimum wage was less than \$25 per month in 2002, although most workers earned in excess of this amount.

## 22 AGRICULTURE

As of 2003, cropland amounted to 1,200,000 hectares (2,965,000 acres), up from only 1,160,000 hectares (2,866,000 acres) in 1979; the cultivated area represents only 1% of potentially arable land. The high altitude, temperature extremes, long winters, and low precipitation provide limited potential for agricultural development. Crop production accounts for 3% of all employment.

Shortages of fuels and parts for agricultural equipment caused crop production to decline by 70% during the 1990s. Principal crops produced in 2004 (in 1,000 tons) included: wheat, 150; barley, 2.5; potatoes, 67; and vegetables, 44. Trade in agricultural products in 2004 consisted of \$173.6 million in imports and \$62.7 million in exports.

## 23 ANIMAL HUSBANDRY

Animal husbandry is the backbone of Mongolia's economy, employing some 160,000 persons. After Mongolia became the world's second communist country in 1924, many nomads settled down to raise livestock on state-owned collectives. The end of communist rule in 1990 brought the resurgence of traditional animal herding methods. Pastures constitute about 75% of the national territory. In 2005 there were 11,686,000 sheep, 12,238,000 goats, 1,842,000 cattle, 2,005,000 horses, 257,000 camels, and some 6,000 hogs. The goat population increased by over one million in 1994/95, due to a boom in the cashmere industry. The meat produced in 2005 was 195,400 tons. Because of the harsh climate, Mongolians consume much fat and meat during winter, and dairy products in the summer.

Mongols claim that the Mongolian thoroughbred is the progenitor of many breeds of race horses worldwide; furthermore, its stamina and speed over long distances surpass Arabic and Akhaltec racers. The Mongolian Horse Association was founded in February 1989 in Zunmod to increase the population and preserve traditional horse-breeding techniques, which were largely being forgotten over the past three decades.

Hunting remains an important commercial activity, with furs and skins the chief products. In 2005, production of skins and hides was estimated at 19,800 tons from sheepskins and 11,200 tons from cattle hides.

## 24 FISHING

Fishing is not a significant industry in Mongolia. The total catch in 2003 was 130 tons.

## 25 FORESTRY

Forests cover about 6.8% of the total territory of Mongolia, mainly in the area around Hövsgöl Lake. It is estimated that the country's total timber resources represent at least 1.25 billion cu m (44 bil-

lion cu ft). Birch, cedar, larch, and fir trees predominate. In 2004, the timber cut was 6.631 million cu m (222.7 million cu ft), with 29% burned as fuel. The lumber industry yielded 300,000 cu m of sawn wood that year.

## 26 MINING

Mongolia was the world's third-largest producer of fluorspar and among the top three producers in Asia and the Pacific of copper and molybdenum. In 2004, Mongolia exported nearly all of its copper and molybdenum concentrates, while fluorspar was sent to Japan and Russia. Construction, mining (of coal, copper, molybdenum fluorspar, and gold), and oil were Mongolia's top three industries. Geological surveys have uncovered deposits of some 80 minerals, which were largely untapped. Also produced in 2004 were cement, hydrated lime, quicklime, varieties of stone, and silica. Most mining operations were in the eastern and north-central regions, including the Erdenet copper mining center.

Output in 2004 included (in metric tons): mine copper (metal content), 130,000; fluorspar (including acid grade and sub-metalurgical), 295,000; mine molybdenum, 1,411; gypsum, 25,000; and mine tungsten, 40,000 (estimated). Gold output for 2004 was 18,600 kg, up from 11,119 kg in 2003. Gold mining increased significantly in the 1990s, and the number of companies engaged in gold mining grew to more than 100; total reserves were estimated to be 2,000 tons gold in 17 regions, the most important being Naran, Tolgoi, and Zamar. No tin was mined in 1999 and 2000, or in 2004. Uranium production ceased after 1997. The Erdenet copper-molybdenum mine, completed in 1981, was developed by the state in cooperation with the former USSR, and was 51% owned by the Mongolian government and 49%, by the Russian government. Clay, gold, gypsum, limestone, molybdenum, salt, sand and gravel, silver, precious stones, and tungsten were also mined by small operations.

Mongolia's gross domestic product (GDP) in 2004 totaled \$1.5 billion. The country's minerals sector accounted for around 17.3% of GDP that year. The government encouraged foreign investment and adopted a number of long-term programs to explore for and develop metallic and nonmetallic minerals. Ivanhoe Mines Ltd. estimated that the Oyu Tolgoi had as much as 750 million tons of copper and gold resources. The Tsagaan Suvraga porphyry copper deposit, in southwestern Sayanshand City, in the northern part of the Ulaan-Uul structural-formational zone of the south Gobi mineral belt, contained 240 million tons of sulfide ore at a grade of 0.53% copper and 0.018% molybdenum. The government was looking for investors to develop a 500-million-ton iron ore deposit north of Darkhan City.

Parliament-approved guidelines for 2001–04 would privatize 27 state-owned enterprises and restructure 25 state-owned enterprises and organizations. Copper mining remained state owned. In 1997, the government modified mining laws to increase the land open to exploration to 40%, change policies regarding exploration licenses, and grant tax incentives to promote mining.

## 27 ENERGY AND POWER

Mongolia produces only a small amount of oil, no natural gas, and some coal.

In 2004, Mongolia's production of oil averaged 542 barrels per day, while demand and imports each averaged an estimated 11,000

barrels per day in that year. A small amount of oil, averaging an estimated 497 barrels per day, was exported that same year.

All of Mongolia's electricity is produced by conventional thermal power plants. In 2004, electric power output totaled an estimated 2.692 billion kWh, with consumption in that year, an estimated 2.209 billion kWh. Electricity exports and imports in 2004 came to an estimated 8.2 million kWh and 130.5 million kWh, respectively. In 2002, Mongolia's generating capacity was put at 0.901 million kW. Although about half the population is served with electricity, electric power outages in rural areas can last for months.

Mongolia produced 7,081,000 short tons of coal in 2002, of which 86% consisted of brown coal or Lignite, and the remainder bituminous.

## 28 INDUSTRY

Small-scale processing of livestock and agricultural products has historically been a mainstay of Mongolia's industrial sector. With the establishment of the Erdenet copper plant in the late 1970s, metal processing also became an important part of the economy. In 1996, industrial output was estimated at T239.3 billion, with production of metals accounting for 32.6%; energy production, 19.1%; processed foods, 15.8%; wool and woolen apparel, 11.5%; mineral fuels, 6.8%; chemicals, 6.7%; and other items, 7.5%. Much of the country's industrial activity is concentrated in four centers: Ulaanbaatar, Erdenet, Darhan, and Choybalsan. Industry employed approximately 74,100 persons in 1996.

Mongolia's industrial development has been severely affected by dwindling imports of fuel, spare parts, and equipment formerly obtained from the former USSR and allied trading partners. As a result, total output from the industrial sector generally declined in the early 1990s, falling by 2.5% in 1996. By 1997, the industrial sector had begun to recover, with growth estimated that year at 4.5%. Industrial growth in 2000 was 2.4%. Industrial production in Mongolia included about 40 different commodities. As of 2002, the production of food, leather, shoes, glass, and garments were on the decline, while production of copper and molybdenum concentrates, coal mining, and the food and beverage industries were increasing. About 72% of the economy had been privatized by 2000.

In 2003, industry made up 21.4% of the economy, with 4% of the labor force being engaged in mining, and 6% in manufacturing; 42% of the working population is still engaged in herding or agriculture. The industrial production growth rate was 4.1% in 2002, slightly higher than the GDP growth rate, and a sign that the industry is an important economic growth fosterer.

## 29 SCIENCE AND TECHNOLOGY

The Academy of Sciences, in Ulaanbaatar, was founded in 1921 and reorganized in 1961. It includes departments of agriculture, chemistry and biology, geography and geology, medicine, and technology; and numerous research institutes concerning agriculture, fisheries and veterinary science, medicine, natural sciences, and technology. The Natural History Museum in Ulaanbaatar features Gobi Desert dinosaur eggs and skeletons. The National University of Mongolia, founded in 1942 at Ulaanbaatar, has faculties of mathematics, natural sciences, physics, and biology, and undertakes research with the State Construction Research Insti-

tute in pursuit of knowledge related to nuclear physics, biophysics, mineral resources, energy, and communications. The Mongolian Technical University, founded in 1969 at Ulaanbaatar, has schools of power engineering, mechanical engineering, civil engineering, and geology and mining engineering. In 1987-97, science and engineering students accounted for 24% of college and university enrollments. In 2002, Mongolia's expenditures on research and development (R&D) totaled \$11.868 million, or 0.28% of GDP. In that same year, the country had 710 researchers and 72 technicians per million people that were involved in R&D. High technology exports in that year totaled \$1 million.

## 30 DOMESTIC TRADE

Prior to economic reforms of the early 1990s, consumer goods produced at Ulaanbaatar or imported from abroad were distributed by state marketing agencies to retail outlets in local administrative centers. Prices for all items except consumer services and some luxury goods were set by the government. With steady price liberalization undertaken since 1990, prices are now closely regulated for only a few staples, such as fuel, rice, and flour.

Because the rapid dismantling of the government's centrally planned distribution system proceeded without an effective alternative yet in place, severe supply shortages have been experienced especially in the country's urban centers. To reduce these shortages, a system of public markets has been developed where supplies in excess of targeted deliveries can be sold freely. Commodity exchanges, however, still retain some of the characteristics of a centrally planned economy. Bartering is still common among Mongolia's nomadic population.

As of 2002, wide-spread reform toward privatization was nearly completed and these privately-owned enterprises have begun to show growth in contributions to the economy. The government still seeks foreign investment as a major opportunity to boost and stabilize the domestic economy.

Business hours are generally from 9 AM to 6 PM, Monday through Friday.

## 31 FOREIGN TRADE

Minerals, mainly copper concentrates and molybdenum, were Mongolia's largest exports. In 1998, exports totaled \$316.8 million. The second most important export category includes wool, hides, and skins, followed by consumer goods, mainly manufactured garments. The liberalization and expansion of free trade zones have promoted the export of manufactured goods such as spun wool and cashmere, carpets, leather goods, green tea, canned meat, and light consumer goods. In 1999, imports amounted to \$472.4 million. Imports included machinery and equipment, fuels, rice, wheat flour, industrial consumer goods, chemicals, building materials, sugar, and tea.

Although Mongolia continues to depend on the republics of the former USSR (especially Russia) as its dominant trading partners, the country's trading profile has changed greatly since the mid-1980s. In 1985, communist countries, excluding China and North Korea, accounted for 95.5% of Mongolia's exports and 98.1% of its imports. In 1997 Mongolia joined the World Trade Organization. By 1998 Russia accounted for only 12.1% of exports, while their share of imports fell to 30.6%.

**Principal Trading Partners – Mongolia (2003)**

(In millions of US dollars)

Country	Exports	Imports	Balance
World	615.9	801.0	-185.1
China	284.2	172.4	111.8
United States	142.9	23.5	119.4
Russia	41.2	265.4	-224.2
Singapore	35.0	10.4	24.6
Australia	34.5	19.6	14.9
United Kingdom	26.1	3.9	22.2
Italy-San Marino-Holy See	9.1	3.3	5.8
Japan	8.5	63.4	-54.9
Korea, Republic of	7.5	67.7	-60.2
Germany	4.6	38.0	-33.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

In 2004, Mongolia's exports totaled \$853 million (FOB—Free on Board), while its imports grew to \$1 billion (CIF—Cost and Freight). Export commodities included copper, apparel, livestock, animal products, cashmere, wool, hides, fluorspar, and other non-ferrous metals, and they mainly went to China (which received 47.8% of total exports), the United States (17.9%), and the United Kingdom (15.7%). Imports chiefly came from Russia (33.3%), China (23.6%), Japan (7.4%), South Korea (6%), and the United States (4.6%), and included machinery and equipment, fuel, cars, food products, industrial consumer goods, chemicals, building materials, sugar, and tea.

**<sup>32</sup> BALANCE OF PAYMENTS**

Mongolia consistently imports more than it exports. The sudden discontinuance of grants and debt cancellations by the former

**Balance of Payments – Mongolia (2002)**

(In millions of US dollars)

<b>Current Account</b>		<b>-158.0</b>
Balance on goods		-156.2
Imports	-680.2	
Exports	524.0	
Balance on services		-81.9
Balance on income		-4.5
Current transfers		84.6
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>157.4</b>
Direct investment abroad		...
Direct investment in Mongolia		77.8
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-32.1
Other investment liabilities		111.7
<b>Net Errors and Omissions</b>		<b>14.1</b>
<b>Reserves and Related Items</b>		<b>-13.4</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Soviet Union devastated the balance of payments position. Subsequently, the IMF in 1993, 1997, and 2001 approved a series of three-year loans to Mongolia, the last due to expire in September 2004.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Mongolia's exports was \$466.1 million while imports totaled \$614.5 million resulting in a trade deficit of \$148.4 million.

The International Monetary Fund (IMF) reported that in 2001 Mongolia had exports of goods totaling \$460 million and imports totaling \$549 million. The services credit totaled \$86 million and debit \$174 million.

Exports of goods and services reached \$1.2 billion in 2004, up from \$835 million in 2003. Imports grew from \$1.1 billion in 2003, to \$1.5 billion in 2004. The resource balance was consequently negative in both years, worsening from -\$249 million in 2003, to -\$303 million in 2004. The current account balance was also negative, slightly improving from -\$99 million in 2003, to -\$35 million in 2004.

**<sup>33</sup> BANKING AND SECURITIES**

Before 1924, Mongolia lacked its own banks and currency. Mongolians bartered, using such commodities as livestock, tea, and salt for exchange, or such foreign currencies as the US dollar, the Russian ruble, the British pound, and the Chinese Mexican dollar in commerce. Chinese and Russian banks offered credit, as did monasteries and private moneylenders. The government began to transform this chaotic monetary situation with a series of reforms, starting with the establishment of Mongolbank, or the Mongolian Trade-Industrial Bank, in June 1924. Mongolbank was founded as a Mongolian-Soviet joint-stock company. In February 1925, the tugrik was made the official national currency, and it was slowly introduced into circulation over the next three years. In April 1928, all other currencies were withdrawn from circulation. In 1929, the government drove private moneylenders out of business by establishing a monopoly on foreign trade and outlawing private lending.

In April 1954, the Soviet Union handed over its shares in Mongolbank, which was renamed the State Bank of the Mongolian People's Republic, which remains the official bank of Mongolia. However, economic reforms have allowed the formation of a commercial banking sector. The economic reforms were brought about by the collapse of the Soviet Union in the early 1990s.

Mongolia has a two-tier banking system where control of the money supply is invested in the central bank. The Bank of Mongolia has established lending rules the commercial banks must follow. Also, reserve requirements are set by the national bank. In 1991, commercial functions were separated from the Mongol Bank, and two commercial banks were created; by the late 1990s there were 18. On advice from the Asian Development Bank, the government closed a number of banks in 1999 and 2000, leaving 12 in operation in an effort to restructure the two-tier system. In 2000, the World Bank gave Mongolia a loan earmarked for restructuring of its financial systems. Also in that year, foreign exchange reserves reached \$123 million. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$142.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small

time deposits, and money market mutual funds—was \$301.6 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.6%.

The Mongolian Securities Exchange opened in August 1995. About 60,000 individuals have opened accounts on the stock market. By 1996, more than 7.8 million shares from 400 companies had been traded and 28,000 contracts concluded; average daily trade volume is 60,000–80,000 shares.

### 34 INSURANCE

In the 1980s, insurance was offered by the State Directorate for Insurance, or Mongoldaatgal, which was under the control of the Ministry of Finance. The government was planning to introduce health insurance in 1993 as a cooperative effort between individuals, government agencies, and the private sector.

### 35 PUBLIC FINANCE

The annual budget is submitted to the People's Great Hural for approval. Privatization did not begin until fiscal year 1990/1991 along with political upheaval. Privatization of large state businesses has begun, as has the implementation of tax reforms. Most small businesses were private as of 2001.

The US Central Intelligence Agency (CIA) estimated that in 2004 Mongolia's central government took in revenues of approximately \$582 million and had expenditures of \$602 million. Revenues minus expenditures totaled approximately -\$20 million. Total external debt was \$1.36 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government revenues were ₮403.22 billion and expenditures were ₮422.62 billion. Government outlays by function were as follows: general public services, 32.4%; defense, 5.9%; public order and safety, 3.9%; economic affairs, 21.2%; environmental protection, 0.3%; housing and community amenities, 0.3%; health, 4.7%; recreation, culture, and religion, 2.2%; education, 6.3%; and social protection, 22.8%.

#### Public Finance – Mongolia (2002)

(In billions of togrogs, central government figures)

<b>Revenue and Grants</b>	<b>403.22</b>	<b>100.0%</b>
Tax revenue	207.3	51.4%
Social contributions	69.92	17.3%
Grants	19.31	4.8%
Other revenue	106.69	26.5%
<b>Expenditures</b>	<b>422.62</b>	<b>100.0%</b>
General public services	137.03	32.4%
Defense	24.91	5.9%
Public order and safety	16.69	3.9%
Economic affairs	89.61	21.2%
Environmental protection	1.47	0.3%
Housing and community amenities	1.08	0.3%
Health	19.7	4.7%
Recreational, culture, and religion	9.1	2.2%
Education	26.61	6.3%
Social protection	96.41	22.8%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

### 36 TAXATION

The turnover tax, for the majority of state revenues, is an indirect sales tax levied at the production stage on all manufactured commodities. Personal taxes consist of income taxes, paid by salaried industrial workers and office employees, and livestock taxes on private herders, based on the number of livestock owned. There is a ceiling of 40% on taxes levied on enterprises with foreign capital. There is also a 13% value-added tax (VAT). Exemptions from the VAT include financial and legal services, leases and rents for dwellings, religious organizations, and public transportation.

### 37 CUSTOMS AND DUTIES

Mongolia collects a general import tariff of 5% and a VAT of 13% on most imported items. However, gold is subject to a 10% VAT, while imports of technological equipment and machinery imported under the country's Law of Foreign Investment are exempt. Customs duties have been insignificant, yielding less than 1% of total state revenues.

### 38 FOREIGN INVESTMENT

Prior to 1990, no private investments were possible in Mongolia; much of the country's investment capital was derived from government loans and grants provided by the former USSR and allied countries. New government policy and laws since the late 1980s, including the Foreign Investment Law of 1993, provide the legal basis and incentive for foreign investments. In 1994, Mongolia concluded a Bilateral Trade and Investment Agreement (BTIA) with the United States, in 1997 accessed to the WTO, and in 1999 was granted normal trade relations (NTR) status by the United States.

The Foreign Investment and Taxation Laws provide for tax incentives and exemptions for foreign investment. Total income tax exemptions are granted to businesses engaged in infrastructural projects like building power plants, thermal plants, power transmission networks, highways, railways, and air cargo transportation facilities. Mining operations, metallurgy operations, chemicals production, and machinery and electronics manufacturing receive a 10-year tax holiday, and 50% tax exemption for the next five years. Companies that export more than 50% of production receive a three-year tax holiday, and 50% tax exemption for another three years.

Thus far, private foreign capital remains a small source of investment in the country. Mongolia's lack of infrastructure remains an impediment to foreign investment. A north-south paved road running from Russia to China and through the capital was completed with finance from the Asian Development Bank (ADB) but Mongolia still lacks an east-west highway. As of July 2000, cumulative foreign investment in Mongolia totaled \$308.4 million. The biggest source has been China, including Hong Kong (\$86 million), followed by Japan (\$47.5 million), South Korea (\$30.4 million), the United States (\$27.1 million), Russia (\$15.5 million), and Canada (\$9.3 million). The sector attracting the most foreign direct investment (FDI) has been mining (24%), followed by light industry (19.6%); raw material processing, including cashmere (10.9%); trade and catering (6.4%); construction (6.3%); banking and financial services (5.4%) and telecommunications (5.0%). Leading investors include Sumitomo Corporation and Komatsu

of Japan; Korean Telecom; and SOCO Oil, Caterpillar, and Nescor of the United States.

Although the Mongolian government openly welcomes foreign investments (albeit, it favors a series of key industries, like banking and cashmere production), there are reports of corruption at the level of individual agencies and the judiciary that hinder the free flow of capital.

### **39 ECONOMIC DEVELOPMENT**

In the past, Mongolia operated on the basis of a planned economy, with five-year plans implemented from 1947 until 1990, with assistance from the former USSR and China. In 1990, with the establishment of a new consensus government, there followed a three-year plan that aimed for achieving greater efficiency in the allocation of resources and a diversified economic base by undertaking a sustained transition to a free market economy. The change was a fundamental shift, as the government relinquished its role as the primary factor in the economy and began limiting itself to policies supporting a market-oriented economy. Main components of the government's program include privatization of state enterprises, price liberalization, changes in national law, and an action plan for environmental protection. Current plans specify development of the country's energy and mining sectors, and further action in environmental protection as well as continued reforms in a number of areas including fiscal management, land tenure, and social benefit entitlements.

In 1996, the initial phase of privatization of state property was completed. According to the government, 100% of small- and medium-sized enterprises were privatized as well as 97% of the country's livestock. In 2000, the private sector accounted for 72% of GDP. At the end of the 1990s, however, the government's commitment to privatization and market reforms appeared to be weakening. However, the government that took office in August 2000 renewed the effort at gaining macroeconomic stability and restoring the momentum for reform. In September 2001, the administration entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF) supported by stand-by funds of SDR28.49 million (about \$40 million). In a 2002 review, the IMF commended the government on progress made to contain inflation, but noted that improvements were needed in fiscal transparency and accountability.

In July 2002, a pledge meeting of the Consultative Group (CG) for Mongolia, consisting of donors from 20 countries and 18 international organizations in addition to representatives of various civil and private organizations, agreed on the importance of the government's addressing governance issues: ensuring accountability, promoting transparency, controlling corruption, reforming the judiciary and strengthening the rule of law. Priority areas of action stressed were energy and information and communications technology (ICT), as well as preparation of a long-term strategy for rural development. The donors pledged \$333 million in support of Mongolia's development efforts in 2003.

Economic development strategies were expected to be less successful if they focused only on the national economy of Mongolia, outside of the political, geographical, and economic context it finds itself in. The country was still heavily dependent on trade with its neighbors (most of the petroleum products and a substantial part of its electric power are imported from Russia, while most

of its exports are going to China), and as such will find it hard to develop an endogenous growth strategy. The large gray economy (some specialists think this is almost as large as the real economy), corruption, and a weak law and regulatory system are some of the factors that could hamper the country's economic expansion. Market opportunities include mining, construction, tourism, and meat processing.

### **40 SOCIAL DEVELOPMENT**

The social insurance program provides for free medical services, benefits for temporary disability, and pensions for permanent disability and old age.

Women have equal rights and freedoms under Mongolian law, with the exception of a law barring them from hazardous work. Women account for approximately half of the work force, generally receive equal pay for equal work, and many hold mid-level government and professional jobs. Domestic abuse and violence remain serious problems. New laws went into effect in 2005 to combat domestic violence.

Although the government generally respects the human rights of its citizens, there are reports of mistreatment of detainees and prisoners. Human rights organizations operate openly in Mongolia.

### **41 HEALTH**

Health care is administered under state auspices and all medical and hospital services are free. The government gives special priority to increasing the number of physicians and other health personnel and expanding facilities in rural areas. Each province has at least two hospitals and each agricultural cooperative and state farm has a medical station. As of 2004, there were an estimated 267 physicians, 305 nurses, 18 dentists, and 31 pharmacists per 100,000 people. Most Mongolians had access to health services. In 2000, 60% of the population had access to safe drinking water and 30% had adequate sanitation. Health expenditures were 4.7% of the GDP.

Average life expectancy in 2005 was an estimated 64.52 years (up from 45 years in 1950). Pulmonary and bronchial infections, including tuberculosis and brucellosis, are widespread but are being brought under control through the use of *ayrag*, an indigenous drink brewed from horse milk and possessing demonstrated healing qualities. Cholera, smallpox, typhus, and other epidemic diseases have been virtually eliminated. Immunization rates for children up to one year of age were as follows: tuberculosis, 90%; diphtheria, pertussis, and tetanus, 78%; polio, 87%; and measles, 80%. Rates for DPT and measles were, respectively, 94% and 93%.

The general mortality rate was estimated at seven per 1,000 people as of 2002. In 2005, the infant mortality rate was 53.79 per 1,000 live births. At least 30.4% of children had goiter. About 25% of children under five years of age were malnourished and 11% of births were of low birth weight. Maternal mortality in 2003 was 65 per 100,000 live births. The total fertility rate decreased steadily from 5.4 in 1980 to 2.6 per woman in 2000.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 500 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

## 42 HOUSING

Although there are many stone and wood buildings in Ulaanbaatar and some of the larger provincial centers, the traditional housing structure is the *ger*, a tent-like wooden frame structure covered in woolen felt. In 2002, about 49% of the population lived in *gers*. Approximately 57% of the population lived in Ulaanbaatar, where large apartment-house complexes with stores, services, and cultural facilities were being built to house the growing urban population. Apartments are the primary residence for urban dwellers.

The Asian Development Bank has sponsored a loan program to support housing construction in the nation. Within the country itself, groups focusing on housing issues include the Citizen's Representatives Meeting of Ulaanbaatar, the Tsast Impex Company, and the joint Mongolian-Chinese Bogda Holding Company.

## 43 EDUCATION

The 1991 Education Law introduced a number of changes in the system. The traditional Mongolian script was to be introduced from the first grade, and teaching of English in all schools was made compulsory. Nonformal education offered by private institutions was also given due importance and recognition.

Eight years of schooling is compulsory starting at age eight, and free of charge. Primary school covers four years of study, followed by four years of junior secondary school and two years of upper secondary school. There are technical and vocational schools, which admit students after their primary education is complete. Many children in rural areas are withdrawn from school in order to work at home. An absence of heat in many rural schools is also a problem that may contribute to poor enrollment levels. More than 70% of students from rural areas reside in dormitories adjoining the schools. The academic year runs from September to July.

In 2001, about 31% of children between the ages of three and seven were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 79% of age-eligible students. The same year, secondary school enrollment was about 77% of age-eligible students; 72% for boys and 83% for girls. It is estimated that nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 31:1 in 2003; the ratio for secondary school was about 22:1.

While higher and professional education is not free, tuition fees for poor students are subsidized by the government. The Mongolian State University, in Ulaanbaatar, was founded in 1942 and includes faculties in the social sciences, trade, and philology, as well as in science and technology. The Ministry of Science, Technology, Education and Culture (MOSTEC) is responsible for higher education. In 2003, about 37% of the tertiary age population were enrolled in some type of higher education program; 28% for men and 47% for women. The adult literacy rate for 2004 was estimated at about 97.8%.

As of 2003, public expenditure on education was estimated at 9% of GDP.

## 44 LIBRARIES AND MUSEUMS

The Mongolian State University has a library of 350,000 volumes. The State Central Library of Mongolia, which is under the jurisdiction of the Academy of Sciences, contains four million volumes in Mongolian, Chinese, English, French, German, Manchu, Rus-

sian, Tibetan, and other languages. It also has a collection of valuable Buddhist manuscripts, including a 335-volume Buddhist encyclopedia. In 1991, the country opened a college of business and commerce, which houses a library of 21,000 volumes. Also that year, it opened the College of Economics with 40,000 volumes. The Library of the State Great Hural of Mongolia, established in 1992, serves the members of parliament, with holdings of about 40,000 volumes and subscriptions of over 100 periodicals per year. Ulaanbaatar City Central Library was established in 1980 and has over 500,000 items.

The State Central Museum, containing art treasures and antiquities, the Museum of National History, the Ulaanbaatar Museum (a public affairs museum), the Fine Arts Museum, and the Museum of Religion, all in Ulaanbaatar, are under the jurisdiction of the Academy of Sciences. Also in the capital are the Mongolian National Modern Art Gallery, opened in 1989, and the Palace Museum, in the home of Bodg Geegen, former head of state and leader of the Buddhist Church of Mongolia. The Zanabazar Museum of Fine Art features collections of native artists. The Theater Museum opened in 1991.

## 45 MEDIA

In 2003, there were an estimated 56 mainline telephones for every 1,000 people; about 35,600 people were on a waiting list for telephone service installation. The same year, there were approximately 130 mobile phones in use for every 1,000 people.

Radio broadcasting began in the MPR in 1934. Radio Ulaanbaatar broadcasts programs in Mongolian, Russian, Chinese, English, French, and Kazakh. Mongel Telev 12, which transmits locally produced programs, and a satellite station are also located in Ulaanbaatar. There are several independent stations. In 2004 there were 7 AM and 62 FM radio stations. In 2003, there were an estimated 50 radios and 81 television sets for every 1,000 people. About 20.5 of every 1,000 people were cable subscribers. Also in 2003, there were 77.3 personal computers for every 1,000 people and 58 of every 1,000 people had access to the Internet. There were five secure Internet servers in the country in 2004.

The newspapers of the MPR (together with the organizations that publish them) include *Unen* (Central Committee of the MPRP, 1999 circulation 170,000); *Ardyn Erh* (Mongolian Great Hural and Cabinet, circulation 77,500); *Novosti Mongolii* (the Mongolian News Agency); *Hodolmor*, the organ of the trade unions; *Dzaluuchuudyn Unen* (Central Committee of the Mongolian Revolutionary Youth League); *Shine Hodoo* (Ministry of Agriculture and the Supreme Council of the Federation of Agricultural Cooperatives); *Utga Dzohiol Urlag* (the Union of Mongolian Writers and the Ministry of Culture); and *Ulaan Od* (Ministry of Defense and the Ministry of Public Security). Also published are 41 periodicals, including *Namyn Am᠋ᠳᠠᠷ*, a journal of the Central Committee of the MPRP, and *Shin᠋ᠵᠡᠯᠡᠬᠡ Uhaan Am᠋ᠳᠠᠷ*, a bimonthly publication of the Mongolian Academy of Sciences.

The constitution provides for freedom of expression, including free speech and a free press, and the government is said to respect these rights in practice.

## 46 ORGANIZATIONS

The Mongolian National Chamber of Commerce and Industry is in Ulan Bator.

Mongolia's mass organizations, all of which work closely with the MPRP, include the Mongolian Revolutionary Youth League (founded in 1922), Mongolian Pioneers' Organization, Committee of Mongolian Women (founded in 1933), and Mongolian-Soviet Friendship Society (founded in 1947).

Other youth organizations include the Union of Mongolian Students, Junior Chamber, and the Scout Association of Mongolia. There are several sports associations in the country promoting competition amongst amateur athletes. Another nongovernment women's organization is the Women's Information and Research Center.

Professional and cultural organizations include the Mongolia Academy of Science, the Union of Mongolian Artists, the Union of Mongolian Composers, the Mongolian Association for Lawyers, the Union of Mongolian Journalists, the Union of Mongolian Writers, and the Union of Mongolian Philatelists.

Social action organizations are the Mongolian Committee for Afro-Asian Solidarity, Mongolian Union for Peace and Friendship Organizations, and Mongolian Committee for the Defense of Peace. There are national chapters of the Red Cross Society, Amnesty International, Habitat for Humanity, and Caritas.

## 47 TOURISM, TRAVEL, AND RECREATION

Points of interest include the largest monastery in Mongolia, Gandan Lamasery in Ulaanbaatar, and the ruined city of Karakorum, once the capital of the Mongol Empire. Mongolia offers abundant and varied scenery, including forests, steppes, lakes, and deserts, and a wide variety of wildlife. The national sports of Mongolia are wrestling, archery, and horse racing. Mongols also participate in boxing and sumo wrestling.

A valid passport is required for entry into Mongolia, an onward/return ticket, and a visa if staying of more than 90 days. In 2003, about 201,000 tourists visited Mongolia. Tourist expenditure receipts totaled \$154 million that same year. Despite the birth of multiparty democracy in the 1990s, Mongolia has not encouraged tourism. Tourist facilities are in short supply, and prices are high.

According to the US Department of State, the estimated cost of staying in Ulaanbaatar in 2004 was \$200 per day.

## 48 FAMOUS MONGOLIANS

A long line of Mongol khans have left their mark on history ever since Temujin, or Genghis Khan (1162–1227), set up the first Mongol empire in 1206. Outstanding among them were Kublai Khan (1216–94), a grandson of Genghis, who conquered most of China; Hulagu Khan (1217–60), a brother of Kublai, who conquered Per-

sia and Syria; Batu Khan (d.1255), Kublai's cousin, who overran Russia, Poland, and Hungary; Timur, also known as Timur Lenk ("Timur the Lame") or Tamerlane (1336?–1405), a descendant of Genghis, who extended his military power for short periods into southern Russia, India, and the Levant; and Babur (Zahir ad-Din Muhammad, 1483–1530), a descendant of Timur, who established an empire in India.

In recent times, two national leaders were Sukhe Baatar (1894–1923) and Khorloin Choybalsan (1895–1952). Yumjaagiin Tsedenbal (1916–91), intermittently general secretary of the Central Committee of the MPRP since 1940, became chairman of the Council of Ministers in 1952, was elected chairman of the Presidium of the People's Great Hural in 1974, and was named the MPRP general secretary in 1981. Jambyn Batmunkh (1926–97) became chairman of the Council of Ministers in 1974 and was elected chairman of the Presidium and general secretary of the MPRP in 1984. Natsagiyn Bagabandi (b.1950) was the president of Mongolia from 1997 to 2005; he was succeeded by Nambaryn Enkhbayar (b.1958), who was prime minister from 2000–04.

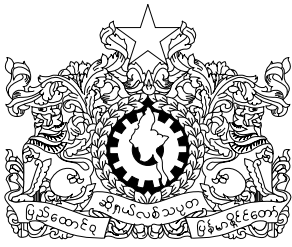
The founder of modern Mongolian literature is D. Natsagdorj (1906–37). Tsendyn Damdinsuren (1908–86) is one of the most important writers. Leading playwrights are Ch. Oyudov (1917–63) and E. Oyuun (1918–2001). Other prominent writers are B. Rindhen (1905–78), D. Namdag (1911–82), U. Ulambayar (b.1911), and Ch. Lodoydamba (1917–70). B. Damdinsuren (1919–92) and L. Murdorzh are noted composers. Jugderdemidiyn Gurragecha (b.1947) became the first Mongolian in space in 1981, when he was carried into orbit aboard the former USSR's *Soyuz 39*.

## 49 DEPENDENCIES

The MPR has no territories or colonies.

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# MYANMAR

Union of Myanmar

*Pyidaungzu Myanma Naingngandaw*



**CAPITAL:** Yangon (formerly Rangoon)

**FLAG:** The national flag is red with a blue canton, within which 14 white stars encircle a rice stalk and an industrial wheel.

**ANTHEM:** *Kaba Makye (Our Free Homeland)*

**MONETARY UNIT:** The kyat (κ) is a paper currency of 100 pyas. There are coins of 1, 5, 10, 25, and 50 pyas and 1 kyat, and notes of 1, 5, 10, 25, and 100 kyats. κ1 = \$0.17182 (or \$1 = κ5.82) as of 2005.

**WEIGHTS AND MEASURES:** Both British and metric weights and measures are in general use, but local units also are employed.

**HOLIDAYS:** Independence Day, 4 January; Union Day, 12 February; Peasants' Day, 2 March; Defense Services Day, 27 March; Burmese New Year, 17 April; World Workers' Day, 1 May; Martyrs' Day, 19 July; Christmas, 25 December. Movable religious holidays include Full Moon of Tabaung, February or March; Thingyan (Water Festival), April; Full Moon of Kason, April or May; Waso (Beginning of Buddhist Lent), June or July; Thadingyut (End of Buddhist Lent), October; and Tazaungdaing, November.

**TIME:** 6:30 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in Southeast Asia, Myanmar has an area of 678,500 sq km (261,970 sq mi), extending 1,931 km (1,200 mi) N–S and 925 km (575 mi) E–W. Comparatively, the area occupied by Myanmar is slightly smaller than the state of Texas. It is bounded on the N and E by China, on the E by Laos, on the SE by Thailand, on the S by the Andaman Sea, and on the W by the Bay of Bengal, Bangladesh, and India, with a total boundary length of 7,806 km (4,850 mi), of which 1,930 km (1,197 mi) is coastline.

Myanmar's capital city, Yangon (formerly Rangoon), is located in the southern part of the country.

## <sup>2</sup>TOPOGRAPHY

Myanmar is divided into four topographic regions: a mountainous area in the north and west, ranging from about 1,830–6,100 m (6,000–20,000 ft) in altitude, and including the Arakan coastal strip between the Arakan Yoma mountain range and the Bay of Bengal; the Shan Highlands in the east, a deeply dissected plateau averaging 910 m (2,990 ft) in height and extending southward into the Tenasserim Yoma, a narrow strip of land that projects some 800 km (500 mi) along the Malay Peninsula, in the southeast; central Myanmar, a principal area of cultivation, bounded by the Salween River in the east and the Irrawaddy River and its tributary, the Chindwin, in the west; and the fertile delta and lower valley regions of the Irrawaddy and Sittang rivers in the south, covering an area of about 25,900 sq km (10,000 sq mi) and forming one of the world's great rice granaries. Good harbors are located along the coastline.

Myanmar is located in a seismically active region of the Eurasian tectonic plate. As such, the nation experiences frequent

earth tremors and quakes. Though these are usually minor, below 5.0 magnitude on the Richter scale, a 6.6 magnitude earthquake occurred about 65 miles (110 km) south of Meiktila on 21 September 2003.

## <sup>3</sup>CLIMATE

Myanmar has a largely tropical climate with three seasons: the monsoon or rainy season, from May to October; the cool season, from November to February; and the hot season, generally from March to April. Rainfall during the monsoon season totals more than 500 cm (200 in) in upper Myanmar and over 250 cm (100 in) in lower Myanmar and Yangon (formerly Rangoon). Central Myanmar, called the dry zone, and Mandalay, the chief city in the area, each receive about 76 cm (30 in). The mean annual temperature is 27°C (81°F); average daily temperatures in Yangon (Rangoon) range from 18–32°C (64–90°F) in January, during the cool season, and from 24–36°C (75–97°F) in April, during the hot season. The climate in upper Myanmar, particularly at altitudes ranging from about 300–1,220 m (1,000–4,000 ft), is the most temperate throughout the year, while lower Myanmar, especially in the delta and coastal regions, is the most humid.

## <sup>4</sup>FLORA AND FAUNA

Myanmar has a wide variety of plant and animal life. Teak, representing about 25% of the total forested area, thrives mainly in the mountainous regions; evergreen, bamboo, and palm in the freshwater delta swamps and along the coastlands; mangrove in the salty coastal marshes; mixed temperate forests and rolling grasslands in the Shan Highlands; and scrub vegetation in the dry central area. There are about 12 species of monkeys, as well as tigers,

leopards, elephants, and half-wild pariah dogs. Fish abound along the coastline, in the tidal waters of the delta, and in the rivers and streams. As of 2002, there were at least 300 species of mammals, 310 species of birds, and over 7,000 species of plants throughout the country.

## 5 ENVIRONMENT

In Myanmar the principal environmental threat comes from cyclones and flooding during the monsoon season, and regular earthquakes. Deforestation for farming or illegal economic gain is the most persistent ecological effect of human encroachment. In 1985, 405 square miles were lost through deforestation. By 1994, two-thirds of Myanmar's tropical forests had been eliminated. However, the nation still had the world's eighth-largest mangrove area, totaling approximately half a million hectares. In 2000, about 52% of the total land area was forested.

Little information is available about the long-term effects of industrialization on the natural environment, although evidence of industrial pollutants has been found in the air, water, soil, and food. Myanmar has 881 cu km of renewable water resources. About 95% of city dwellers and 74% of the rural population have access to improved water sources. Inadequate sanitation and water treatment are leading contributors to disease. Environmental concerns have been given low priority by the government.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 39 types of mammals, 41 species of birds, 20 types of reptiles, 7 species of fish, 1 type of mollusk, 1 species of other invertebrate, and 38 species of plants. Threatened species included the banteng, pink-headed duck, Asian elephants, Malayan tapirs, freshwater sawfish, the Sumatran rhinoceros, Siamese crocodiles, hawksbill turtles, gaurs, and sun bears. The Javan rhinoceros is extinct.

## 6 POPULATION

The population of Myanmar (Burma) in 2005 was estimated by the United Nations (UN) at 50,519,000, which placed it at number 24 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 29% of the population under 15 years of age. There were 99 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.2%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 59,002,000. The population density was 75 per sq km (193 per sq mi).

The UN estimated that 29% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.16%. The capital city, Yangon (formerly Rangoon), had a population of 3,874,000 in that year. The next largest city is Mandalay, with an estimated population of 927,000.

## 7 MIGRATION

Indians were the most significant Asian minority in Myanmar until World War II, when hundreds of thousands fled the Japanese invasion; although many returned after the war, the Indian minority never regained its prewar proportions, because after independence in 1948 the government of Myanmar instituted rigid restrictions on Indian migration. The Indian population was substantially re-

duced between April 1963 and June 1965, when 100,000 were repatriated as part of a program to increase the wealth and holdings of Myanmar nationals. (Indians had dominated Myanmar's commerce.) The government has sought to curtail both immigration and emigration, although as many as 500,000 persons may have left Myanmar during 1962–71. About 187,000 Muslims who fled to Bangladesh in 1978 were repatriated with the help of UN agencies by the end of 1981; they had left Myanmar because of alleged atrocities by its soldiers in Arakan State. They lost their citizenship in 1982.

About 500,000 poor urban residents were forcibly relocated to rural areas between 1989 and 1992. Rural residents are also subject to forced resettlement in connection with counterinsurgency operations.

In 1992, some 250,000 Muslim refugees from Myanmar's Northern Rakhine state began arriving in Bangladesh, claiming human rights abuses in Myanmar. As of October 1996, around 50,000 of these refugees were still living in South Bangladesh in five refugee camps. Between 1994 and 1997, some 230,000 of these refugees returned home to Northern Rakhine state. The repatriation resumed in November 1998, following meetings between the United Nations High Commissioner for Refugees (UNHCR) and Myanmar authorities, but returns were limited to some 450 people due to procedural problems. UNHCR has appealed to the governments of Myanmar and Bangladesh to accelerate the repatriation process. In 2004, there were 210 returned refugees.

In 2000 the total number of migrants residing in Myanmar numbered 113,000. Myanmar migrants remitted \$26 billion in 2002. The net migration rate for 2005 was an estimated -1.8 per 1000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The Burmans, ethnically related to the Tibetans, constitute about 68% of Myanmar's total population. In remote times, the Burmans, migrants from the hills east of Tibet, descended the Irrawaddy Valley and intermarried with the previously settled Mon and Pyu peoples. Since then, however, many other migrant peoples from the northeast and northwest have settled in Myanmar: the Shans, Karens, Kachins, Kayahs, and Chins are among the more numerous. Although much ethnic fusion has taken place among these peoples and the Burmans, most of the later migrant groups remain distinct cultural entities and have sought to preserve their autonomy, sometimes by violent means. According to the latest estimates, the Shan made up about 9% of the population, the Karen 7%, Rakhine 4%, Chinese 3%, Mon 2%, Indian 2%, and other 5%.

## 9 LANGUAGES

Burmese, the official language, is spoken by at least 80% of the population. Pronunciation varies greatly from area to area. Although Burmese is monosyllabic and tonal like other Tibeto-Chinese languages, its alphabet of 10 vowels and 32 consonants is derived from the Pahlavi script of South India; loan words from other languages are common. Burmese is the language of government, but the ethnic minorities have their own languages; accord-

ing to the 1974 constitution, “if necessary the language of the national race concerned may be used.”

## 10 RELIGIONS

Under the government of U Nu (overthrown in 1962), Buddhism was the state religion. Since then the government has been controlled by authoritarian military regimes which have generally placed restrictions on religious freedom. The government has ruled without a constitution since 1988 and shows a strong preference for Theravada Buddhism. All religious publications and sermons are subject to approval and censorship by the government. Proselytizing is prohibited by some Christian groups in some areas. Religious activists are generally monitored by the state.

According to government statistics, Theravada Buddhism is practiced by about 90% of the population. A number of adherents combine their practice with traditional practices such as astrology, numerology, fortune-telling, and the veneration of pre-Buddhist deities called *nats*. The Chinese in Myanmar practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, and ancestor worship; the Indians are Hindus; the Pakistanis are Muslims; and most of the Europeans are Christians. Although Christian missionaries had some success with peoples of the hill areas—the Karens, Kayahs, Kachins, and Chins—conversion among the Burmans and the Shans was negligible. About 4% of the population are Christian, with Baptists, Catholics, and Anglicans being the primary denominations. The government claims that about 4% of the population are Muslim, mostly Sunni. Muslim leaders, however, claim the percentage to be much higher, at about 14–20% of the population. There is a small community of Jews in Rangoon.

## 11 TRANSPORTATION

Because of Myanmar's near encirclement by mountain ranges, international land transportation is virtually nonexistent. Historically, Myanmar has been dependent on sea and river transport externally and internally, supplemented in modern times by the airplane. The Myanmar Road, connecting Lashio with Kunming in southern China, and the Ledo Road between Myitkyina and Ledo in Assam, northeastern India, are the only land ties between Myanmar and adjacent nations. There were an estimated 28,200 km (17,523 mi) of roads in 2002, but only 3,440 km (2,138 mi) were paved. In 2003, Myanmar had about 6,800 passenger cars and 14,000 commercial vehicles.

Myanmar's railway system, a government monopoly, operates 3,955 km (2,460 mi) of track, all of which was 1.00 narrow gauge in 2004. The main lines are from Yangon (Rangoon) to Prome (259 km/161 mi) and from Yangon to Mandalay (621 km/386 mi) and then to Myitkyina (1,164 km/723 mi from the capital).

Inland waterways, including some 12,800 km (7,961 mi) of navigable passages (25% of which are navigable by commercial vessels), are the key to internal transportation, partly compensating for limited railroad and highway development. Some 500,000 small river craft ply the Irrawaddy (navigable for about 640 km/400 mi), the Salween, the Sittang, and numerous tributaries. The Irrawaddy Delta, the focus of most water transportation, has some 2,700 km (1,679 mi) of rivers and streams, providing a seaboard for all types of craft. The state merchant fleet totaled 37 ships in 2005, with a combined GRT of 429,144.



LOCATION: 92°10' to 101°11' E; 9°35' to 28°28' N. BOUNDARY LENGTHS: China, 2,185 kilometers (1,358 miles); Laos, 238 kilometers (148 miles); Thailand, 1,799 kilometers (1,118 miles); total coastline, 2,276 kilometers (1,414 miles); Bangladesh, 233 kilometers (145 miles); India, 1,403 kilometers (872 miles).

TERRITORIAL SEA LIMIT: 12 miles.

Ocean shipping, the traditional means of external transport, is controlled by the government, which operates coastal and ocean-going freight-passenger lines. Yangon, on the Rangoon River about 34 km (21 mi) inland from the Andaman Sea, is the chief port for

ocean shipping, handling the majority of the country's seaborne trade; it is also the principal terminus for the highways, railroad, inland waterways, and airways. Other ports include Sittwe (Akyab), serving western Myanmar; Patheingyi (Bassein), serving the delta area; and Mawlamgane (Moulmein), Dawei (Tavoy), and Mergui, which handle mineral and timber exports of the Tenasserim region.

As of 2004 there were 78 airports. As of 2005, a total of 19 had paved runways, and there was also a single heliport. Mingaladon, outside of Yangon, is the principal airport. In 2003, about 1.117 million passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The founding of a kingdom at Pagan in 1044 by Anawrahta marks the beginning of the history of Myanmar (Burma) as a distinct political entity. The kingdom survived until 1287, when it was destroyed by the armies of Kublai Khan, and the next five centuries were marked by disunity. In 1754, Alaungpaya defeated the Shan kingdom in northern Myanmar and the Mon kingdom in southern Myanmar and founded the last ruling dynasty, which was in power until the British came in the early 19th century. The British conquest of the land then known as Burma spanned 62 years: the first Anglo-Burmese War took place during 1824–26, when the British East India Company, acting for the crown, took possession of the Arakan and Tenasserim coastal regions. In 1852, at the end of the second war, the British acquired the remainder of lower Burma; and on 1 January 1886, following Burma's defeat in the third war, total annexation of Burma was proclaimed. Incorporated into the British Indian Empire, Burma was administered as a province of India until 1937, when it became a separate colony. At this time, Burma was permitted some steps toward self-government; however, the British governor retained authority over foreign affairs, defense, currency, and the administration of frontier peoples. From 1886 to 1948, many Burmese agitated and fought continually for independence. The nationalists who finally gained independence for Burma were a group of socialist-minded intellectuals, called the Thakins, from the University of Rangoon. They included Aung San, one of the founders of modern Burma; U Nu, independent Burma's first premier; Shu Maung, also known as Ne Win, later U Nu's chief of staff; and Than Tun, a leader of a Communist revolt (1948–50) against the independent government. At the start of World War II, these anti-British nationalists collaborated with the Japanese, and with the aid of the Burma Independence Army, led by Aung San, the capital, Rangoon (now Yangon) fell to Japan on 8 March 1943. They were soon disappointed with the Japanese occupation, however, and the Burma Independence Army was converted into an anti-Japanese guerrilla force called the Anti-Fascist People's Freedom League, which later assisted the British liberation of Burma. Many of the ethnic nationalities of the frontier regions, such as the Karens and Kachins, had remained loyal to the British, as valued fighters for the Allies. After the war, Aung San negotiated with frontier ethnic leaders, signing the Panglong Agreement on 12 February 1947 with them, as a pledge of autonomy and other rights.

Having assumed leadership of the nationalist movement following the 19 July 1947 assassination of Aung San and six of his associates, U Nu signed an agreement with British Prime Minister

Clement Attlee covering economic and defense relationships between the two countries. On 4 January 1948, the sovereign Union of Burma came into being outside the Commonwealth of Nations. After severe setbacks in 1948–49, the U Nu government was able to control a Communist insurgency and consolidate its own power, and in 1951 the nation held its first parliamentary elections. The decade of the 1950s also brought the implementation of an ambitious land reform program and an attempt to forge a neutralist foreign policy, in the face of sporadic Communist resistance and an intermittent border dispute with China. U Nu appointed Gen. Ne Win to head an interim "caretaker government" during a period of instability from 1958 to the 1960 national election (which U Nu's party won.) Ne Win returned to power with a coup d'état on 2 March 1962. The U Nu government was overthrown, and a military regime headed by a Revolutionary Council and led by Ne Win assumed control. Student protests following the 1962 coup, and again in 1974, were crushed by the army with many civilian casualties. Most major political figures in the democratic governments of the years 1948–62 were arrested but were released in 1966–68, including U Nu. Ne Win rejected a return to a multi-party parliamentary system and proclaimed the Socialist Republic of Burma on 3 January 1974. Under a new constitution, Ne Win became president, and the government continued to be dominated by the military. Ne Win retired as president in November 1981, with Gen. San Yu succeeding him in office; but Ne Win retained his dominance, as chairman of the country's only legal political organization, the Burma Socialist Program Party (BSPP). Insurgency by the underground Communist Party of Burma (CPB) and numerous ethnic armies had begun just after World War II and continued throughout Ne Win's time in power. The general sought to unify the country by giving it a Burmese-ethnic majority identity, and to defeat insurgency with the "four cuts policy" of taking civilian support away from the rebels. Instead, the tactics of his armed forces in ethnic regions drove more and more inhabitants into rebellion.

Despite President San Yu's reelection in 1985 to a four-year term and his appointment as vice chairman of the BSPP, Ne Win continued to dominate the political scene and to make all major and many minor government policy decisions. One such decision, to withdraw large currency notes from circulation in September 1987, threw the economy and the country into turmoil. The move, possibly aimed against black marketeers who had accumulated large sums of money, made 80% of the country's currency valueless, touching off student-led demonstrations. Citing his personal responsibility for dire economic conditions, Ne Win resigned as BSPP party chairman in July 1988. A protégé of Ne Win, Sein Lwin, was made BSPP chairman and president of the country. Sein Lwin's appointment triggered nationwide revolts. A broad spectrum of the population joined in, marching in the streets and going on general strikes throughout Burma. The army opened fire on unarmed protesters, killing thousands, particularly during the first week of August. Sein Lwin resigned on 12 August and Dr. Maung Maung, a civilian lawyer and journalist, was appointed his successor on 19 August. Although Maung Maung proposed multiparty elections and decreed that government employees could not be members of any political party, his refusal to step down provoked further protests. On 18 September 1988 the army abolished the BSPP, took over the government and imposed military

rule under the State Law and Order Restoration Council (SLORC) headed by the army Chief of Staff, General Saw Maung. He also named himself prime minister and retained the portfolios of the Defense Ministry and Ministry of Foreign Affairs. Several days of violence occurred countrywide with thousands of civilians, including children, students, and monks, killed by the armed forces. In announcing the takeover, General Saw Maung stated that the military rule would be temporary and that multiparty elections would be held once law and order were reestablished. In February 1989 Japan was the first nation to officially recognize SLORC as the legitimate government. Elections were set for 27 May 1990. On 18 June 1989 the Saw Maung regime renamed Burma "Myanmar Naing Ngan," a formal historical Burmese name for the country. It is colloquially known as "Myanmar," while democracy advocates and the US government continue to use the name "Burma."

With the elections called, political parties formed. First to organize was U Nu's League for Democracy and Peace, later known as the League for Democracy. The BSPP was reformed as the pre-regime National Union Party (NUP). U Nu had declared an interim government on 9 September 1988, but he garnered little support with his surprise move. In 1988 Aung San Suu Kyi, daughter of assassinated legendary hero General Aung San, had returned to Myanmar to visit her ailing mother. In the midst of the chaos of this period of demonstrations and protests Aung San Suu Kyi rose to prominence delivering speeches and establishing a coalition party opposing the military regime. On 24 September 1988 Suu Kyi with U Tin Oo and Aung Gyi formed the National League for Democracy (NLD). In early 1989 Aung Gyi formed his own organization, the Union Nationals Democracy Party (UNDP). In speeches and interviews Suu Kyi challenged Ne Win's record, characterizing it as one of economic and sociopolitical degeneration. She also protested SLORC's repressive laws and actions. Aung San Suu Kyi was placed under house arrest in Yangon (Rangoon) by Ne Win on 20 July 1989.

The top contenders in the elections were the NUP, the NLD, the UNDP, and the League for Democracy. The NUP was the party favored by the SLORC; and other parties had immense difficulty in campaigning and obtaining publicity. Six other parties figured prominently: the Coalition League for Democratic Multiparty Unity; the Democracy Party; the Union of Burma Main AFPFL Party led by the children of former Premier U Ba Swe; the Democratic National Front for National Reconstruction, a former leftist NUF group; the Graduates and Old Students Democratic Association; and the Original Anti-Fascist People's Freedom League. A total of 93 parties fielded 2,209 candidates who, along with 87 independent candidates, contested 485 seats out of a total of 492 constituencies designated for holding elections. Seven constituencies that were excluded from the election represented mostly the ethnic minority states of insurgency. Over 100 candidates were fielded by each of five parties: the National League for Democracy (NLD), 447 candidates; the National Unity Party (NUP) backed by SLORC, 413 candidates; the League for Democracy and Peace (LDP), 309 candidates (another source indicates 325 candidates); the Union Nationals Democracy Party (UNDP), 247 candidates (another source indicates 270 candidates), and the Democracy Party, 105 candidates. Despite its leader's (Aung San Suu Kyi) incommunicado house arrest, the NLD won the 27 May 1990 general elections by a landslide (392 candidates elected out of its field

of 447, or 87.7% of the votes). The NUP took 2.4% of the votes for 10 seats out of 413 fielded. The UNDP, with 0.4% of the vote, took 1 seat in Shan State out of the 247 (270) fielded. The Democracy Party with 0.95% of the vote took 1 seat out of 105 fielded. Of the candidates fielded by the LDP none won a seat. On 18 June 1989 Saw Maung indicated that the transfer of power to the winner of the election would not occur until a new constitution was drafted, one which met with SLORC's approval. However, on 13 July the powerful junta member Lt.-General Khin Nyunt denied the initial promise of an immediate transfer of power made by General Saw Maung. SLORC's further response was to alter the purpose of the newly elected assembly from its original function as a legislative body, to that of a constituent assembly formed to draft the new constitution. SLORC would not transfer power until the resulting draft constitution had been approved both by a referendum and by SLORC.

#### 1990–Present

In September 1990 SLORC revealed its intention to remain in power for a further 5 to 10 years. After his mental collapse in December 1991, Senior General Saw Maung resigned due to ill health on 23 April 1992. On the same day he was replaced as Chairman of SLORC by General Than Shwe who was also named (and remains) Chief of State and Head of the Government. The First Secretary was Lt.-General Khin Nyunt and Second Secretary was Lt.-General Tin Oo. Accompanying these leadership changes SLORC initially indicated that an effort was being made to appease criticism of its methods as hundreds of political prisoners were released. Aung San Suu Kyi's family was allowed to visit her. Two martial law decrees imposed in July 1989 also were lifted in September 1992, and a constitutional convention was promised. In early 1993 a National Convention of 700 mostly hand-picked members met to draft a new constitution. Meeting with resistance and presented with a proposal by Yo E La of the Lahu National Development Party suggesting a return to the basic principles of Myanmar's pre-1962 constitution, a bicameral parliament and the granting of basic freedoms, the convention was adjourned until 7 June 1993. Another impasse occurred with further resistance to certain clauses in the new constitution that the ruling military wanted implemented; the National Convention was adjourned until January 1994. On 18 January 1994 the convention met again to approve six objectives and 104 basic principles which would entrench and perpetuate the power of the military.

The plight of Aung San Suu Kyi garnered the attention of human rights groups internationally. In March 1991, the Geneva UN Human Rights Commission passed a resolution to condemn and monitor the human rights abuses of SLORC, and in subsequent years Special Rapporteurs have been appointed to investigate Myanmar's human rights situation. In 1991 Aung San Suu Kyi was awarded the 1990 Sakharov Prize for Freedom of Thought by the European Parliament, the 1990 Thorolf Rafto Human Rights Prize by Norway, and on 10 December 1991 Aung San Suu Kyi's son, Alexander, accepted the 1991 Nobel Peace Prize on her behalf. In December 1993 the UN General Assembly unanimously rebuked the military rulers of Myanmar for their refusal to hand over power to the parliament democratically elected in May 1990, and called for the release of political prisoners, including Aung San Suu Kyi, in her fifth year of house arrest. Eight fellow Nobel

prize-winners met in Thailand in February 1993 to speak on behalf of Aung San Suu Kyi, but were denied visas to visit Myanmar. US Congressman William Richardson visited with Aung San Suu Kyi, who was still under house arrest in Yangon, on 14–15 February 1994, her first nonfamily visit in four-and-a-half years. Richardson also met with Lieutenant-General Khin Nyunt of the State Law and Order Restoration Council (SLORC).

Another dissenting voice in Myanmar, that of 74-year-old Aung Gyi, founder of the UNDP, was silenced when on 27 April 1993 he was sentenced to a six-month prison term. He had written a series of letters to Ne Win (much as he had paved the way for the pro-democracy movement in 1987–88 with a similar series of letters), and criticized the military regime in interviews with foreign journalists, but was convicted for failing to pay for eggs ordered as supplies for his tea and pastry shops. A type of human rights violation in Myanmar which drew international attention was forced labor, which the government used on tourist projects such as the reconstruction of the palace in Mandalay. Of Mandalay's 500,000 residents each family had to contribute at least three days of free labor each month. The work lasted from dawn until evening and was so strenuous that it took several days to recover from it. Prison inmates were required to work every day. Many military families could be exempted, as could any family that agreed to pay a monthly fine of about us\$6, about a week's wages for some families. Forced labor was also used on a vast scale throughout Myanmar, on many building projects including roads and railroads, as well as for carrying supplies and munitions for the SLORC troops in insurgent areas. According to the testimony of escapees, the labor was accompanied by beatings, rape, execution of the ill or slow, and use of civilians as human shields and human mine-detectors. Muslim refugees who fled Myanmar said that Muslims had to pay two to three times as much as others to retain their rice ration card as a fine to escape labor. The SLORC commonly used euphemisms such as "merit-making" or "self reliance" in reference to the forced labor. Asia Watch also reported in 1994 that the government turned a "blind eye to traffic in women and girls from Myanmar to Thailand for forced-prostitution." Corrupt officials on both sides of the border were involved. It was estimated that there were about 20,000 women from Myanmar in Thai brothels, where they were at severe risk of HIV/AIDS infection.

A casualty of the China-Myanmar border agreement of 1988 was the Communist Party of Burma (CPB) which collapsed with the withdrawal of Chinese support and the mutiny of its Wa troops in 1989. The CPB split into four different ethnic armies. SLORC's main objective was to neutralize the border rebel minorities and to prevent urban dissidents from getting access to arms and ammunition. SLORC's strategy was to divide and rule. Karen National Union President Bo Mya held that guerrilla armies should hold joint talks with the government and not negotiate separately. The junta, however, would only negotiate separate agreements or treaties with individual rebel groups. To achieve its objectives SLORC introduced its Border Areas Development Program into ex-CPB areas. Infrastructure improvements of us\$11.1 million in roads, bridges, schools, and hospitals were pledged in the state-run media. Necessities such as diesel, petrol, kerosene and rice were distributed. The Wa were the first to negotiate with the junta. In 1989 they were promised development assistance, were allowed to retain their arms, maintain control of their areas, and to

engage in any kind of business. In exchange they promised not to attack government forces and to sever their ties with the other dissident groups and students. Throughout the 1990s the cease-fired Wa complained from time to time that little of the promised aid had been delivered, and that their demand to create a separate state was never discussed. The next deal was made with the 2,000-member Shan State Army (SSA), one of the Shan rebel factions, on 2 September 1989. The SSA was followed in December 1990 by a breakaway faction of the Kachin Independence Army (KIA). On 23 April 1991 the 600-member Palaung State Liberation Army made a truce with SLORC. The 500-member Pa-O National Army rebel group also signed a peace treaty with the military regime. Accusations were leveled that the smaller forces were pushed into signing accords by the unremitting abuse of their ethnic civilians by SLORC troops. The Tatmadaw, the SLORC's armed force, had increased its own troop strength from approximately 190,000 to well over 300,000 since the suppression of 1988's pro-democracy uprising.

The Karenni rebels, angry over SLORC logging encroachments in their territory, reversed their cease-fire, in September 1992. The government launched a major counter attack on the Karenni that spilled over the Thai border. Since 1984 the rebel Karen National Union (KNU) had its camps near the Thai border; and tens of thousands of Karen civilians fled from SLORC attacks and forced labor, to the Thai side. Manerplaw was the KNU headquarters and also the seat of the National Coalition Government of the Union of Burma (NCGUB), set up by fugitive members of National League for Democracy and other pro-democracy Members of Parliament elected in the thwarted 1990 polls.

Far to the north, the Kachins who had been in rebellion since 1961, had been the largest military group in a coalition of anti-SLORC ethnic forces. On 24 February 1994 the Kachin Independence Organization (KIO) signed a peace treaty with SLORC. They agreed to a cease-fire in exchange for permission to participate in commerce. Conflict between the SLORC and Shan groups continued. The Mong Tai Army (MTA) of the notorious "opium warlord" Khun Sa fought the Tatmadaw in the mid-1990s, then made a surprise surrender. He was able to spend his "retirement" living in comfort in Yangon (Rangoon). Like another rehabilitated drug lord, Lo Hsing Han, he has engaged in various legitimate business ventures, giving rise to charges of large-scale narcotics money laundering involvement on the part of the *junta*. Cease-fired Wa officers, from Myanmar's primary opium/heroin production region, are also said to have legitimate business access in Yangon and Mandalay. Some factions of the SSA refused to sign truces with SLORC, and joined in shifting alliances with anti-cease-fire factions of the MTA, continuing to battle the Tatmadaw. In response to Shan and Karenni defiance of the cease-fire policy, the SLORC engaged in enormous forced village relocations in those regions.

Ethnic peoples of western Burma also suffered. The Muslim residents of Arakan, called the Rohingyas, became refugees en masse in the early 1990s. Previously in 1978 the Burmese government had denied them citizenship and launched Operation Naga Min (Dragon King) forcing over 200,000 Rohingyas to seek refuge in Bangladesh. This pattern was repeated in 1991–92. The Rohingyas whose history in the area went as far back as the 9th–15th centuries when Moorish, Arab, and Persian traders arrived and married

local women and settled in the area, were displaced from their land and homes. As many as 300,000 Rohingyas fled to Bangladesh when they were forced from their land, their belongings were confiscated and women were raped by government troops. Some co-religionists made statements of protest, but ASEAN offered a policy of "constructive engagement" thus resisting pressures by the United States and European Community (EC) to adopt a stand on human rights abuses. According to this regional attitude, taking a stand would amount to interference in the internal affairs of a neighboring country. The countries of the region for the most part entered into "constructive engagement" with SLORC, gaining trade and investment opportunities, thus altering the status of the Myanmar exiles and refugees within their borders.

The international community has continued to debate the most effective approach for dealing with Myanmar. Up to and following Myanmar's acceptance into ASEAN in July 1997, ASEAN countries and Japan have argued that "engaging" Myanmar is more productive than "isolating" it. This approach gained them controversial timber concessions, energy projects, and some tourism plus manufacturing opportunities. It did not inspire liberalization by the *junta*. The United States and European Union (EU) have imposed limited economic sanctions, but allowed their petroleum corporations to remain in Myanmar as major investors. Proposals by groups of nations to offer Myanmar's generals economic rewards for steps toward liberalization have been rejected by the junta as "bribery." Aung San Suu Kyi's NLD continues to call for strong economic sanctions as the best way to pressure the junta to the negotiation table, and to deprive the Tatmadaw of the weapons it buys with hard currency (mainly from China and Singapore). The NLD has called for a tourism boycott and for withdrawal of foreign corporations until democracy arrives.

SLORC released Aung San Suu Kyi from house arrest on 10 July 1995. Her freedom was short-lived, however. After large crowds of people began gathering in front of her house for weekly speeches, she was forbidden to address such gatherings. In November 1995, the NLD withdrew from the National Convention which was to formulate a SLORC-approved constitution, in protest of undemocratic policies; in turn SLORC permanently barred the NLD from participation and eventually the Convention meetings were suspended. Suu Kyi announced in May 1996 the NLD's plan to draft its version of the constitution, one that would oust the junta and implement new economic policies for the country.

SLORC curtailed Suu Kyi's attempts at movement outside of Yangon, which she protested with car sit-ins in 1998. NLD members have been detained by the hundreds, and many publicly renounced their membership. The Union Solidarity Defense Association (USDA) was formed by SLORC as a "mass organization" modeled after Sukarno's Golkar in Indonesia. It staged rallies denouncing the NLD, and Suu Kyi was physically threatened by some of its members. A steady campaign of insults against Suu Kyi was featured in the state-run press. In 1999, Suu Kyi's terminally ill British husband, Michael Aris, was denied a visa to see her one last time. The *junta* stated that she was free to leave Myanmar, but the implication was that she would not be permitted back. Aris died on 27 March. Student demonstrations took place in 1996, and institutions of higher learning were closed down by SLORC. Most universities and colleges remained shut down the majority of the time since 1988 (although as of 2000 some were reopen-

ing). Attempts by student activists to mark the tenth anniversary of the "four eights" (8-8-88) democracy uprising, and another auspicious date, 9-9-99, were quickly suppressed. Long jail sentences have been handed down for even mild forms of public protest, and human rights groups report that torture of student dissidents is routine in Myanmar's prisons. Min Ko Naing, an important leader of the 1988 demonstrations, remains in prison. Leo Nichols, an honorary consul for European nations, died in a Myanmar prison, where he was held for unauthorized possession of a fax machine. As the junta attempts to control information, Internet access is extremely limited and unauthorized possession of a modem can earn a 17-year prison sentence.

Using a Buddhist breakaway Karen faction, the Democratic Karen Buddhist Army (DKBA), against the Christian-led KNU, the Tatmadaw was able to over-run Manerplaw and destroy most of the Karen rebel bases in 1995. Tatmadaw and DKBA troops entered Thailand in late January 1997 and attacked Karen refugee camps. A highly controversial natural gas pipeline across the region of southern Burma called the Tenasserim apparently inspired SLORC military campaigns against Mon and Karen rebels in that area. The Mon rebels signed a cease-fire agreement, but numerous Tatmadaw battalions were brought in to protect the pipeline project from Karen sabotage. The multinational petroleum companies involved, Total of France and Unocal from the United States, were accused by human rights and environmental groups of complicity in human rights violations, including forced labor and forced relocation, committed by the SLORC's security forces. Victims of such abuses sued Unocal, achieving a multi-million dollar settlement, in a groundbreaking US court case. The pipeline began bringing natural gas from Myanmar's Andaman Sea to an electrical generating plant on the Thai side of the border in 1999. Outside economic pressure built up during the 1990s, in the form of consumer boycotts of companies doing business in Myanmar, limited US economic sanctions, and "selective purchasing" laws by cities. Massachusetts' "Burma selective purchasing law" was brought to the Supreme Court in 2000. By that year, foreign investment in Myanmar had decreased markedly, due to sanctions pressures, the Asian economic crisis, and concerns about corruption in the State Peace and Development Council (SLORC was renamed the SPDC in 1997)-controlled economy. In June 1999, the International Labor Organization of the UN essentially expelled Myanmar from its ranks, following a detailed investigation of forced labor under the SPDC. In early 2000, the World Bank issued a report highly critical of Myanmar's economic and political climate. The World Bank and International Monetary Fund have been barred from lending to Myanmar.

The Myanmar government has also come under considerable international criticism for its complicity in the country's massive drug trade. Myanmar is one of the world's largest producers of opium and heroin. Since 1990, the country has also become one of the largest manufacturers of illicit methamphetamine. Thai officials voiced dismay over the flood of "speed" pills into Thailand from Myanmar (particularly the Wa region, where a cease-fire is in effect) and the seeming callousness of the Myanmar government regarding the drug trade. Myanmar is the main source of heroin in China, where addiction grew seven-fold from 1989 to 1997. A 1999 Interpol conference on narcotic suppression, held in Yangon, was boycotted by the United States and other govern-

ments as a protest against the junta's apparent profiting from drug trafficking.

With burgeoning drug production in the north of Myanmar has also come a raging HIV/AIDS epidemic. International health organizations estimated the number of Burmese infected in the north alone at 350,000–400,000 in 1996. The HIV/AIDS virus has spread unchecked in Myanmar through the use of contaminated needles by drug addicts, by unsafe medical practices, and by infected Burmese women returning from forced prostitution in Thailand. AIDS education, prevention, and care programs have been a low priority in Myanmar. The United Nation's Global Fund withdrew its AIDS, malaria and tuberculosis program from Myanmar in August 2005, claiming that government restrictions made it impossible for the grants to be implemented effectively.

Aung San Suu Kyi was again placed under house detention in September 2000; she was released in May 2002, and toured the country, speaking out in support of democratization. She urged the international community in August to keep economic sanctions against the SPDC in place until a democratic dialogue reached a more meaningful stage. During 2001, over 200 NLD activists were released from detention; in November 2002, another 115 political prisoners were released. The most violent attack on the NLD occurred 30 May 2003 at Depayin in northern Burma. A convoy carrying Aung San Suu Kyi, who had been touring the north and speaking to large crowds, and her supporters, was attacked by a mob of young men, reportedly under the instigation of the military and USDA. Dozens of NLD supporters were killed in the assault, and many more were arrested. Aung San Suu Kyi was injured and placed under house arrest back in Yangon. A crackdown on the NLD followed, with offices closed and members arrested. The "Depayin Massacre" was condemned by governments and international organizations. The SPDC freed about 40 political prisoners in November 2004. The highest-profile dissident released at that time was Min Ko Naing, one of the main leaders of the 1988 uprising. He had been imprisoned, often in solitary confinement, since 1989. On his release he remained a strong and articulate critic of the regime.

On 5 December 2002, General Ne Win died under house arrest. He had been arrested in March for plotting a coup against the military regime. Ne Win's three grandsons and son-in-law remained in jail, sentenced to death for their plot in the supposed coup.

During 2001 and 2002, relations between Myanmar and Thailand improved. The two countries held talks in June 2001, attempting to ameliorate disagreements over the drug trade and border tensions. By September, Myanmar pledged to eliminate drug trade in the Golden Triangle by 2005. Thailand committed funds to finance a crop substitution program, and the two countries regarded themselves as good neighbors. However, in May 2002, Myanmar closed its border with Thailand after the Thai army fired shells into Myanmar's territory during a battle between the SPDC and ethnic Shan rebels. The border was reopened in October. As Myanmar's turn to take the chairmanship of the Association of Southeast Asian Nations (ASEAN) for 2006 approached, calls were heard from the international community for Myanmar to be deprived of that honor because of the SPDC's human rights violations and authoritarian government. In July 2005, it was announced that Myanmar would relinquish the chair position, to fo-

cus on "the ongoing national reconciliation and democratization process."

In December 2000, Amnesty International reported that torture was increasing in Myanmar despite official military statements that it is illegal. In November 2001, the International Labour Organization (ILO) sent a mission to Myanmar to investigate governmental measures taken to end its program of forced labor. The mission reported some progress, but expressed "profound concern" that the governmental measures had had a limited impact. On 12 February 2003, the UN marked the anniversary of the entry into force of an international treaty banning child soldiers, but warned that the problem of child soldiers is still prevalent. In Myanmar, an estimated 70,000 children are in uniform in the state army. Many are forcibly conscripted by kidnapping or threats of prison at ages as young as 11.

### 13 GOVERNMENT

The Socialist Republic of the Union of Burma was announced on 3 January 1974, after a new basic law had been approved by plebiscite. Under the 1974 constitution (which was suspended in September 1988), the leading organ of state power was the 489-member unicameral People's Assembly (Pyithu Hluttaw). The head of state was the chairman of the Council of State (29 members in 1986), which was elected by the People's Assembly and theoretically responsible to it. The prime minister headed the Council of Ministers (24 members in 1986) and also served on the Council of State. Other main governmental organs were the Council of People's Justices (9 members), the Council of People's Attorneys (6), the Council of People's Inspectors (6), and the people's councils at the level of the state (or division), township, and ward or village tract. Nationwide legislative elections were held in 1974, 1978, 1981, and 1985; in each election, voters either accepted or rejected candidates from a single slate presented by the ruling Burma Socialist Program Party (BSPP). Suffrage is universal at age 18, although the military has taken measures to discourage voter registration. A military coup in September 1988 brought the State Law and Order Restoration Council (SLORC) to power. SLORC abolished the previous government and placed the country under martial law. In June 1989, the official title of the country was changed to Myanmar Naing Ngan. The SLORC *junta* supervised and coordinated the work of the central and local organs of state power. It renamed itself the State Peace and Development Council (SPDC) in November 1997.

In the multiparty election held 27 May 1990, Aung San Suu Kyi's National League for Democracy (NLD) received 87.7% of the total vote and took 392 of its 447 contested seats, and the National Unity Party (NUP), the former BSPP re-registered as a new party, took only 10 seats with 2.4% of the votes.

SLORC refused to hand over power to the NLD, instead voiding the election and insisting that a new constitution need be drafted and approved by referendum, and by SLORC, prior to the transfer of power. Senior General Saw Maung resigned due to ill health on 23 April 1992 and General Than Shwe replaced him on the same day as Chairman of SLORC and as Chief of State and Head of the Government. Vice chairman of the SPDC is General Maung Aye. The Foreign Minister is Win Aung, and the Home Affairs Minister is Tin Hlaing. Lt. Gen. Tin Oo, former second secretary of the SPDC and chief of staff of the army, died in a helicopter crash

19 February 2002. The other two “secretaries” of the SPDC were Lt.-General Khin Nyunt and Lt.-General Win Myint. A sudden purge in October 2004 removed Khin Nyunt from power. He was arrested and charged with corruption, with a 44-year suspended sentence. The purge extended to his Military Intelligence apparatus, with MI officers arrested and their assets confiscated throughout Myanmar. The ousting of Khin Nyunt left the SPDC firmly under the control of Than Shwe and the equally “hardline” Maung Aye, who appeared inclined to take a less conciliatory policy toward armed ethnic groups than Khin Nyunt, the architect of the cease-fire strategy. On 7 May 2005 bomb blasts at a convention center and two supermarkets in Yangon killed 11 people. The SPDC blamed opposition groups for the explosions, while some analysts linked the bombings to internal power struggles within the regime itself.

A drastic step was taken on 6 November 2005 when government ministries were compelled to leave Yangon (Rangoon) for a new capital still under construction at Pyinmana in the mountains 400 km north of Yangon. The motives for the large-scale mass relocation to a place with little infrastructure completed were unclear, but speculation ranged from fear of military attack to an attempt at more centralized control of the country to a form of “preventive magic.” Civil servants were reluctant to make the move, but were compelled to go, without their families, to the government complex at Pyinmana named Nay Pyi Daw, “Place of Kings.”

#### 14 POLITICAL PARTIES

Between 1948 and 1962, Burma's parties were mostly socialist in economic orientation. The most important of these was the Anti-Fascist People's Freedom League (AFPFL), which gained independence for the country and which included within its ranks the distinct Burma Socialist Program Party. The AFPFL governed the country from 1948. In 1958, tensions within the government, and insurgency in the countryside, prompted Prime Minister U Nu to temporarily hand over power to a “caretaker” government headed by General Ne Win. When U Nu's new Union Party won a landslide victory in 1960 elections, Ne Win relinquished power to him. Then on 2 March 1962, Ne Win staged a coup d'état and began his long rule with the one-party (Burma Socialist Program Party) state.

Other parties before 1962 included two Communist movements, the “White Flags” and the “Red Flags,” both of which took up arms early after independence and were later defeated by the government (the White Flags, however, were not completely eradicated until 1975). An above-ground Communist Party existed after 1949 and became the nucleus of the National United Front (NUF) in 1952. Both the Communists and the NUF, like all other parties except the ruling military-dominated Burma Socialist Program Party (BSPP), were banned in 1974. The well-armed Communist Party of Burma (CPB) insurgents based themselves primarily in northeast Burma, along the China border. Chinese support for the Communist party of Burma (CPB) continued well after support for the Communist parties of Malaysia and Thailand was withdrawn, but from the mid-1980s aid did not compare with a decade earlier. In 1989 the CPB was overthrown by its troops, many of whom regrouped as the United Wa State Army, which soon signed a cease-fire deal with the State Law and Order Restoration Council (SLORC).

Burmese independence leader General Aung San had negotiated the Panglong Agreement with representatives of frontier ethnic groups in 1947, but issues of autonomy and federalism have never been resolved. Numerous ethnic parties with armed wings were formed in the mid- to late-20th century, including the Karen National Union, Kachin Independence Organization, New Mon State Party, Karenni National Progressive Party, Shan State Progress Party, Arakan Liberation Party, and Chin National Front. Umbrella groups of the ethnic insurgents were established, notably the National Democratic Front, followed by the Democratic Alliance of Burma. In the 1990s, many ethnic organizations signed cease-fire agreements with the SLORC. A continuous demand of the opposition is “tri-partite negotiations” between the SLORC/SPDC junta, Aung San Suu Kyi's National League for Democracy, and representatives of the ethnic groups. Most of the ethnic leaders favor a federal union of Burma based on ethnic regions. The SPDC arrested 10 Shan political leaders in February 2005 following a meeting they held in the Shan State. In May 2005, several veteran Shan political exiles issued a declaration of independence for their ethnic group, putting them at odds with the federalist policies of other ethnic activists and the NLD.

The democracy uprising of 1988 ended with the 18 September coup which installed the military officers of the State Law and Order Restoration Council (SLORC). The Burma Socialist Program Party was formally abolished, and all governing authority was concentrated in the hands of the military. The earliest formation of the State Law and Order Restoration Council (SLORC) was made up of 17 active military commanders of the Defense Services. On 18 September 1988 it was renamed the Organization for Building Law and Order in the State (OBLOS) and two more members were added. On 20 September 1988 the final version of the SLORC government was formed by maintaining the 19 members and adding two nonmembers to the Cabinet, increasing the number of Cabinet ministers from seven to nine. On 24 September 1988 the BSPP was reborn as the National Unity Party (NUP), inheriting the buildings and machinery of the old BSPP. Allied to the NUP were satellite parties, the former supporters of the BSPP.

On 24 September 1988 the National League for Democracy (NLD), a coalition party, was formed in opposition to the military regime. Leaders Aung San Suu Kyi and Aung Gyi soon parted ways over the latter's accusations of communist infiltration of the NLD. On 28 August 1988 U Nu, at age 83, with his followers from the older generation formed the League for Democracy and Peace (LDP), latter known as the League for Democracy. The NLD won the 27 May 1990 elections by a landslide, electing 392 candidates; the NUP took 10 seats; the UNDP and the Democracy Party took 1 seat each; and the LDP did not win any seats. In April/May 1991 the Election Commission dropped the names of the NLD's General Secretary Aung San Suu Kyi and President U Tin Oo from a roster of NLD leaders, as well as the names of all other Central Executive Committee members who were jailed. NLD leader Aung San Suu Kyi was placed under house arrest from 20 July 1989 to 10 July 1995, from 2 September 2000 to 6 May 2002, and from May 2003 onwards. NLD members have been detained and imprisoned in ever-increasing numbers, and many have been pressured to renounce their membership at public rallies of the junta-sponsored Union Solidarity Defense Association (USDA) a mass organization formed in September 1993 to support the ruling mil-

itary. Aung San Suu Kyi's 60th birthday, 19 June 2005, was marked by international protests of her continuing house arrest, and 24 October 2005, her tenth cumulative year of arrest was another day of protest by overseas Burmese. A campaign to pressure the UN Security Council to put Burma on its agenda was launched by former Czech Republic President Vaclav Havel and South Africa's Archbishop Desmond Tutu, in October 2005.

Dr. Sein Win of the Party for National Democracy, winner of a seat in Pegu District, and seven NLD members legitimately elected to parliament but not recognized by SLORC, fled to border areas and formed a parallel government, the National Coalition Government Union of Burma (NCGUB). Sein Win was named prime minister of the NCGUB, which is now headquartered in Washington, D.C., where it serves as a diplomatic vehicle for the international exiled Burmese democracy movement.

On 29 January 1992 SLORC appointed additional ministers, mostly serving or ex-military, to the original nine-member cabinet, and three new military commanders were added to the original nineteen-member SLORC. Senior General Saw Maung resigned due to ill health on 23 April 1992. He was replaced as Chairman of SLORC by General Than Shwe on 23 April 1992. Than Shwe was named Chief of State and Head of the Government. First Secretary is Major-General Khin Nyunt and Second Secretary was Major-General Tin Oo, until his death in a helicopter crash in February 2002. Lt.-Gen. Win Myint is the other secretary of the SPDC. The SLORC changed its name to State Peace and Development Council (SPDC) in November 1997. The National Convention, aimed at drafting a new constitution has been suspended indefinitely, and the NLD withdrew from the process in protest at its being used to legitimize the junta. Other parties have objected to the National Convention's insensitivity to ethnic rights issues.

## **<sup>15</sup>LOCAL GOVERNMENT**

Myanmar is a unitary nation, ruled by a military *junta*, comprising seven states and seven divisions. The main distinction between the two kinds of units, which are functionally the same, is that the states represent an area where a national ethnic minority is the local majority, while the divisions have no such communal basis. The states are Arakan (Rakhine), Chin, Kachin, Karen (Kayah), Kayah, Mon, and Shan. The divisions are Irrawaddy, Magwe, Mandalay, Bago (Pegu), Sagaing, Yangon (Rangoon), and Tenasserim. States and divisions are segmented into 317 townships. Village tracts consist of villages, and towns are divided into wards. Law and Order Restoration Councils (LORCs) serve as local administration, although regional army commanders control the actual decision making process. A LORC was formed for each State, Division, Township Sector and Ward/Village Sector. Military campaigns of forced village relocations, especially in the Shan and Karenni states and Tenasserim Division, have changed the rural map of Myanmar and placed much of the agricultural population under direct army control. In some frontier areas where cease-fire groups (such as the UWSA or KIO) still hold significant territory, administration is by the former insurgent leadership.

## **<sup>16</sup>JUDICIAL SYSTEM**

The British-style judicial organs with which Burma began its independence, including a supreme court, were disbanded by Ne Win's Revolutionary Council. The 1974 constitution, suspended since

1988, provided for a Council of People's Justices, state and divisional judges' committees, and township, ward, and village tract judges' committees. The Council of People's Justices was elected by the national assembly from among its own members; nominations were made by the Council of State, which coordinated relations between central and local levels of government. Military tribunals which enforced orders issued by the State Law and Order Restoration Council (SLORC) were abolished in 1992. Ordinary courts now handle such cases, with heavy military influence. The Supreme Court appoints judges after approval of the SPDC. There are courts at the township, district, state, and national levels. The SPDC has used laws such as the Emergency Provisions Act and the Unlawful Associations Act to crack down on dissent. Human rights organizations such as Amnesty International and the United Nations have criticized the SPDC for unfair trials and arbitrary imprisonment, as well as use of torture and summary execution.

## **<sup>17</sup>ARMED FORCES**

The armed forces play the major role in Myanmar's politics and administration; senior members of the government are officers who govern under martial law.

Myanmar's armed forces had 428,000 active personnel in 2005, including the paramilitary People's Militia and People's Police Force, which had 35,000 and 72,000 active personnel, respectively. The Army, with 350,000 personnel, had an equipment roster that included 150 main battle tanks, 105 light tanks, of which an estimated 60 were thought to be serviceable, 115 reconnaissance vehicles, 325 armored personnel carriers, and over 388 artillery pieces. The Navy had an estimated 13,000 members, including 800 naval infantry troops. Major fleet units included 4 corvettes, 71 patrol/coastal vessels, and 11 amphibious landing craft. The Air Force had 12,000 personnel and had 125 combat capable aircraft, including 58 fighters and 22 fighter ground attack aircraft. The service also operated 29 support helicopters. The military budget in 2005 totaled \$6.85 billion. Various rebel groups were estimated at perhaps 15,000 and operate inside and outside of northern Myanmar.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

Myanmar was admitted to the United Nations on 19 April 1948; it is a member of ESCAP and several nonregional specialized agencies, such as the FAO, IAEA, the World Bank, ILO, UNSECO, UNIDO, and the WHO. Regional bodies to which Myanmar belongs include the WTO, the Asian Development Bank, ASEAN, G-77, the Bangladesh, India, Myanmar, Sri Lanka, and Thailand Economic Cooperation (BIMSTEC), and the Colombo Plan. Myanmar is a member of the Nonaligned Movement. In environmental cooperation, Myanmar is part of the Convention on Biological Diversity, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **<sup>19</sup>ECONOMY**

Agriculture is the largest sector of the economy, contributing 54.6% of GDP in 2005 and employing about 70% of the labor force. Myanmar is self-sufficient in food. Principal crops are paddy rice, corn, oilseed, sugarcane, and pulses. Traditionally rice

was the major product and the major foreign exchange earner, accounting for about 70% of the country's cultivated land. In 1996, rice exports quadrupled to \$197 million, and accounted for 22% of merchandise exports. The Asian financial crisis of 1997 hit Myanmar hard, reducing rice exports by about one-third. The major recipients of Myanmar's rice are Indonesia and China. Myanmar is also the world's largest exporter of teak, producing 80% of world supply.

Industries include agricultural processing, textiles and footwear, wood and wood products, petroleum refining, mining production (mainly copper, tin, tungsten, and iron), construction materials, pharmaceuticals, and fertilizer. In 2005, industrial production accounted for 13% of GDP. In the past Myanmar was a net petroleum exporter, but production decreased steadily. Both oil and gas exploration is on-going with the participation of foreign companies, and in 1997/98 the energy sector grew by 37.7% (from virtual nonexistence) due to investment in the Yadana natural gas pipeline to Thailand, which came on-line in 1999. The \$1.2 billion pipeline was a joint venture between the California company Unocal and the Myanmar military government. The government has plans to develop a \$1 billion Myanmar-Bangladesh-India pipeline. For the most part, Myanmar's significant mineral resources have not been fully developed due to out-dated equipment and poor management.

Infrastructure is a major impediment to economic growth. Water treatment and distribution, sewage disposal, and irrigation systems, as well as power transmission and distribution, require up-grading. Industry faces chronic shortages of electricity. Roads are poor and many are not passable during parts of the year. Telephone facilities are lacking, but a telecommunications modernization program begun in the 1990s included the installation of a cellular telephone system in Yangon; as of yearend 2005, Myanmar had more than 135,000 mobile phones in use. The financial sector suffers from excessive bureaucratic red tape and foot-dragging by state economic enterprises fearing competition. The government drafted new laws on a central banking and financial institutions as steps toward improvement in the financial sector.

The government reported that the economy grew by 6% in 1995 and 6.8% in 1996. Growth was estimated by the US State Department at 1.1% for 1998. In 1999 strong growth of 10.9% was reported, propelled by a 13.8% growth in industry and 11.5% growth in agriculture. The government reported growth in 2000 at 13.6% overall but according to the Asian Development Bank (ADB), independent estimates suggested more modest progress of around 6%. Inflation had averaged about 25% for more than a decade, but a drop in food prices due to a bumper rice crop (and the heavy weight given rice in Myanmar's consumer price index) brought a sharp drop in inflation, to a negative 0.1% according to government statistics. In 2001 a slower annual growth of 5% was reported with a 9.6% resurgence of inflation.

The US Central Intelligence Agency (CIA) estimated that in 2005, the GDP growth rate stood at 1.5%. Official government statistics put the growth rate in 2004 at 13.8%. The CIA estimated the inflation rate to be 18% in 2005.

It should be noted that it is difficult to assess the true economic situation in Myanmar due to the existence of an enormous and all-pervasive informal market. Much of Myanmar's economic activity is illicit, notably the smuggling of drugs. Myanmar, which

forms part of the "Golden Triangle" (along with Laos and Thailand), is the world's second-largest producer of illegal opiates. The government's efforts to control poppy production and drug traffic to China and Hong Kong are ineffective. Myanmar is also the primary source of amphetamine-type in Asia, producing hundreds of millions of tablets per year. Since 1989, the only kind of US aid for which Myanmar has been eligible, besides humanitarian aid, is counter-narcotic and crop substitution assistance, because of the human rights issues involved with the imposition of military rule in 1988. Large quantities of smuggled consumer goods are sold in Myanmar's cities, where the black market thrives.

The military regime, SLORC, which took over Myanmar in 1988, proclaimed a market oriented economic policy and invited foreign investment. A 1992 United Nations Development Programme report noted that Myanmar after a few years of recovery from the economic and political upheaval of 1988 was again slipping into recession and hyperinflation. Myanmar's main donors suspended aid. The country has not fully serviced its foreign debt since 1988. Two trends have been apparent in the government's economic policies: the capture of revenues from short term, quick turnover sources such as hardwoods, prospecting rights, and taxes on profits from illegal sources; and spending patterns that emphasize defense spending and acquisition of armaments. An estimated 87% of tax revenues are spent on the military whereas expenditures on health and on education both amount to less than 0.5% of GDP. Myanmar receives no aid from US or EU programs and aid from Japan is run at a maintenance level. The International Monetary Fund (IMF), the World Bank, and the Asian Development Bank (ADB) extend no credit to Myanmar. The economy has been hurt by economic sanctions imposed by the United States: the United States imports no goods from Myanmar and bans the export of financial services from the United States to Myanmar. A number of other countries, including member states of the EU, Canada, Australia, Japan, and South Korea, have joined the United States in applying some form of sanctions against the regime.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Myanmar's gross domestic product (GDP) was estimated at \$76.2 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,800. The annual growth rate of GDP was estimated at 1.5%. The average inflation rate in 2005 was 18%. It was estimated that agriculture accounted for 54.6% of GDP, industry 45%, and services 50%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$78 million.

It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.9%. It was estimated that in 2000 about 25% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, Myanmar's civilian labor force was estimated at 27.75 million. As of 2001 (the latest year for which data was available), an estimated 70% were engaged in agriculture, primarily rice cul-

tivation, while industry accounted for 7% and services 23%. The unemployment rate was estimated at 5% in 2005.

No trade union or independent labor movement activity has occurred since 1988, when the government banned the workers' and peasants' organizations of the previous government, thereby eliminating any right to bargain collectively. Forced labor is frequently used by the military for building projects. Prison labor is also extensively used, especially in stone quarrying projects. Wage levels continue to be low and have been eroded by inflation.

While the official minimum working age is 13, the presence of child labor is conspicuous in both rural and urban areas. In the latter areas, most children work in small or family-owned businesses, while in rural areas children are employed in agricultural activities. Official data for 2002, shows that 6% of children in urban areas worked, but of that total, only 4% received wages.

Only government workers and employees of a few traditional industries are covered by a minimum wage. As of 2005, salaried public employees had a minimum wage of \$0.13 per day for an eight hour workday, an amount that was grossly inadequate to support a worker and a family with a decent living standard. Inadequate wages, even among senior officials, has led to absenteeism and widespread corruption. In the private sector, laborers in urban areas earned about \$0.50 to \$1.00 per day, while workers in agricultural areas earned about half that amount. A skilled factory worker can earn around \$3.00 a day. Health and safety risks in the workplace are prevalent.

## 2<sup>2</sup> AGRICULTURE

Myanmar's exports of food accounted for 15% of its foreign exchange earnings in 2004. About 17% of the land is under cultivation. Agriculture generates roughly 70% of employment and 40% of the recorded GDP.

Rice, by far the most important agricultural product, in 2004 covered about 6 million hectares (14.8 million acres) of land in the fertile Irrawaddy delta region, the lower valleys of the Sittang and Salween rivers, and along the Arakan and Tenasserim coasts. Prior to World War II (1939–45), Myanmar was the world's leading exporter of rice; annual production ranged between 13 million and 14 million tons, of which about three million tons were exported. However, the war caused extensive damage to the economy, and Myanmar did not achieve prewar levels of rice acreage and output until 1964. Rice production totaled 9.57 million tons in 2004/05. Farmers have been instructed by the government to double-crop wet season paddy and triple-crop in areas with year-round access to water. In some areas near the sea, multiple cropping brings saltwater intrusion, high flood risks, and seasonal pest problems. New high-yield varieties of rice have contributed to the increases in recent years, along with the completion of new irrigation systems and flood-control dams in the Irrawaddy delta during the early 1980s.

Other crops in 2004, grown mainly in central Myanmar and the state of Shan, included 6,368,000 tons of sugarcane, 715,000 tons of groundnuts, 600,000 tons of corn, and 550,000 tons of sesame. The use of high-yield varieties of seeds helped to more than triple the output of wheat, corn, and sunflower seeds and to double cotton production during 1976–86. Tobacco and jute are also produced, and rubber is grown on small plantations in the Tenasserim and Irrawaddy delta regions. During the mid-1990s, Myanmar

was the world's largest producer of opium and heroin, with opium production estimated at 2,560 tons in 1996. In 2003, opium poppy production was estimated at only 484 tons.

The total amount of land under cultivation declined in the 1970s, but the amount of paddy land increased. The Mu Valley irrigation project, implemented in north-central Myanmar with UNDP aid in the 1970s, irrigated 1.7 million hectares (4.2 million acres) of farmland. With the completion of the Nawin Dam in 1982, about 40,000 hectares (99,000 acres) of new irrigated land in the Prome region, north of Yangon (Rangoon), were added to the cultivated area. With IBRD and Asian Development Bank aid, new rice storage facilities, a system of drainage canals in the heavy-rainfall paddy land of lower Myanmar, and gravity irrigation systems in dry zones were constructed.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Despite Buddhist prohibitions against any kind of animal slaughter, the Myanmar eat beef and other meats. Zebu cattle and water buffalo are mainly raised as draft animals; the output of such hides was 24,000 tons in 2005. Dairy farming is confined to the Shan and Kachin states; hogs and poultry are found in virtually every village.

In 2005, Myanmar had an estimated 12,000,000 head of cattle, 5,220,000 hogs, 2,700,000 water buffalo, 1,800,000 goats, 492,000 sheep, and 88,000,000 chickens, and 8,000,000 ducks. Meat production was 632,000 tons; milk from cattle, 677,000 tons (80% cow, 20% buffalo); eggs, 1,452,000 tons.

## 2<sup>4</sup> FISHING

Fishing is the most significant nonagricultural pursuit in Myanmar. Fish, which supply the main protein element in the Myanmar diet, generally are dried and salted before marketing or consumed fresh or as fish paste. Roho labeo and various carp are the main species caught. Traditionally, the Myanmar preferred fish from fresh or brackish water; but saltwater fishing in the shallow waters of the Bay of Bengal, Andaman Sea, and Gulf of Martaban has increased in recent years. To encourage a larger saltwater catch, the government embarked on expanded deep-sea fishing operations and erected a cold storage plant, a fish cannery, and a fish oil and meal factory. The total fish catch in 2003 was 1,606,252 tons (67% saltwater, 23% freshwater), up from 686,515 tons in 1986. Aquaculture accounted for 16% of production in 2003. That year, exports of fish products were valued at \$142.6 million.

## 2<sup>5</sup> FORESTRY

Forests and woodland cover nearly half the country, even though the annual deforestation rate was 0.68% during 1975–89. Some 38% of the forest was Reserved Forest Area in 2001. Myanmar has a major share of the world's teak reserves, which constitute about one-third of the forested area. As the world's leading exporter of teak, Myanmar supplies about 75% of the world market. The lumbering of teak, a 10-year process from the first girdling of the tree to its arrival at the sawmill, was disrupted by World War II (1939–45); production rebounded to about 136,000 tons in 1986. Increased output of teak in the 1980s was attributable to completion of four modern timber-extraction projects. Teak log production totaled 2.21 million cu m (78.1 million cu ft) in 2004. A special teak plantation program begun in 1998 will provide a

sustainable production of 1.8 million cu m (63.5 million cu ft) per year. Roundwood production in 2004 totaled 39.8 million cu m (1.4 billion cu ft). Other forest products include lac, catechu resin, and bamboo.

All foreign timber concessions have been nationalized, and all forests are government-owned; the State Timber Board (STB) lumbers, mills, and markets forest products. The export of forest products rose in value from \$294.1 million in 1993 to \$401.1 million in 2004.

## 26 MINING

With the exception of precious gemstones, of which Myanmar had large resources, mineral production was small, and mostly for domestic consumption. The mining sector, including oil and gas, contributed 2% of GDP in 2001. Copper, tin, tungsten, iron, construction materials, and fertilizer were among the country's leading industries in 2002; precious stones ranked fourth among export commodities, supplying 2% of export earnings.

Estimated outputs for 2003 were: copper (metal content), 27,900 metric tons, up from 27,500 metric tons in 2002; tin (metal content, from tin and tin-tungsten concentrate), 210 metric tons, unchanged from 2002; tungsten (metal content, from tin and tin-tungsten concentrate), 30 metric tons, unchanged from 2002; jade, 11 million kg, up from 10,800,000 kg in 2002; and spinel rubies and sapphires, 4.7 million carats, down from 4,769,511 carats in 2002. Metallic ores of chromite, gold, lead, manganese, nickel, silver, and zinc were mined in small amounts. Industrial mineral production included construction aggregates, barite, hydraulic cement, fire clay, feldspar, gypsum, limestone, salt (including brine salt), sand and gravel, and silica sand. Lead, zinc, silver, copper, nickel, and cobalt were produced at the Bawdwin mine, in Namtu. No carbonate rocks, or cobalt was produced in 2003. Deposits of iron ore and antimony have been found.

The government controlled all mineral exploration, extraction, regulation, and planning through the two departments and six enterprises of the Ministry of Mines. In 2001, state-owned enterprises—whose share of output was 5.5% (11.6% in 1998)—operated one gold mine (the Kyaukpahtoe), three nonferrous metals mines (the Bawdwin, Bawsaing, and the Yadanatheingi), and two coal mines. Of the four foreign exploration companies active in 2000, two were active in 2001—mining gypsum, zinc, and gold. The Myalate Taung limestone resources, in Kyaukse Township, Mandalay Division, had 291 million tons.

## 27 ENERGY AND POWER

Myanmar's production of crude oil in 2002 averaged 15,000 barrels per day, with imports of crude averaging 8,120 barrels per day. Refined petroleum product output that year averaged 21,500 barrels per day, with demand for refined oil products at 34,500 barrels per day.

Gross natural gas output in 2002 came to 310.77 billion cu ft, with 3.53 billion cu ft vented or flared. Marketed output came to 307.24 billion cu ft of which dry production and consumption came to 296.65 billion cu ft and 77.69 billion cu ft, respectively.

Coal production in 2002 totaled 130,000 short tons, of which bituminous and brown coal (lignite) came to 63,000 short tons and 67,000 short tons, respectively.

Production of electricity in 2002 totaled 6.329 billion kWh, of which thermal plants provided about 65% and hydroelectric power about 35%. Electric power capacity came to 1.573 million kW in 2002, with conventional thermal supplying 75% of capacity. Electric power consumption in 2002 came to 5.886 billion kWh.

## 28 INDUSTRY

Industry is geared largely to the processing of agricultural, mineral, and forest products. More than half of Myanmar industrial production is accounted for by the public sector. Principal industrial products are cement, steel, bricks and tiles, fertilizers, and processed foods. Consumer goods that were imported before 1962 and are now manufactured domestically include blankets, paper, glass products, bicycles, and water pumps. Other major consumer manufactures are aluminum ware, jute and cotton cloth, pharmaceuticals, beverages, matches, and cigarettes. There is also a growing segment engaged in the assembly of television sets and motor vehicles. The main industrial area is Bago (formerly Pegu). Some manufacturing industries are privately owned and operated under government supervision.

Industrial production grew by 9.2% in fiscal year 1995–96, and represented about 11% of the gross domestic product in 1997. In 1998, despite the effects of the Asian financial crisis, industrial production grew 6.1%. Growth increased to 13.8% in 1999, when an estimated 10% of the labor force was employed in the industrial sector. In 2000, it was estimated that industry constituted 17% of GDP. In 2005, industry accounted for 13% of GDP. As of 2001, approximately 7% of the labor force was engaged in industrial production. The petroleum and petrochemical sector in Myanmar is entirely state-owned (excluding indigenous fuels such as charcoal). In 2006, Myanmar had three state-owned oil refineries. The \$1.2 billion natural gas pipeline connecting to Thailand began operations in 1999, and plans for a \$1 billion Myanmar-Bangladesh-India gas pipeline were underway in 2006.

## 29 SCIENCE AND TECHNOLOGY

Scientific research is conducted by the private Burma Research Society, founded in 1910, and by the government's Central Research Organization, consisting of various departments of the state ministries. Four institutes conduct research in applied sciences, medicine, and atomic energy. In addition, the Department of Land Management Studies Research of the Institute of Economics investigates problems posed by modernization techniques and industrial development. The Universities of Mandalay, Mawlamyine, and Yangon offer degrees in basic sciences. In 1987–97, science and engineering students accounted for 56% of college and university enrollments.

## 30 DOMESTIC TRADE

In 1964, the Ne Win government nationalized all wholesale businesses and the large private and cooperative shops; small retail shops, hotels, restaurants, and village cooperatives were exempted. The People's Stores Corp., established in 1964, was initially responsible for the importation and distribution of essential foreign goods, the distribution of consumer goods produced in Myanmar, and the sale of domestic products in foreign markets. The corporation was administered by a council headed by the Ministry of Supplies and Cooperatives. In 1970, the "people's stores," most of

which had been unsuccessful, were replaced by consumer cooperatives. Beginning in 1966, the government set all commodity prices and controlled distribution systems; in September 1987, the Burmese people were told that they could buy, sell, and store rice and other grains free of government restrictions. These liberalization measures have been most effective in the agricultural sector, although overall, the military still controls the lion's share of the economy. As of 2001, about 70% of the work force was employed in agriculture.

Although significant marketing is done at Bago (Pegu), Mandalay, Mawlamyine (Moulmein), Patheingyi (Bassein), Henzada, Akyab (Sittwe), and Dawei (Tavoy), Yangon (Rangoon) is Myanmar's most important business center. Myanmar's domestic economy is paralleled by a huge black market economy that co-exists with the official one; the underground economy may be twice as large as the legal economy. A factor in the decline of Myanmar's domestic production is dependence on border trade, which undermines Myanmar's manufacturing sector with cheap foreign consumer goods. Credit cards are not widely accepted.

Normal business hours are 9:30 AM to 4:30 PM, Monday through Friday; small private shops keep longer hours than government offices and enterprises. Banks are usually open 10 AM to 2 PM, Monday through Friday.

### 3<sup>1</sup> FOREIGN TRADE

It is estimated that from 1992 to 1995 the legal merchandise trade deficit (excluding military imports) grew from \$412 million to \$737 million. All financial estimates are suspect because of the exclusion of a large extralegal sector and substantial military imports, neither of which are included in official figures. The value of opiate exports alone may now be roughly comparable to all legal merchandise and service exports receipts. Border areas not under the control of the government also engage in unreported exports of timber, rice, jade, gems, minerals, and rare animals. Consumer goods, diesel fuel, and other products are smuggled in from Thailand, China, Malaysia, and India.

In 2004, Myanmar's primary export partners were: Thailand (38.9%), India (11.5%), China (5.9%), and Japan (5.2%). That year, the primary import partners were: China (29.8%), Singapore (20.8%), Thailand (19.3%), South Korea (5.2%), and Malaysia (4.8%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

In 2005, the government estimated the value of exports to be \$2.514 billion, and that of imports to be \$2.183 billion. However, the official figures are grossly underestimated due to the value of products smuggled in and out of neighboring countries. In 2005, the current-account balance was estimated at -\$215 million. That year, total external debt was estimated at \$6.967 billion.

### 3<sup>3</sup> BANKING AND SECURITIES

Effective 23 February 1963, all 24 commercial banks in Myanmar—10 foreign and 14 indigenously owned—were nationalized and amalgamated into 4 state banks. In addition to the Central Bank of Myanmar, Union of Burma Bank, which serves as a central bank, the other state banks were the State Agricultural Bank, the State Commercial Bank, and the Industrial Bank. After subsequent reorganizations of the banking system, these became the

Myanmar Investment and Commercial Bank, Myanmar Economic Bank, and the Myanmar Foreign Trade Bank. Agricultural credit is provided by a separate Myanmar Agricultural and Rural Development Bank. Public savings increased sharply in 1977 after the banks raised interest rates. Efforts to attract the considerable liquidity in the hands of the public into the banking sector, and thence into investment, have not had much success.

By the end of 1994, licenses to open representative offices had been issued to 19 banks from overseas—six from Thailand, five from Singapore, three from Malaysia, and one each from France, Indonesia, Cambodia, Hong Kong, and Bangladesh. Eventually, 54 foreign banks had offices in Myanmar, but 2000–02, 21 of them left the country, and nine more downgraded their operations there. As of the end of 2002, 27 foreign banks have representative offices in Burma, but none from the United States. Since

#### Principal Trading Partners – Myanmar (1999)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1,129.7	2,587.4	-1,457.7
India	214.1	72.4	141.7
China	134.7	249.5	-114.8
Singapore	129.3	725.2	-595.9
United States	89.5	91.7	-2.2
Thailand	87.9	344.1	-256.2
China, Hong Kong SAR	68.0	89.3	-21.3
Areas nes	63.8	1.1	62.7
Japan	57.6	287.6	-230.0
Malaysia	53.3	192.7	-139.4
Bangladesh	38.6	1.2	37.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Myanmar (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>49.6</b>
Balance on goods	577.7	
Imports	-1,932.4	
Exports	2,510.1	
Balance on services	-55.0	
Balance on income	-601.8	
Current transfers	128.8	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>28.8</b>
Direct investment abroad	...	
Direct investment in Myanmar	133.5	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	...	
Other investment liabilities	-104.7	
<b>Net Errors and Omissions</b>		<b>-39.5</b>
<b>Reserves and Related Items</b>		<b>-39.9</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

1994 four private domestic banks have been permitted to conduct foreign exchange transactions for the first time. Various types of foreign exchange licenses have been issued to the private sector by the Central Bank. It issued seven authorized dealer licenses, three money changer licenses, 396 acceptor and holder licenses, and 66 FEC changer licenses in August 1994. Despite the liberalization of its economy, the country still lacks a capital market. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$103.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$170.7 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

### 34 INSURANCE

All 78 foreign insurance companies registered in Myanmar were nationalized on 1 March 1963. All forms of insurance, including life, fire, marine, automobile, workers' compensation, personal accident, and burglary, are handled by the Myanma Insurance Corp. Life insurance coverage is compulsory for government employees.

### 35 PUBLIC FINANCE

The government presents its budget in March for the 1 April–31 March fiscal year. The public sector budget typically shows an overall deficit because of economic mismanagement.

The US Central Intelligence Agency (CIA) estimated that in 2005 Myanmar's central government took in revenues of approximately \$523.5 million and had expenditures of \$769.3 million. Revenues minus expenditures totaled approximately -\$245.8 million. Total external debt was \$6.967 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government revenues were K279,377 million and expenditures were K353,389

million. The value of revenues was us\$42,501 million and expenditures us\$53,760 million, based on a official exchange rate for 2002 of us\$1 = K6.5734 as reported by the IMF. Government outlays by function were as follows: general public services, 23.4%; defense, 21.5%; economic affairs, 31.4%; housing and community amenities, 1.0%; health, 5.3%; recreation, culture, and religion, 0.7%; education, 14.6%; and social protection, 2.0%.

### 36 TAXATION

Residents pay a progressive individual income tax with a top rate of 30%. The corporate tax rate is 30% with a 10% capital gains tax (40% for nonresident companies). Indirect taxes include a commercial tax on prescribed services, ranging from 5–30%, and on goods, ranging from 5–200%. There are also social security taxes, customs duties, royalties on natural resources, stamp tax, and property tax. The ratio of tax revenues to GDP is very low, estimated at between 2.3–3.6%, of which it is also estimated that 87% goes to the military.

### 37 CUSTOMS AND DUTIES

Duties are primarily intended to raise revenue, although their financial importance is limited by the fact that the government itself—through its Myanmar Export-Import Corp.—is by far the country's predominant importer. Import licenses are required for shipment of almost anything into the country. The official exchange rate overvalues the domestic currency by 100 times. Until Myanmar joined ASEAN in July 1997, customs tariffs ranged from zero to 500%. In 1997, a new tariff schedule went into effect ranging from zero to 15% for most industrial inputs to a maximum of 40% for cars and luxury items. In spring 1998 a 10% service fee (reduced to 8% by September) was enacted on all border-trade exports.

### 38 FOREIGN INVESTMENT

Foreign investment in Myanmar was heavy before World War II, but in the postwar period, and particularly after independence, a government policy of economic nationalism (and later socialism) strongly discouraged private foreign investment. After the nationalization of industry in 1963–64, private foreign investment in Myanmar was eliminated entirely. In 1976, the government indicated a willingness to establish "mutually beneficial economic cooperation" with foreign enterprises having the technology that Myanmar needed. The scope of state capitalism was expanded when the Saw Maung regime legalized internal and external trade without giving up control of major industries.

Foreign investment in Myanmar has been permitted only since 1988 under the Union of Myanmar Foreign Investment Law, and the level and variety of investment is limited. Sectors eligible for foreign investment include manufacturing, oil and gas exploration and development, mining (except gold and precious stones), jewelry production, and agriculture. The Foreign Investment Commission (FIC) screens foreign investment proposals for export generation potential, technology transfer, and the size of the investment. Various investment incentives are provided, such as exemption from income tax, and relief or exemption from customs duties. Bureaucratic procedures and a antiquated and inadequate infrastructure hamper foreign and local investments alike. Foreign entities cannot own land in Myanmar. Foreign investors

#### Public Finance – Myanmar (2002)

(In millions of kyats, central government figures)

<b>Revenue and Grants</b>	<b>279,377</b>	<b>100.0%</b>
Tax revenue	112,564	40.3%
Social contributions	...	...
Grants	358	0.1%
Other revenue	166,455	59.6%
<b>Expenditures</b>	<b>353,389</b>	<b>100.0%</b>
General public services	82,572	23.4%
Defense	76,082	21.5%
Public order and safety	...	...
Economic affairs	111,058	31.4%
Environmental protection	...	...
Housing and community amenities	3,543	1.0%
Health	18,852	5.3%
Recreational, culture, and religion	2,382	0.7%
Education	51,711	14.6%
Social protection	7,189	2.0%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

must also fear being criticized in the West for investing in a country with a long record of human rights violations. In 1996 a lawsuit was brought against Unocal for its predication in the joint venture building the natural gas pipeline with Thailand, and the forced labor and other human rights abuses connected with the construction. The Clinton administration pressured Unocal to sell its shares in the Myanmar Oil and Gas Company (MOGC). The French company Total had earlier been pressed to sell its share in MOGC to Unocal.

In 1997, Myanmar was admitted to the Association of South-east Asian Nations (ASEAN), a step that might have relieved some of the international pressure against doing business in the country; however, in May of that year, the US government enacted restriction against new investment in Myanmar by US companies or citizens.

As of 2001, foreign investment under the liberalized regime of 1988 totaled about \$7.4 billion. Of that amount, investment from the United States totaled only \$582 million, with the majority, 51.35%, coming from ASEAN countries, including \$1.5 billion from Singapore, \$1.2 billion from Thailand, \$597 million from Malaysia, \$240 million from Indonesia, and \$147 million from the Philippines. The United Kingdom, however, was the second-largest source of approved investments, at \$1.4 billion. Investments from France and Japan totaled \$470 million and \$233 million, respectively.

After the Asian financial crisis, however, foreign investment dropped off considerably. Of the total, only \$1.17 billion (16.8%) represents approved investment value after 1996, \$673.6 million or 57.59% from ASEAN countries. In 1996/97, annual foreign investment peaked at \$2.6 billion and then fell to \$29.5 million in 1997/98. The continuance of the declining trend was made starkly apparent in the first six months of 2002 when investment from ASEAN members fell to zero, compared to an already-low \$32.28 million from these countries in the first six months of 2001. In 2003 the government introduced a measure that stopped the issue of import and export permits to Myanmar-based foreign companies, making the regime less attractive to foreign investors. Also in 2003, the US government banned the importation of goods from Myanmar to the United States, and banned the export from the United States to Myanmar of financial services. The US also seized the assets of some Burmese entities.

According to government figures, at the end of March 2004, the total stock of inward FDI in Myanmar amounted to \$7.59 billion. However, this figure does not factor in subsequent disinvestment, or investment that was approved but didn't actually enter the country. In 2003–04, there was an estimated 4.6% year-on-year increase in the value of new FDI approvals (\$91.17 million) over 2002–03, in five sectors. The new investments came from Canada, China, Hong Kong, South Korea, Thailand, and the United Kingdom. As of March 2004, the countries with the largest share of FDI stock in Myanmar were: Singapore, the United Kingdom, Thailand, Malaysia, the United States, France, Indonesia, the Netherlands, Japan, and South Korea (in that order).

### **39 ECONOMIC DEVELOPMENT**

The major aim of Myanmar's government has been to rehabilitate, modernize, and diversify an economy that was extensively disrupted by World War II and that failed to develop from the

1940s through the 1960s. To this end, all foreign companies, all banks, the entire transport system, all foreign and much domestic trade, and all the main branches of industry were nationalized. Some nationalized industries initially showed declines in output, while others were hard pressed to hold their own. By 1974, the government had no choice but to modify some of its more rigidly Socialist economic policies. Economic development proceeded slowly under the four-year plan for 1974–78 and the 1978–82 development program, which was allocated 60% more funding than its predecessor and which achieved an annual growth rate exceeding 6%. The four-year plan for 1982–86, costing an estimated \$5 billion, set an average annual growth target of 6.2%. The plan stressed infrastructural development, with particular emphasis on agriculture, construction, and energy production. The four-year plan for 1986–90 encouraged foreign investment. Since 1990, private investment has been encouraged as the government attempts to revitalize the economy.

In 2001, the government introduced its third five year short-term plan, with a targeted average growth rate of 6%. However, both continued reform and substantial foreign investment would be necessary to meet the goals of the plan. Such needed reforms include dismantling unproductive state-owned enterprises, establishing an independent state bank, making available private sector credit, controlling government spending, and adjusting the official exchange rate.

In February 2003, a major banking crisis affected the country's 20 private banks, closing them and disrupting the economy. As of yearend 2005, the largest private banks remained moribund, leaving the private sector with little formal access to credit. Burma's trade with China, Thailand, and India is increasing. Although Myanmar has relatively amicable relations with its neighbors, a better political situation and improved investment climate are needed to promote foreign investments, exports, and tourism.

### **40 SOCIAL DEVELOPMENT**

Although considerable advances have been made in health services, Myanmar's goal of establishing a welfare state has been limited by lack of public funds. In 1956, the government inaugurated a social security program that compensates workers for wage losses arising from sickness, injury, and maternity leave, provides free medical care, and establishes survivors' benefits. The program is funded by contributions from employers, employees, and the government. As yet, Myanmar does not have unemployment insurance, but public employees are entitled to old age pensions.

Women have a high status in Myanmar's society and economic life. They may retain their maiden name after marriage, may obtain divorces without undue difficulty, and enjoy equal property and inheritance rights with men. Traditional views of women often prevent them from entering male dominated occupations, and they do not always receive equal pay for equal work. Domestic abuse is a problem, but there are no statistics to estimate how prevalent it is. Married women tend to live with extended families, which provides some protection from abuse.

Myanmar's military regime continues to systematically engage in human rights abuses. Prison conditions are poor and mistreatment of prisoners is widespread. Arrests are often made arbitrarily and many detainees are held incommunicado. Ethnic minorities face discrimination. Those of Muslim, Indian and Chinese

descent, for example, are not free to travel domestically and are barred from certain university programs.

#### **41 HEALTH**

Until the 1980s and 1990s, few people in rural areas had the benefit of modern medicine. To correct this deficiency, the country's health services were reorganized by sending more doctors to rural areas and increasing the number of rural health centers. Doctors in private practice were inducted for two years of national service. The progress of the health services in the 1980s is reflected in the reduction of the physician/population ratio from 1 per 15,560 in 1960 to 1 per 3,578 by 1986. To staff the new hospitals and dispensaries, medical schools have been expanded, nurse and midwife training courses increased, an institute of paramedical science was established, and a new college of dentistry opened. As of 2004, there were an estimated 30 physicians, 27 nurses, 2 dentists, and 22 midwives per 100,000 people.

A team of nutritionists conducts research on the nation's diet and disseminates its findings and recommendations through the press, radio, and demonstrations in offices and factories. One result of these efforts has been that the average height and weight of Myanmar's populace have increased.

Smallpox and plague have been virtually eliminated as health hazards and programs are under way to eradicate malaria and tuberculosis. However, gastrointestinal diseases such as typhoid, dysentery, and cholera remain prevalent. One of the problems yet to be overcome is the lack of potable water for residents; in 2000, 68% of the population had access to safe drinking water and 46% had adequate sanitation. Another serious health problem is drug addiction, exacerbated by the easy availability and low cost of opium. Under a drug abuse control program financed by the United States and the UN, a new 300-bed hospital for addicts opened in 1982 at Thayetmyo, along the Irrawaddy in central Myanmar; smaller facilities have been established in about two dozen other towns.

The infant mortality rate dropped from 129.9 deaths per 1,000 live births in 1960 to about 63.56 in 2005, while average life expectancy rose to 60.70 years. It was estimated that 60% of the population had access to health services. Immunization was estimated to have saved 60,000 young children and averted 2.4 incidences of vaccine-preventable diseases. The immunization rates for children under one were as follows: tuberculosis, 83%; diphtheria, pertussis and tetanus, 77%; and polio, 77%. The level of measles immunization rose by more than 50% between 1988 and 1994. By 2000, 83% of children were immunized for DPT and 85% for measles.

The total fertility rate decreased from 5.1 in 1990 to 3 in 2000. The maternal mortality rate was 230 per 100,000 live births. It was estimated that 29% of children under the age of five were malnourished.

The HIV/AIDS prevalence was 1.20 per 100 adults in 2003. As of 2004, there were approximately 330,000 people living with HIV/AIDS in the country. There were an estimated 20,000 deaths from AIDS in 2003.

#### **42 HOUSING**

Prewar housing in Myanmar compared favorably with that in other Southeast Asian nations, but housing conditions have deteriorated. The housing requirement for Yangon has been estimated at

about 10,000 units needed per year, but as of 2003 average construction rates were expected to meet only about 20% of the need. In 2000, about 68% of the population had access to improved water sources and 46% of the population had access to improved sanitation. Urban dwellings are overcrowded and often unsafe. The last available statistics indicate that over 50% of all housing units were built of wood and bamboo. The government has been working on projects to alleviate homelessness and the prevalence of squatter communities in many areas by building apartment-style structures to replace hut dwellings.

#### **43 EDUCATION**

The system of education initiated by the Ne Win government in 1964 equates learning with livelihood. At that time, the government announced its intention of opening at least one agrarian high school and one technical high school in each district. By 1967 there were six agricultural high schools, seven industrial trade schools, and one technical high school in the country, and the government had taken over about 880 private schools.

Education is free, although informal fees were increasingly imposed in the late 1990s. Primary education is compulsory for primary school, which covers a five-year course of study. This is followed by four years of middle school and two years of high school or technical school. Generally, Burmese is the language of instruction, and English is taught in the secondary schools; as of 1982, however, English became the medium of instruction in the universities.

In 2001, less than 2% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 84% of age-eligible students. The same year, secondary school enrollment was about 35% of age-eligible students. It is estimated that about 73.2% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 33:1 in 2003; the ratio for secondary school was also about 33:1.

Postsecondary institutions include 18 teacher-training colleges, 6 agricultural institutes, 8 technical institutes, and 35 universities and colleges. All of them are state institutions. In 2001, about 12% of the tertiary age population were enrolled in some type of higher education program; 8% for men and 15% for women. The Mass Education Council has attempted to increase literacy through special programs. The adult literacy rate for 2004 was estimated at about 89.7%, with 93.7% for men and 86.2% for women. However, international observers question this figure, estimating that literacy rates are much lower since up to 40% of children in rural areas do not enroll in school and those who do drop out early.

As of 2003, public expenditure on education was estimated at 1.3% of GDP, or 18.1% of total government expenditures.

#### **44 LIBRARIES AND MUSEUMS**

The Myanmar National Library in Tamwe Township, founded in 1952, contains over 180,000 books. Other large libraries are the Arts and Science University Library in Mandalay, with 175,000 volumes, and the University of Yangon with 350,000 volumes. There are also several small college libraries, as well as state libraries and museums at Patheingyi (Bassein), Kyaukpadaung, Mandalay, and

Mawlamyine (Moulmein). The Myanmar Library Association was founded in 1990.

The National Museum of Art and Archaeology in Yangon was founded in 1952 and includes among its collection a replica of King Mindon's Mandalay Palace. The National Museum of Mandalay (1905) is housed in the Glass Palace and features historical relics of Burmese culture. Sometimes called the "land of golden pagodas," Myanmar also has thousands of Buddhist temples, many of which have been repaired and restored.

#### 45 MEDIA

The director-general of posts and telegraphs controls the telephone, telegraph, radio, and postal communications systems. A satellite communications station that began operating in 1979 links Myanmar with more than 100 countries. In 2003, there were an estimated seven mainline telephones for every 1,000 people; about 102,000 people were on a waiting list for telephone service installation. The same year, there was approximately one mobile phone in use for every 1,000 people.

The government provides the only radio and television transmissions through Voice of Myanmar and TV-Myanmar (which broadcasts in color). As of 2004, there were 2 television stations and 1 AM and 1 FM radio stations. In 2003, there were an estimated 66 radios and 7 television sets for every 1,000 people. The same year, there were 5.6 personal computers for every 1,000 people and one of every 1,000 people had access to the Internet. There were two secure Internet servers in the country in 2004.

Chinese- and Indian-language newspapers are not allowed by the government, but two daily papers are still published in English. Leading newspapers in 1999 included *Kyemon* (1999 circulation, 100,000), *Myanma Alin* (400,000), and *The New Light of Myanmar* (14,000). There are some privately published magazines, but none has a high circulation or major influence.

The government professes to uphold freedom of the press, but there are no privately owned newspapers and the print media are government-controlled. In 1963, the government established its own press agency, the News Agency of Burma, with a monopoly on internal news distribution. As of 2002, the six daily papers (with language of publication and estimated circulation figures) were: *Myanmar Alin* (Burmese, 400,000), *Loktha Pyithu Nayzin* (Burmese and English, 184,000), *Kyemon* (Burmese, 100,000), *Bo-tahtuang* (Burmese, 96,000), *The Hanthawaddy* (Burmese, 23,000), and *The New Light of Myanmar* (English, 14,000).

#### 46 ORGANIZATIONS

Although Myanmar has most common types of educational, religious, cultural, and social organizations, those associated with capitalist economic activity have all but disappeared. The Rotary Clubs were forced by the government to disband in late 1975, as were numerous other Western-style organizations before them. There are many cooperative and producers' societies, as well as substantial numbers of consumer cooperatives.

Myanmar Medical Association promotes research and education on health issues and works to establish common policies and standards in healthcare.

The Lanzin Youth Movement, founded in 1984, is a coordinating body for all of the national youth organizations. Youth branch-

es of the Union Solidarity and Development Association and the Myanmar Red Cross Society are extremely popular. The YMCA and YWCA are also major organizations. Several sports associations are active throughout the country. The Myanmar Maternal and Child Welfare Association, founded in 1991, is the major social welfare organization.

#### 47 TOURISM, TRAVEL, AND RECREATION

Principal attractions include the palaces, Buddhist temples, and shrines in the two largest cities and in the ancient city of Pagan. River cruises are also popular. A visitor to Myanmar must have a passport and visa. Travelers are also encouraged to carry cash as credit cards are not highly accepted.

With the inception of military rule in 1988, tourism declined sharply but has risen again since 1990. The country encourages tourism, although it still remains undeveloped due to political unrest. In 2003, about 206,000 foreign visitors traveled to Myanmar. There were 17,039 hotel rooms with 34,078 beds and a 20% occupancy rate. Visitors stayed an average of four nights.

The US Department of State estimated the daily cost of staying in Rangoon at \$155 in 2004.

#### 48 FAMOUS MYANMA

U Nu (Thakin Nu, 1907–95) was independent Myanmar's first premier (1948–62) and shares fame as founder of modern Myanmar with Aung San (1916–47), called the Father of the Burmese Revolution. Ne Win (Maung Shu Maung, 1911–2002) became premier in March 1962 and was president from 1974 to 1981. U Thant (1909–74) served as UN secretary-general from 1961 through 1971. Human rights activist Aung San Suu Kyi (b.1946) was awarded the 1990 Sakharov Prize for Freedom of Thought by the European Parliament, the 1990 Thorolf Rafto Human Rights Prize by Norway, and the 1991 Nobel Peace Prize.

Anawrahta, who founded the early Burmese kingdom of Pagan in 1044 and established Hinayana Buddhism as the official religion, is a great figure in Burmese history, as are the Toungoo warrior-king Bayinnaung (r.1551–81) and Alaungpaya (r.1752–60), who established the dynasty that ruled Myanmar until 1886. Great writers of the Burmese past include Bhikkhu Ratthasara, author of the poem *Hatthipala Pyo*, on the life of Gautama Buddha; Nawedegyi and Natshinnaung, poets of the Toungoo dynasties; and Binnyadala, who wrote of the long struggles of the Burmese king of Ava. In more recent times, U Ba Nyan and U Ba Zaw, well-known painters of the 1920s, introduced Western-style art into Myanmar; both died in the 1940s.

#### 49 DEPENDENCIES

Myanmar has no territories or colonies.

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# NAURU

Republic of Nauru

*Naoero*

**CAPITAL:** There is no formal capital. The seat of government is in the district of Yaren

**FLAG:** The flag has a blue background divided horizontally by a narrow gold band, symbolizing the equator. Below the band on the left side is a white 12-pointed star, representing the island's 12 traditional tribes.

**ANTHEM:** *Nauru Ubwema (Nauru, Our Homeland).*

**MONETARY UNIT:** The Australian dollar (A\$) of 100 cents is the legal currency. A\$1 = US\$0.76336 (or US\$1 = A\$1.31) as of 2005.

**WEIGHTS AND MEASURES:** Imperial weights and measures are used.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 31 January; Angam Day, 26 October (a celebration of the day on which the population of Nauru reached the pre-World War II level); Christmas Day, 25 December; and Boxing Day, 26 December.

**TIME:** 11:30 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Situated in the western Pacific, Nauru is one of the world's smallest independent nations, with an area of 21 sq km (8.1 sq mi), extending 5.6 km (3.5 mi) NNE–SSW and 4 km (2.5 mi) ESE–WNW. Comparatively, the area occupied by Nauru is about one-tenth the size of Washington, D.C. It lies between two island groups, the Solomons and the Gilberts, 53 km (33 mi) s of the equator and 3,930 km (2,442 mi) NNE of Sydney; its nearest neighbor is Banaba (formerly Ocean Island, now part of Kiribati), situated 305 km (190 mi) to the E. Nauru has a coastline of 30 km (18.6 mi). The Yaren district, which holds the seat of the government, is located on the southern coast of the Nauru.

## <sup>2</sup> TOPOGRAPHY

Nauru, one of the largest phosphate-rock islands in the Pacific, is oval-shaped and fringed by a wide coral reef. It has no natural harbor or anchorage. A relatively fertile belt varying in width from 150–300 m (490–980 ft) encircles the island. From this belt a coral cliff rises to a central plateau about 60 m (200 ft) above sea level. Buada Lagoon, a permanent, often brackish lake, covers some 300 acres (1.2 km/0.47 sq mi) in the southeastern end of the plateau. Apart from some brackish ponds and an underground lake, the nation's water supply is provided by rainfall.

## <sup>3</sup> CLIMATE

Nauru has a dry season, marked by easterly trade winds, and a wet season with westerly monsoons extending from November to February. The average annual rainfall is about 200 cm (79 in), but the amount varies greatly from year to year, and long droughts have been a recurrent problem. Temperatures remain steady, be-

tween 24–33°C (75–91°F) the year round, and relative humidity is also constant at about 80%.

## <sup>4</sup> FLORA AND FAUNA

The plateau area contains large phosphate deposits that almost completely inhibit any natural growth useful for subsistence or commerce. Large areas of scrub and creeper, with occasional coconut and tamanu trees, grow in this region. On the coastal belt, coconut palms and pandanus (a type of screw pine) thrive. Some hibiscus, frangipani, and other tropical flowers grow, but they do not abound here as on other Pacific islands. Bird life is not plentiful, although noddies, terns, and frigate birds frequent the island. There are no indigenous land animals; however, hogs and poultry were introduced many years ago. Fish life is abundant in the seas encircling Nauru and good catches of tuna and bonito are taken.

## <sup>5</sup> ENVIRONMENT

Nauru's phosphate mining industry has done significant damage to the land. In 1987, the Nauruan government began to investigate the nation's mining operations with the goal of developing a plan to regenerate the land and replace lost vegetation. Land in the coastal region, however, has not been affected by the development of the country's mining industry. Vegetation in the coastal areas, such as pandanus and coconut palms, is plentiful. Nauru has limited freshwater resources. Its residents collect rainwater in rooftop storage tanks. Periodic droughts pose an additional hazard to the environment. Nauru is also affected by the global warming trend which has caused sea levels to rise, placing low-lying areas at risk from tidal surges and flooding.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threat-

ened species included 19 animal species, most of which were fish and other marine animals such as albacore tuna, coconut crab, and the tiger shark. The bristle-thighed curlew and Finsch's reed warbler are vulnerable animal species.

## 6 POPULATION

The population of Nauru in 2005 was estimated by the United Nations (UN) at 13,000, which placed it at number 191 in population among the 193 nations of the world. In 2005, approximately 2% of the population was over 65 years of age, with another 41% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 17,887. The population density was 590 per sq km (1,529 per sq mi).

Most Nauruans live around the coastal fringes, in their traditional districts. About half the population consists of immigrant contract laborers, technicians, and teachers. Most Chinese, as well as immigrants from Kiribati and Tuvalu, are settled in communities near the phosphate works.

The UN reported that 100% of the population lived in urban areas in 2005. The seat of government is in the district of Yaren, which had a population of 13,000 in that year.

## 7 MIGRATION

Immigration to Nauru is strictly controlled by the government. Nauruans are free to travel abroad. In 2000 and 2005, the net migration rate was zero migrants per 1,000 population. In 2001 some 1,500 asylum seekers (most from Afghanistan) were processed by Nauru at the request of Australia, after that country had turned the asylum seekers away. After spending three years in Nauru, most were transferred to New Zealand, Australia, Sweden, and Norway by 2004. There are more than 50 asylum seekers in Nauru, among them Iraqis, Afghans, Bangladeshis, Iranians, and one Pakistani. The government views the migration levels as satisfactory. There were a total of 5,000 migrants living in Nauru in 2000, which accounted for more than 30% of the total population.

## 8 ETHNIC GROUPS

The Nauruan people are the only indigenous ethnic group on the island. They are of mixed Micronesian, Melanesian, and Polynesian origin and resemble the last strain most closely. Nauruans are traditionally divided into 12 clans or tribes in which descent is matrilineal, although kinship and inheritance rules have some patrilineal features. The 12 clans are Eamwit, Eamwidumwit, Deboe, Eoaru, Emea, Eano, Emangum, Ranibok, Eamwidara, Iruwa, Irutsi (extinct), and Iwi (extinct). Admixtures of Caucasian and Negroid lineage in the 19th century and frequent intermarriage with other Pacific islanders have changed the present-day features of Nauruans from those of their forebears.

The Caucasians on the island are almost all Australians and New Zealanders employed in administrative or teaching posts or in the phosphate industry. The Chinese and immigrants from Kiribati and Tuvalu originally came to the island as laborers in the phosphate industry, some being accompanied by their families. Filipino contract workers are also present but are not permitted to bring their families.

According to the latest estimates, about 58% of the population are Nauruan, 26% are other Pacific Islander, 8% Chinese, and 8% European.

## 9 LANGUAGES

Nauruan, which is distinct from all other Pacific tongues, is the official language. However, English is still commonly used in the schools, in government, and in business transactions. Most Nauruans are bilingual but use Nauruan in everyday life.

## 10 RELIGIONS

The Nauruans have accepted Christianity as a primary religion since the end of the 19th century. A 2004 report indicated that about two-thirds of the population were Protestant and one-third were Roman Catholic. Missionary groups include Anglicans, Methodists, Mormons, and Jehovah's Witnesses. Buddhism and Taoism are also represented, particularly among the Chinese community.

The constitution provides for religious freedom, but this right has been restricted by the government. Primarily, the government claims the right to restrict any organizations which it feels poses a threat to public safety, public order, or public morality. Under this assumption, the government has restricted Mormons and Jehovah's Witnesses from proselytizing of native-born citizens, claiming that such actions are likely to break up families. Several officials of the Nauru Protestant Church hold influential positions in the government.

## 11 TRANSPORTATION

Transport to and from Nauru has traditionally been by ships calling at the island to unload freight and pick up phosphates for delivery to Australia, New Zealand, and other countries. There is no merchant marine, but the public Nauru Pacific Line has a fleet of six ships. In 2004, there was one airport and it had a paved runway. The government-owned Air Nauru flies regular air services to the Pacific islands, Taiwan, the Philippines, Hong Kong, Japan, Australia, and New Zealand. In 1997 it carried 137,000 passengers on scheduled flights.

The road system extended for a total of 30 km (19 mi) in 2002, of which 24 km (15 mi) were paved. Apart from a 5 km (3.1 mi) railway (used to carry phosphates), a school bus service, and fewer than 2,000 registered motor vehicles, there is no local transport.

## 12 HISTORY

The original settlers are thought to have been castaways who drifted to Nauru from another Pacific island. The first recorded discovery of Nauru by a Westerner was made by Captain John Fearn of the whaling ship *Hunter* in November 1798. He named the island Pleasant Island. From the 1830s to the 1880s, the Nauruans had a succession of visitors—runaway convicts, deserters from whaling ships, and other men who can be classed as beachcombers. The beachcombers provided the Nauruans with their first real contact with Western civilization and introduced them to firearms and alcohol. They acted as a buffer between two cultures but were often a bad influence on the Nauruans. Several times beachcombers and Nauruans attempted to cut off and capture visiting ships, so that eventually Nauru came to be avoided as a watering place by ships whaling in the area. The advent of firearms also disturbed the bal-

ance of power between the tribes on the island; sporadic tribal warfare culminated in a 10-year civil war from 1878 to 1888 that reduced the native population to less than 1,000.

The British and German imperial governments agreed to the partition of the Western Pacific in 1886. Their purely arbitrary line of demarcation left Nauru in the German sphere of influence quite accidentally. It was not until 1888, on the petition of the beach-combers-turned-traders, that the German government annexed Nauru as a protectorate and disarmed the people. Christian missionaries arrived in 1899 and had a greater impact on the Nauruan culture than did the German administration.

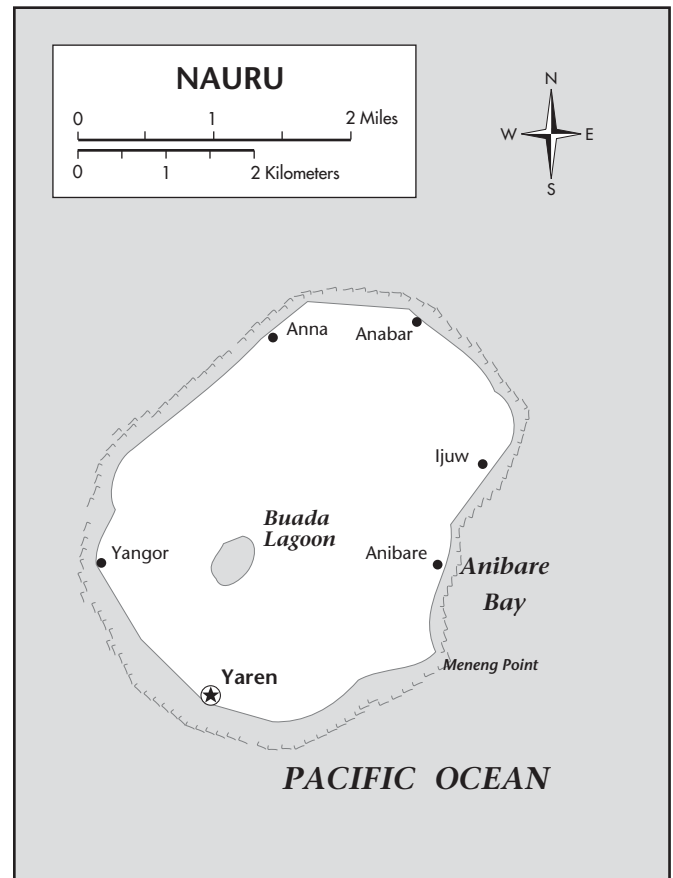
In 1901, Sir Albert Ellis, a New Zealand geologist, discovered that there were large deposits of phosphate on both Nauru and Banaba (then called Ocean Island). Phosphate mining on Nauru began in 1907, after the German government had granted a concession to the British-owned Pacific Phosphate Co. Laborers from the German Caroline Islands were hired because the Nauruans had no interest in working in the mines.

Nauru was occupied by the Australian Expeditionary Force in 1914, and phosphate continued to be shipped all through World War I. In 1919, Nauru was made a League of Nations mandate of the British Empire, and the governments of Australia, New Zealand, and the United Kingdom agreed to administer the island jointly through an administrator to be appointed by Australia. At the same time the three governments obtained the mandate, they jointly purchased the Pacific Phosphate Co.'s rights to Nauruan phosphate for UK£3.5 million and began to work the deposits through a three-man board called the British Phosphate Commissioners (BPC).

The phosphate industry expanded greatly in the years between the wars. Australian and New Zealand farmers enjoyed substantial savings, for Nauru phosphate was sold at a much lower price than phosphate from other countries. As for the Nauruans, with their small royalty of eightpence a ton in 1939, they opted out of the industry completely and turned to their own culture for sustenance.

War came to Nauru in December 1940, when the island was shelled by a roving German raider, and four phosphate ships were sunk. Nauru was flattened by Japanese bombings beginning in December 1941, and all its industrial plant and housing facilities were destroyed. The Japanese occupied the island from August 1942 until the end of the war three years later. They deported 1,200 Nauruans to build an airstrip on Truk, a small atoll about 1,600 km (1,000 mi) northwest of Nauru, and many died there. Australian forces reoccupied Nauru in September 1945, and the surviving Truk Nauruans, who had been reduced in number to only 737, were repatriated in January 1946. Nauru's population thus fell from 1,848 in 1940 to 1,369 in 1946.

The three mandatory governments placed the mandate of Nauru before the UN. On 1 November 1947, the UN approved an agreement by which the island became a trust territory administered jointly by Australia, New Zealand, and the United Kingdom, who were to share the task of developing self-government on the island. The Nauruans had a Council of Chiefs to represent them since 1927, but this body had advisory powers only. Dissatisfied Nauruans made a number of complaints to the administering authority and to the UN Trusteeship Council, with the result that a Nauruan local government council was established by the election



LOCATION: 0°32' S and 166°56' E. TERRITORIAL SEA LIMIT: 12 miles.

of nine council members in December 1951. Since control of the council was exercised by the administrator, however, the Nauruans continued to press for further political power. They asked for positions of importance in the administration and an increase in royalty payments, and expressed concern about the future of the island because the increased rate of phosphate exportation would, it was feared, exhaust the deposits by the end of the century. By constant negotiations, the Nauruans forced the BPC to pay royalties on a rights rather than needs basis, and with the establishment of a world price in 1964, phosphate royalties were raised. The Nauruans achieved control of the industry in 1967 by purchasing the plant and machinery owned by the BPC, and in 1970 they took over the industry completely.

Meanwhile, in 1964, Australia had attempted to resettle the Nauruans on Curtis Island, off the coast of Queensland. The Nauruans, although in principle not averse to resettlement, refused it because of political considerations. They wanted to own their island and to maintain their identity by political independence. Australia would not agree to this, and the plan collapsed. This failure reinforced the Nauruans' desire for political independence. With the support of the Trusteeship Council, they established an elected Legislative Council in 1966. Although Australia wished to maintain control of defense and external affairs, the Nauruans insisted on complete self-determination. Thus, on 31 January 1968, the 22nd anniversary of the return of the Nauruan survivors from Truk, Nauru became the smallest independent republic in the world. Since that time, Nauru has pursued a policy of isolation and nonalignment,

although it does have a role in Commonwealth affairs. In October 1982, Queen Elizabeth II visited the island, the first British monarch to do so. Nauru established diplomatic ties with the former Soviet Union in 1988. Nauru filed a claim in 1989 for compensation from Australia at the International Court of Justice for the loss of nearly all its topsoil from phosphate mining during the League of Nations mandate and the UN trusteeship. Australia agreed to pay A\$2.5 million for 20 years, and New Zealand and the United Kingdom additionally agreed to pay a settlement of \$12 million each in August 1993 to settle the loss of topsoil case. Nauru's government announced plans to rehabilitate the island at the 1994 Small Island States Conference on Sustainable Development. In July 1992 Nauru hosted the 24th South Pacific Forum heads of government meeting, which focused on environmental issues, including opposition to nuclear testing in the area.

Since winning its independence in 1968, Nauru experienced many changes in leadership. Hammer DeRoburt became Nauru's first president and was reelected in 1971 and 1973. He was defeated for reelection after the legislative voting in 1976, at which time Bernard Dowiyogo was chosen to succeed him as president. DeRoburt's supporters forced Dowiyogo's resignation in 1978, and DeRoburt again became president. He was reelected in 1980 and in 1983. In 1986, DeRoburt resigned in protest over opposition to his budget and was replaced by Kennan Adeang; however, DeRoburt's supporters quickly forced Adeang to resign, and DeRoburt was elected again. Because he did not have a clear majority, he called for a new election in 1987 and was reelected decisively.

A vote of no-confidence forced DeRoburt to resign in August 1989. He was replaced by Kenas Aroi, who then resigned in December 1989 for reasons of ill-health. The December 1989 general election resulted in Bernard Dowiyogo's election to the Presidency. He was reelected President for a second three-year term in November 1992, but lost his 1995 bid for reelection to Lagumot Harris. A series of no-confidence votes over the succeeding years brought several changes in what has come to be called a "revolving door" presidency. Dowiyogo was returned to office for the fifth time, following an election in April 2000. On 29 March 2001, he was forced from office in a political crisis over the alleged involvement of a Russian organized crime syndicate in Nauru's financial activities, and replaced by Rene Harris in March 2001.

Rene Harris held the presidency until 8 January 2003, when a no-confidence motion was passed against him. His ouster from office was linked to his support for Australia's "Pacific Solution" to exclude asylum-seeking boat people. He was also accused of corruption and blamed for Nauru's dire financial situation: Nauru had a budget deficit in 2002 of approximately US\$40 million, almost half of its GDP. Following the vote of no-confidence, parliament voted numerous times on who would be elected president. Rene Harris was replaced by Dowiyogo, who then died following heart surgery in the United States on 9 March 2003. Derog Gioura was named acting president. General elections were held on 3 May 2003, and Harris was returned to parliament, along with Gioura.

In May 2004, after longstanding political deadlock in the legislature, the opposition elected one of its members as speaker of the house and passed a series of Private Members Bills, including one preventing Nauru's assets from being sold or mortgaged without parliamentary approval. One month later, a vote of no-confidence removed president Rene Harris and his cabinet from office.

Ludwig Scotty was elected president. Following a special election in October 2004, he enjoyed a majority in the legislature which enabled his government to pass a budget designed to cut government expenses by reducing public sector salaries.

Nauru became a member of the Commonwealth of Nations in May 1999 and joined the United Nations in September of the same year. Long blacklisted by international financial monitoring organizations and banks for its role as a tax haven and money laundering center, Nauru was removed from the Financial Action Group's blacklist in 2005, following modifications to Nauru's banking laws. In a 2005 appeal before the UN General Assembly, Scotty presented his nation's financial recovery goals, and called for assistance from the world's donor nations.

### **13 GOVERNMENT**

The constitution of the Republic of Nauru, adopted at the time of independence and subsequently amended, provides that the republic shall have a parliamentary type of government. It contains provisions for the protection of fundamental rights and freedoms—a subject of particular importance because many of the inhabitants are short-term migrants ineligible for citizenship (defined in the constitution as being restricted to those of Nauruan or of Nauruan and Pacific islander parentage). Legislative power is vested in the parliament, composed of 18 members elected for a three-year term by Nauruan citizens who have attained the age of 20 years. Seven of the eight constituencies (representing 10 out of 14 districts) return two members each, and the constituency of Ubenide (representing 4 districts) returns four members. The first woman was elected in 1986.

Executive power is exercised by the president, who also fulfills the residual duties of head of state; he is elected by parliament and is assisted by a cabinet, which he appoints. The next parliamentary elections were to be held no later than May 2006; parliament's next vote for president was scheduled for 2007.

In 2005, the parliament undertook a review of the Nauru's constitution. One goal of the review was to reduce the frequencies of votes of no-confidence and the resulting political instability.

### **14 POLITICAL PARTIES**

There have been ad hoc political parties since independence in Nauru, but politics is generally based on personal loyalties and occasionally on issue-based coalitions. After DeRoburt's reelection in 1987, Kennan Adeang formed the Democratic Party of Nauru, which aimed to curb the power of the presidency. Eight members of parliament joined the party. As of 2003, the Nauru Party was headed by Bernard Dowiyogo, and the Center Party was headed by former president Kinza Clodumar.

### **15 LOCAL GOVERNMENT**

Until 1999, the Nauru Island Council was elected from the same constituencies as parliament and acted as a local government, providing public services. The council was dissolved in 1999; all assets and liabilities became vested in the Government of Nauru.

Besides fulfilling the traditional functions of local government, the Nauru Local Government Council manages the Nauru Corporation, the Nauru Pacific Line, and is responsible for overseas investments.

## **16 JUDICIAL SYSTEM**

The constitution provides for a Supreme Court, with a chief justice presiding. Cases are also heard in the district court or family court. There are two other quasi-courts: the Public Service Appeal Board and the Police Appeal Board. The chief justice presides over both as chairman of the panel, with two members for each board.

The Supreme Court, which has original and appellate jurisdiction, is the supreme authority on the interpretation of the constitution. Appeals against decisions of the Supreme Court on certain matters go to the Appellate Court of Nauru, which is comprised of two judges. Cases also may be appealed to the High Court of Australia. Parliament cannot overturn court decisions.

The judiciary is independent of the executive. The constitution guarantees protection of fundamental human rights which in practice are generally respected.

Many cases never reach the formal legal system. Most of the conflicts are resolved by the traditional reconciliation process.

## **17 ARMED FORCES**

Nauru has no armed forces. Although there is no formal agreement, Australia ensures its defense. There is a police force of 60 officers under civilian control.

## **18 INTERNATIONAL COOPERATION**

Nauru was admitted to the United Nations on 14 September 1999 and participates in ESCAP and several other nonregional specialized agencies, such as the FAO, ICAO, ITU, UNESCO, and the WHO. The nation belongs to the Pacific Island Forum, the South Pacific Commission, the ACP Group, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Asian Development Bank, the Alliance of Small Island States (AOSIS), and the South Pacific Applied Geoscience Commission. The country is a special member of the Commonwealth of Nations, taking part in some Commonwealth functions but not represented at heads-of-government conferences.

In environmental cooperation, Nauru is part of the South Pacific Regional Environmental Program, the Basel Convention, the Convention on Biological Diversity, the London Convention, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **19 ECONOMY**

The economy of Nauru has long been dependent on phosphates. Estimates are that the deposits will be exhausted within a few years. In anticipation of this event, substantial amounts of phosphate income are invested in trust funds to help cushion the transition. By 1987, an estimated \$450 million had been set aside to support the country after the phosphates run out. At one point, the value of the Nauru Phosphate Royalties Trusts reached \$1 billion, making Nauruans on paper the richest people in the Pacific. However, dividends from the trusts have declined sharply since 1990 and the government has been borrowing from the trusts to finance fiscal deficits. In addition, a 1994 audit of the trust revealed that about \$8.5 million had been lost due to bad investments and corruption.

By 1996 deficit spending had caused the country to default on servicing its external debt and was also creating problems in

meeting the government payroll. A strict government austerity program reduced government spending 38% in 1998–99. Money has been lost through failed investments in property, aviation and fishing, but the evidence is indirect since there is no public accounting. In 2002, Air Nauru Pacific service was grounded because of arrears on bills to Qantas maintains. The air service is vital for food supply. Telephone service has also been occasionally cut because of unpaid bills.

The government has attempted to use the now-dwindling revenue from phosphates to diversify the island's economy, mainly through overseas investment and the development of a national airline and shipping line. Aside from phosphates, Nauru has few domestic resources, and many food products and virtually all consumer manufactures are imported. The government subsidizes imports so that food and other necessities are available at nominal cost. Nauru's economy is very weak and increasingly dependent on Australia. Offshore financial operations were begun in 1993, but the economy suffered in that year due to a major financial scandal. In 2000, the OECD listed Nauru one of 38 "noncooperative" tax havens. In 2002, it was one of only seven jurisdictions that remained on the list for not taking sufficient corrective action. A temporary infusion of funds was promised through Nauru's agreement with Australia to act as an offshore location for the processing of asylum seekers. For the use of its land, Nauru has been promised up to A\$30 million.

There is no recent data to highlight economic trends in the country, but the need to create an alternative economy to phosphate extraction was crucial—Nauru was facing serious problems in the transition period. In 2005, the housing, labor (almost 90% of the working force was unemployed), and hospitals situation deteriorated. Australia had to step in to help the economy stay afloat.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Nauru's gross domestic product (GDP) was estimated at \$60.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,000. The average inflation rate in 1993 was -3.6%.

## **21 LABOR**

The workforce is primarily engaged in the state-owned phosphate industry, with public administration, education and transportation providing employment as well. Only about 1% of employment is in the private sector. As of 1992, there were some 3,000 guest workers in Nauru, mostly from Vanuatu or Kiribati. Unemployment is virtually nonexistent. There were no trade unions or labor organizations as of 2002. The right to strike is neither protected nor prohibited. Collective bargaining does not take place.

In 2002, the annual minimum wage in the public sector was US\$6,562 for workers over 21 years of age. This provides an adequate standard of living for a family. The workweek for office employees is set at 36 hours, and for manual laborers the standard is 40 hours. The minimum age for employment is 17 years, although some younger children work in the few family-owned small op-

erations. The government enforces health and safety standards in the workplace.

## **2<sup>2</sup> AGRICULTURE**

Since the cultivated area is limited to about 200–240 hectares (500–600 acres), there is little commercial agriculture. The main crop is coconuts; in 2005, production amounted to 1,600 tons. Some vegetables are grown, mainly by the Chinese population.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

Pigs and chickens roam uncontrolled on the island; hence, there is no organized production. In 2005, there were an estimated 2,800 pigs.

## **2<sup>4</sup> FISHING**

There is as yet no organized fishing industry on Nauru, although the government plans to develop fishing facilities. The Nauru Fishing Corp., formed in 1979, is owned by the Local Government Council. Fish are plentiful and consumption is high, since almost all meat has to be imported from Australia. The total catch in 2003 was 43 tons.

## **2<sup>5</sup> FORESTRY**

There are no forests on Nauru. All building timber has to be imported.

## **2<sup>6</sup> MINING**

High-grade phosphate rock was virtually Nauru's only natural resource, its only export commodity and leading industry, and the basis of the Nauruan economy—GDP varied according to the world market price of phosphate. The government-owned Nauru Phosphate Corp. was the country's sole producer of phosphate rock, and the island nation's primary producer, employer, and exporter. Production of phosphate rock in 1998 was 487,000 tons, down from 613,000 in 1994. As of 2005, Nauru's phosphate rock reserves had become depleted. In 1998, Nauru also produced common clays, sand and gravel, and stone.

Phosphate rock was extracted from the surface mine on the central plateau in the island's interior, using mechanical shovels from between the coral pinnacles. Phosphate rock was trucked to a central storage pile and transported to storage hoppers by rail. After being crushed and dried, the rock was placed on conveyor belts to pass to the arm of two cantilevers, each about 60 m long, that projected out over the reef to waiting ships. All phosphate rock was exported—to New Zealand, Australia, the Philippines, and South Korea—and the associated coral was used domestically for road aggregate.

In 1999, the government planned to launch a program to rehabilitate and develop the phosphate lands that have been mined for nearly 100 years. As of 1990, 61 million tons of phosphate had been mined. The plan was agreed to in 1994 with Australia and New Zealand, and the United Kingdom agreed to help Australia pay its us\$73 million compensation package to Nauru for environmental damage; the rehabilitation would cost us\$210 million over 23 years. Nauru's phosphate mine was the last active mine of three historic phosphate-producing islands of the Pacific. The other two, Makatea (in French Polynesia) and Banaba (formerly known as Ocean Island, in the Gilbert Islands group in the Re-

public of Kiribati), were depleted, respectively, in 1966 and 1979, making Nauru the sole Pacific Island producer.

## **2<sup>7</sup> ENERGY AND POWER**

Nauru has no proven reserves of oil, natural gas, coal, or refining capacity. All fossil fuel needs are met by imports. In 2002, Nauru's demand for refined oil products and imports averaged 1,010 barrels per day. There were no imports or consumption of natural gas, or coal recorded for 2002.

A diesel oil generator to which nearly all buildings are connected produces electric power. In 2002, total installed electrical power capacity was 10,000 kW. Production that year came to 30 million kWh, of which 100% was from fossil fuels. Consumption of electricity in 2002 was 27.9 million kWh.

## **2<sup>8</sup> INDUSTRY**

The phosphate industry is the only industry on the island. It is under the control of the Nauru Phosphate Corp., a statutory corporation that is responsible to the president of the republic in his capacity as minister for island development and industry. About 75% of the profit from phosphate sales is invested in long-term trust funds that have been established to take care of the Nauruans after phosphate deposits are depleted. By 2002, the primary deposits were largely exhausted and expensive to mine; the mining equipment was poorly maintained and the mining operation overstuffed.

## **2<sup>9</sup> SCIENCE AND TECHNOLOGY**

Nauru has little advanced technology, and Nauruans must travel abroad, usually to Australia, for scientific training.

## **3<sup>0</sup> DOMESTIC TRADE**

The Nauru Cooperative Society conducts most of the nation's retail trade. The island is completely dependent on imported goods; foodstuffs come mainly from Australia. A majority of the population is employed in the phosphate mining industry, which was the nation's primary export.

## **3<sup>1</sup> FOREIGN TRADE**

Nauru's only export is phosphate rock. The value of exports fluctuates as world phosphate prices rise or decline. Imports consist of pretty much everything, including machinery and construction materials for the phosphate industry, food, fresh water (from Australia), fuel, and other necessities. Virtually all manufactured goods must be imported.

In 2004, exports totaled us\$17 million (FOB—Free on Board), while imports grew to us\$20 million (CIF—Cost Insurance and Freight). Most of the exports went to South Africa (43.4%), Germany (20.7%), India (11.8%), Japan (7.2%), and Poland (4%). Imports primarily came from Australia (65.6%), Indonesia (5.4%), Germany (5.3%), and the United Kingdom (4.4%).

## **3<sup>2</sup> BALANCE OF PAYMENTS**

When the phosphate mines were running at full capacity, Nauru had a strongly favorable balance of trade and investments abroad were substantial. There was no recent data to highlight its balance

of payments, but it was likely that the situation was not as favorable as in past years.

### **33 BANKING AND SECURITIES**

The government-owned Bank of Nauru was founded in 1976. The Commonwealth Savings Bank of Australia and the Bank of New South Wales have branches in Nauru. The only commercial bank in the country is the Jefferson Bank and Trust Co. (1980). Most of the income from phosphates is invested in long-term funds overseas.

There is no stock exchange.

### **34 INSURANCE**

The Nauru Insurance Corp., founded in 1974, is the only licensed insurer and reinsurer on the island. It underwrites all classes of insurance, including aviation and marine.

### **35 PUBLIC FINANCE**

Administrative costs in Nauru are met from the proceeds of phosphate sales, which are in decline as reserves approach exhaustion. In 1993, the governments of Nauru and Australia reached a \$73 million out-of-court settlement as restitution for Nauruan lands ruined by Australian phosphate mining. This payment assisted the government (which relies almost entirely on phosphate receipts for revenue) in facilitating economic diversification. The fiscal year extends from 1 July to 30 June.

The US Central Intelligence Agency (CIA) estimated that in fiscal year 1995/96, the most recent year for which statistics were available, Nauru's central government took in revenues of approximately \$23.4 million and had expenditures of \$64.8 million. Revenues minus expenditures totaled approximately -\$41.4 million. Total external debt was \$33.3 million.

### **36 TAXATION**

There is no income or other tax in Nauru, although Parliament has power to impose taxes. In 2000, the OECD listed Nauru as one of 38 "uncooperative tax havens." In 2002, it was one of only seven countries that had not gotten removed from the list by taking some corrective action.

### **37 CUSTOMS AND DUTIES**

Duties are payable only on imported cigarettes, tobacco, and alcoholic beverages.

### **38 FOREIGN INVESTMENT**

Apart from the investment in the phosphate industry, now owned by the government of Nauru, there has been little investment on the island. The government of Nauru has large investments overseas in long-term funds financed from phosphate royalties. Nauru also has invested in commercial property development, notably a 53-story office building in Melbourne, Australia.

Plans were approved in 1985 to build an industrial, commercial, and residential complex in Honolulu and, with the help of Japanese companies, a 19-story, 450-room hotel on Guam. Nauru received us\$6.7 million from the Japanese government to build the new Anibare Community Boat Harbor at Yaren, scheduled to open in the spring of 2000. In 2002-03, the government is sched-

uled to receive up to A\$30 million for allowing Australia to use the island as a processing centre for asylum seekers.

### **39 ECONOMIC DEVELOPMENT**

Government policy is to exploit the phosphate deposits to the fullest extent for the highest returns. The government has diversified into aviation and shipping and plans to develop fishing and tourism. It acquired the Grand Pacific Hotel on the Fijian Island of Suva and, in 1993, undertook a \$18 million renovation of the facility. In 1993, Australia agreed to provide us\$73 million in compensation for pre-independence mining of phosphate to aid in restoring the extensive areas damaged by it.

In December 1998 Nauru won approval for a \$5 million loan from the Asian Development Bank to aid in implementing structural reforms, including privatization. A National Economic Summit was held in 1999, but the proceedings were not made public. The true state of the Nauru Phosphate Royalties Trust Fund (NPRTF) is not known, nor are the reasons for its apparent substantial decline. In 2002 and 2003 the economy received a small boost from money paid by Australia for housing asylum seekers. Nauru remains on the OECD's list of uncooperative tax havens.

In 2005, Nauru was facing virtual bankruptcy after spending most of the money saved in the trust funds created to help the economy after the phosphates reserves were exhausted. In response, the government called a freeze on wages, a reduction in the number of public officials, and the closure of several overseas consulates.

### **40 SOCIAL DEVELOPMENT**

Medical, dental, and hospital treatment and education are free. Other benefits—old age and disability pensions, widows' and sickness benefits, and child endowment—are administered by the Local Government Council.

The constitution guarantees women equal rights with men, although traditional social values still discourage many from pursuing careers. In particular, women face great social pressure to marry and raise families because Nauru's population was decimated in World War II due to massive removals by the Japanese. Women's educational and employment opportunities are severely limited by these traditional views on the roles of women, and there have been reports of educational scholarships being suspended for young women contemplating marriage. Domestic abuse is not prevalent, and the government treats reports of violent incidents in a serious manner.

Human rights are generally well respected.

### **41 HEALTH**

There are two modern hospitals. One hospital serves phosphate industry employees; the other provides free medical treatment for the rest of the population. Patients who need specialized care are flown to Australia. In 2004, there were 149 physicians and 557 nurses per 100,000 people.

Tuberculosis, leprosy, diabetes, and vitamin deficiencies have been the main health problems, partly due to the switch to a Westernized diet. A national foot care education program was launched in 1992 to decrease the number of diabetic amputations. With modern facilities and treatments, many of these diseases

have been brought under control. Cardiovascular disease has also been a major cause of illness and death.

Life expectancy as of 2005 was estimated at 62.73 years. The infant mortality rate was an estimated 9.95 per 1,000 live births in that year. The crude birth rate and overall mortality rate were estimated at, respectively, 26.6 and 7.1 per 1,000 people. The immunization rates for children under one year old were as follows: diphtheria, tetanus, and pertussis, 74%; polio, 74%; measles, 74%; and tuberculosis, 93%.

There were no reported cases of polio or AIDS. Tuberculosis is rare.

## 42 HOUSING

Ownership of houses built for Nauruans under a housing scheme is vested in the Local Government Council, but some Nauruan homes are privately owned. Nearly all houses have electricity and newer homes have a greater number of amenities.

## 43 EDUCATION

Attendance at school is compulsory for Nauruan children from 5 to 16 years old. Two types of schools are available, both coeducational: those run by the government and those conducted by the Roman Catholic Church. Education is provided free by the government. Education on Nauru is available up to the intermediate level; higher education overseas, mainly in Australia, is assisted by the government in the form of competitive scholarships. There is also a university extension center affiliated with the University of the South Pacific.

In the early 1990s, Nauru had six preprimary and two primary schools, one secondary school, and a technical school, as well as a mission school. In 1998, there were about 2,000 students enrolled in primary schools and about 1,000 students enrolled in secondary schools. As of 2003, public expenditure on education was estimated 6.9% of total government expenditures. In 1991, the adult literacy rate was estimated at about 30.4%, with 47.4% for men and 14% for women.

## 44 LIBRARIES AND MUSEUMS

The Nauru Bureau of Statistics maintains a small library which serves as a depository site for the Asian Development Bank. Nauru has one small lending library. The Nauru Military Museum contains WWII artifacts and displays donated by Stan Gajda.

## 45 MEDIA

Communication with the outside world is maintained by a ground satellite station established in 1975, providing 24-hour telephone, telegraph, and telex services worldwide. A small telephone exchange, handling 2,000 telephones in 1996, provides on-island communication. In 2002, there were 1,900 mainline and 1,500 mobile phones in use throughout the country.

Government-owned Radio Nauru, the only radio station, broadcasts in English and Nauruan. Though there is no local news

reporting; the station rebroadcasts new services from Radio Australia and the BBC. As of 1997 there was one television station in operation. In the same year, there were 374 radios in use per 1,000 population. Internet service is available, with about 300 users in 2002.

Most newspapers are imported. There are two regular publications: the private fortnightly newspaper, the *Central Star News*, and the government *Gazette*.

The constitution provides for free expression, and the government is said to support this in practice.

## 46 ORGANIZATIONS

The Boy Scouts, Girl Guides, and similar organizations function on the island. The Nauru National Youth Council was established in 1990 to encourage the development of various youth organizations. Sports associations are popular on the island. The Women's Information and News Agency monitors issues relating to women and government.

## 47 TOURISM, TRAVEL, AND RECREATION

Nauru has great potential for the development of tourism, and the government is working on expanding the very limited industry. Its sandy beach, snorkeling, deep sea fishing, and scuba diving on the coral reef helps visitors enjoy the tropical climate and sea breezes. Island tours of the mines and the National Museum are also attractions. Popular sports are weightlifting, basketball, and badminton. A valid passport, visa, onward/return ticket, and proof of lodging are required to visit Nauru. Vaccinations are not mandatory, although recommended for typhoid.

## 48 FAMOUS NAURUANS

The best-known Nauruan is its first president, Hammer DeRoburt (1923–92), who led the Nauruan people to political independence; he was president from 1968 to 1976 and again from 1978 until his death in 1992 (except for a brief period in 1986).

## 49 DEPENDENCIES

Nauru has no territories or colonies.

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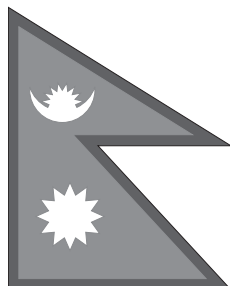
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# NEPAL

Kingdom of Nepal

*Nepal Adhirajya*



**CAPITAL:** Kāthmāndu

**FLAG:** The national flag consists of two red adjoining triangles, outlined in blue and merging at the center; the points are at the fly. On the upper triangle, in white, is a symbolic representation of the moon; on the lower triangle, that of the sun.

**ANTHEM:** The national anthem begins “May His Majesty, solemn and supremely valiant, be prosperous forever.”

**MONETARY UNIT:** The Nepalese rupee (NR) is a paper currency of 100 paisa. There are coins of 1, 2, 5, 10, 20, 25, and 50 paisa and 1, 2, 5, 10, 20, 25, 50, and 100 rupees, and notes of 1, 2, 5, 10, 20, 50, 100, 500, and 1,000 Nepalese rupees. NR1 = \$0.01357 (or \$1 = NR73.674; as of 2004).

**WEIGHTS AND MEASURES:** The metric system is in use, but some traditional Indian standards also are employed.

**HOLIDAYS:** National Unity Day, 11 January; Martyrs’ Day, 30 January; Rashtriya Prajatantra Divas—National Democracy Day, 18 February; Nepalese Women’s Day, 8 March; Navabarsha—Nepalese New Year’s Day, mid-April; UN Day, 24 October; Queen Aishwarya’s Birthday, 7 November; Constitution Day, 9 November; National Day (King Birendra’s Birthday), 28 December. Hindu and Buddhist religious holidays are based on the lunisolar calendar. Saturday is the general day of rest.

**TIME:** 5:45 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

A comparatively narrow strip of territory dividing India from China, landlocked Nepal has an area of about 140,800 sq km (54,363 sq mi), extending 885 km (550 mi) SE–NW and 201 km (125 mi) NE–SW. Comparatively, the area occupied by Nepal is slightly larger than the state of Arkansas. In its length lie some 800 km (500 mi) of the Himalayan mountain chain. Nepal is bounded on the N by China and on the E, S, and W by India, with a total boundary length of 2,926 km (1,818 mi). Nepal’s capital city, Kāthmāndu, is located in the central part of the country.

## <sup>2</sup>TOPOGRAPHY

Nepal is made up of three strikingly contrasted areas. Southern Nepal has much of the character of the great plains of India, from which it extends. Known as the Terai, this region comprises both cultivable land and dense jungle, the latter being for the most part a game preserve inhabited by the wild elephant, tiger, and other typically South Asian fauna. Besides being a hunting ground, the forests are worked for their valuable timber. The Terai contains about one-third of Nepal’s population and makes up about one-fourth of the total area. The second and by far the largest part of Nepal is formed by the Mahabharat, Churia, and Himalayan mountain ranges, extending from east to west. Their altitude increases toward the north, culminating on the Tibetan border in Mt. Everest (Sagarmatha in Nepali), standing amid other noble peaks.

Three principal rivers originate from glaciers and snow-fed lakes, break southward through deep Himalayan gorges, and en-

ter, respectively, the Karnali, Gandak, and Kosi basins. Flowing toward India, they become tributaries (as are all Nepal’s rivers) of the Ganges system. The third area is a high central region, some 890 km (344 sq mi) in extent between the main Himalayan and Mahabharat ranges; this region is known as the Kāthmāndu Valley, or the Valley of Nepal. Overlooked by mountains, the valley, with its fertile soil and temperate climate, supports a thriving agriculture. Here Kāthmāndu, the capital, is situated, with the foothill towns of Bhaktapur and Patan nearby. This is the only region of Nepal that has any considerable population density.

Eight of the world’s highest mountains are situated in the Himalaya range on the Tibetan border. Triangulated in 1850, Mt. Everest was officially given the status of the world’s highest peak in 1859. The summit (8,850 m/29,035 ft) was reached for the first time on 29 May 1953 by Sir Edmund Hillary, a New Zealander, and Tenzing Norgay, a Sherpa guide.

## <sup>3</sup>CLIMATE

Below the Kāthmāndu Valley and throughout the Terai, the climate is subtropical and, in the swamps and forests, extremely humid. The valley itself enjoys the temperate conditions generally found between altitudes of 1,200–3,400 m (4,000–11,000 ft). At 1,300 m (4,300 ft) above sea level, the elevation of Kāthmāndu, the rainy season lasts from June to October; 80% of annual precipitation falls during this monsoon season. Colder weather follows, lasting until the middle of March, when the warm season begins. The warm season increases in intensity until broken by the rains, which account for precipitation of about 150 cm (60 in) annually. Temperatures in Kāthmāndu in January range from an average

minimum of 2°C (36°F) to an average maximum of 18°C (64°F); the July range is 20–29°C (68–84°F). Northward of the Kāthmāndu Valley, a subalpine zone continues to altitudes of about 4,300 m (14,000 ft); above that elevation, the country is covered with snow during the long winter, and extreme cold is experienced in the upper Himalayas.

#### 4 FLORA AND FAUNA

The wide range of climate accounts for correspondingly marked contrasts in flora and fauna between different regions of the country. In the south, the sal (the wood of which is used for railroad ties), sisu, and other subtropical trees are abundant in forests; in the extreme north, junipers are seen even at the altitude of the glacial moraines. Many kinds of conifers also exist in the alpine zone, along with the yew, various hollies, birch, dwarf rhododendrons, and other alpine flora.

Dominant in the Langtang Valley are the chir pine, willow, alder, and evergreen oak. Blue pine and silver fir are frequent in the subalpine zone, which also supports tree rhododendrons—magnificent plants often reaching a growth of 12 m (40 ft). Ground orchids, lilies, yellow and blue poppies, and crimson anemones are prevalent in central Nepal. The profusion of wild flowers extends to very high altitudes; at 5,200 m (17,000 ft), several varieties of primula, pink and white cotoneaster, and white erica have been gathered, along with many kinds of alpine mosses and ferns.

The tiger, hyena, and jackal still exist in southern Nepal, although in decreasing numbers. Rhesus monkeys and a variety of other small jungle mammals and rodents are common. At middle altitudes are found the black bear, several species of cats, squirrel, hare, deer, and antelope. Higher in the mountains, wild sheep and goats, marmots, and a species of tailless mouse-hare are numerous. Wild yaks can still be found in the mountains of Nepal. The wild yaks, an endangered species that holds the distinction of being the mammal that lives at the highest altitudes, can make their homes at altitudes up to 6,096 m (20,000 ft), but have trouble in altitudes below 3,048 m (10,000 ft). Small black spiders were found at 6,900 m (22,500 ft) on rocky ledges traversed by the Mt. Everest expedition of 1953.

Birds of Nepal include the green finch, dove, woodpecker, nut-hatch, warbler, flycatcher, bulbul, and other familiar species. At about 2,700 m (9,000 ft) are found the hill partridge, pheasant, yellow-backed sunbird, minivet, and many of the flowerpeckers; the redstart, pipit, wagtail, snow pigeon, snowcock, and golden eagle thrive in both the alpine and subalpine zones.

As of 2002, there were at least 181 species of mammals, 274 species of birds, and over 6,900 species of plants throughout the country.

#### 5 ENVIRONMENT

Nepal's environment has suffered the effects of agricultural encroachment, deforestation and consequent soil erosion, and contamination of the water supply. Between the mid-1960s and the late 1970s, forestland declined from 30% to 22% of the total area, mainly because of the felling of timber for firewood, which supplies over 90% of Nepal's fuel requirements. All of Nepal's forests were nationalized in 1957, but reforestation efforts have been minimal. A forest conservation program, begun in 1980, includes the establishment of village tree nurseries, free distribution of seedlings,

and provision of wood-burning stoves of increased efficiency. By 1985, however, deforestation averaged 324 sq mi per year, while reforestation was only 4,000 hectares (9,900 acres) per year. An additional 4.4% of forest and woodland were lost between 1983 and 1993. As of 2000, the annual rate of deforestation was at about 1.8%. The FAO has estimated that at the present rates of depletion, the forests will be virtually wiped out by 2015.

Air and water pollution are significant environmental problems in Nepal. In 2000, the total carbon dioxide emissions was at 3.4 million metric tons. The use of contaminated drinking water creates a health hazard. Untreated sewage is a major pollution factor: the nation's cities have produced an average of 0.4 million tons of solid waste per year.

In 2003, about 8.9% of the total land area of Nepal was protected. There are two natural UNESCO World Heritage Sites: Sagarmatha National Park and Royal Chitwan National Park. There are four Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 29 types of mammals, 31 species of birds, 6 types of reptiles, 3 species of amphibians, 1 species of invertebrates, and 7 species of plants. Species classified as endangered in Nepal included the snow leopard, tiger, Asian elephant, pygmy hog, great Indian rhinoceros, Assam rabbit, swamp deer, wild yak, chir pheasant, and gaur.

#### 6 POPULATION

The population of Nepal in 2005 was estimated by the United Nations (UN) at 25,371,000, which placed it at number 45 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 39% of the population under 15 years of age. There were 98 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.2%, a rate the government viewed as too high in light of the country's environmental problems and poverty. The projected population for the year 2025 was 36,093,000.

The population density was 172 per sq km (446 per sq mi), but population distribution is uneven, with about 45% of all Nepalese concentrated in the hilly central region, 47% in the fertile Terai plain, and only 8% in the mountains.

The UN estimated that 14% of the population lived in urban areas in 2005, and that urban areas were estimated to be growing at an annual rate for 2000–05 at 5.1%. The capital city, Kāthmāndu, had a population of 741,000 in that year.

#### 7 MIGRATION

Nearly 20,000 Tibetans arrived in Nepal between the Chinese annexation of Tibet in 1959 and 1989. Hundreds of thousands of Nepalese were believed to be working in India in the 1980s, and over 100,000 Indians were working in Nepal, particularly in the garment industry and on the building of highways.

An influx of Bhutanese refugees into Nepal began in late 1991 and peaked in 1992; the flow of new arrivals slowed after 1997. The total number of migrants in 2000 was 619,000 including refugees. In 2004, there were 104,915 refugees from Bhutan and 20,704 from Tibet, and an additional 654 asylum seekers. In that same year over 1,200 Nepalese applied for asylum in Europe, Hong Kong, the United Kingdom, and the United States. Others of concern to



LOCATION: 26°20' to 30°16' N; 80°15' to 88°15' E. BOUNDARY LENGTHS: China, 1,236 kilometers (772 miles); India, 1,690 kilometers (1,046 miles).

the United Nations High Commissioner for Refugees (UNHCR) in Nepal are 10,000 Bhutanese and 737 Tibetans.

In 2005, the net migration rate was zero per 1,000 population. The government views the migration levels as satisfactory. In 2004, an estimated 1.2 million Nepalese worked abroad in nearly 40 foreign countries returning about \$1 billion in remittances.

## 8 ETHNIC GROUPS

Nepal consists of two primary ethnic elements: Mongoloids, who migrated to Nepal by way of Tibet, Sikkim, Assam, and northern Bengal; and Indo-Aryans, who came from the Indian plains and from the sub-Himalayan hill areas to the west of Nepal. These can be broken down into more than 75 ethnic groups. There are also small remnants of Dravidian tribes. Bhotes, of Tibetan origin, are the principal occupants of northern Nepal. In the central valley, Newars, considered to be one of the earliest groups of inhabitants, and Murmis predominate, the former being responsible for most of the agriculture and trade. Less numerous groups include Gurungs and Magars in west-central Nepal and Kirantis and Rai in the east. Sherpas, a Himalayan people, have become well known as guides for mountain-climbing expeditions. The aboriginal Tharus live in the southern Terai region. The Brahman and Chetri caste groups are believed to be descendants of Indian settlers. The Dalit, who are members of the lowest caste system formerly called "untouchables," still face social, political, economic, and even reli-

gious discrimination, particular in the rural areas of the west. The government has imposed laws prohibiting such discrimination.

At the 2001 census, the Chetri accounted for about 15.5% of the population and the Brahmans made up 12.5% of the population. Magars accounted for 7%, Tharus for 6.6%, Tamang 5.5%, Newar 5.4%, Muslims 4.2%, Kami 3.9%, and Yadav 3.9%.

## 9 LANGUAGES

Nepali is the official language, although some 50 different languages are spoken. Nepali is spoken by about 47.8% of the population and is the language for most intertribal communication; it is used in government publications and has been the language of most of the written literature since the Gurkha unification of Nepal. About 12.1% of the people speak Maithili as their first language, 7.4% Bhojpuri, 5.8% Tharu, 5.1% Tamang, 3.6% Newar, 3.3% Magar, and 2.4% Awadhi. Except in primary schools, where children are taught in their own language, Nepali or English is the medium of instruction. English is taught as a second language in secondary schools and colleges and is widely understood in business and government circles.

## 10 RELIGIONS

Hinduism and Buddhism exist side by side in Nepal and to some extent are intermingled. The importance of both in the national life is manifested everywhere; more than 2,700 temples and

shrines have been counted in the Kāthmāndu Valley alone, while innumerable others are scattered along trails and roads extending to the most distant mountain passes. Bodhnath and Shambunath are famous Buddhist temples. The ancient temple of Chandragiri is dedicated to both religions. The Bagmati River, flowing through central Nepal, is considered sacred and is visited by pilgrims, as are certain mountains and lakes.

A 2004 report indicated that about 81% of the population were nominally Hindu, while 11% were Buddhist. Muslims constituted about 4.2% of the population. Minorities included Christians, Baha'is, Jains, and Kirants (followers of an indigenous animist religion). The constitution does not establish a state religion but does describe the nation as a "Hindu Kingdom." The constitution also forbids proselytizing. Certain Hindu holidays are recognized as national holidays, as is the birthday of the Buddha. Some local authorities have restricted public celebrations of Tibetan Buddhist festivals.

## 11 TRANSPORTATION

Nepal's ratios of road mileage to area and to population are among the lowest in the world, and the principal means of land transport is by porters with pack animals. The main highways are the 190-km (118-mi) road that penetrates the Kāthmāndu Valley, connecting it with the Indian border; the 87-km (54-mi) road between Kāthmāndu and Kodari on the Tibetan (Chinese) border, which was severely damaged by flooding in late 1982 and was later rebuilt with Chinese assistance; the 862-km (536-mi) east-west Mahendra Highway; and the 200-km (124-mi) Kāthmāndu-Pokhara highway, which is being extended to Surkhet. In all, Nepal had 13,223 km (48,217 mi) of roadway in 2002, of which 4,073 km (2,531 mi) were paved.

There are no waterways in Nepal. The only practical seaport for goods bound for Kāthmāndu is Calcutta in India.

Nepal had a total of 59 km (37 mi) of railways in 2004, all of it narrow gauge and all in Kosi, close to the Indian border. Opened in 1927, the line runs from Jayanagar, in India, to Janakpur, a distance of 52 km (32 mi), of which 10 km (6 mi), running from Raxaul, India, to the frontier town of Birganj, is government owned. An electrically driven ropeway, inaugurated in 1925 and improved with US aid in 1962, carries 25 tons an hour a distance of 43 km (27 mi), to a height of nearly 1,400 m (4,500 ft) from Hetaura to Kāthmāndu.

Much of Nepal is easily accessible only by air. In 2004 there were an estimated 46 airports, of which 10 (as of 2005), had permanently surfaced runways. The leading air terminal is Tribhuvan airport at Kāthmāndu. Domestic flights are operated by the Royal Nepal Airlines Corp., which also schedules flights to Great Britain, Germany, India and eight other Asian countries. In 2003, about 625,000 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Fact, myth, and legend are intertwined in Nepal's historical literature, which, in the Vamshavali, traces the origins of the country in the distant past when Nepal was allegedly founded by Ne-Muni and derived its name from this source. A reliable chronology can be established only after the conquest of Nepal by Harisinha-deva, rajah of Simraun in about 1324. Under the Malla dynasty, Nepal

was administered in four separate states: Banepa, Bhadgaon (now Bhaktapur), Kantipur (modern Kāthmāndu), and Lalitpur (now Pāṭan).

Prithwi Narayan Shah, the ruler of Gorkha, a small principality west of Kāthmāndu, established the modern kingdom of Nepal in 1768 by incorporating the Kāthmāndu Valley into his domain and unifying with it many small independent principalities and states. Under his descendants, most of the present boundaries of Nepal were established and Hinduism was introduced from India as the official religion.

Nepal came in contact with the influence of larger powers outside South Asia in the late 18th century as a consequence of the British East India Company's conquest of India to its south and a trade dispute with Tibet that led to a Nepalese confrontation with China. Peace was imposed by China in 1792, after Chinese forces had invaded, then withdrawn from Nepal. In the same year, a commercial treaty was ratified between Britain and Nepal. Relations with the British in India remained peaceful until 1814 when a border dispute led to inconclusive hostilities between Nepal and the British East India Company. When the fighting ended two years later, Nepal's independence was preserved in an agreement in which Nepal yielded a large piece of territory to the Company on its southern border and agreed to the establishment of a permanent British resident at Kāthmāndu.

The 1816 agreement (reaffirmed by a formal treaty of friendship between Nepal and Great Britain in 1923) also laid the groundwork for more than a century and a half of amicable relations between Britain and Nepal. Included under the agreement was Nepalese approval for British recruitment of Nepalese Gurkha mercenaries for the British-officered Indian army. During the Indian Mutiny of 1857, Nepal's Rana prime minister sent some 12,000 additional Nepalese troops in support of British garrisons; he also offered troops to US president Abraham Lincoln in 1866 during the US Civil War. Over the years, the Gurkha regiments serving in the British Indian army (and after 1947 under both Indian and British flags) won renown for their bravery, skill, and endurance—in Afghanistan in 1879 and Tibet in 1904, in Europe, Asian, and Africa in the 20th century's two world wars, in the UN action in the Belgian Congo in the 1960s, in India's conflicts with China and Pakistan, and in 1982, in Britain's conflict with Argentina over the Falkland Islands.

In 1846, Shumshere Jung Bahadur (Rana) became Nepal's de facto ruler, banishing the king and ruling as regent for the king's minor heir. The prime ministership became a hereditary office in his Rana family, not unlike the Tokugawa Shogunate in Japan, ruling successively until 1951. Following the end of World War II, the termination of British rule on the South Asian subcontinent in 1947 caused deep stirrings of change in Nepal. Resentment grew against the autocratic despotism of the Ranas, who—as regents—had kept successive monarchs virtual prisoners. A political reform movement, begun in 1946 with the founding of the Nepali Congress Party on the model of the Indian Congress Party, won the support of King Tribhuvana Bir Bikram Shah, but in a power struggle in 1950, the king was forced to flee from the Ranas to India. With Indian support, insurgents began operations against the Rana government until, with the mediation of Indian Prime Minister Nehru, a political compromise was reached that returned the king to Kāthmāndu and ended a century of hereditary Rana

family rule. By late 1951 a new government took office, headed by Matrika Prasad Koirala, with his brother, a co-founder of the Nepali Congress Party (NC).

Political life in Nepal in the years since the restoration of the monarchy in 1951 has been dominated by the struggle between the monarchy and the country's political elements to define the terms under which they will co-exist and bring the country into the modern world. Six different cabinets, each lacking popular support and riddled with dissension, held office in rapid succession between 1951 and 1957, and in 1957–58, King Mahendra Bir Bikram Shah, who had succeeded to the throne upon the death of his father in 1955, ruled directly for a period of months. In April 1959, he promulgated a democratic constitution, providing for a constitutional monarchy, two houses of parliament, and a cabinet and prime minister responsible to the lower house, in the Westminster model. Bisweswar Prasad (B. P.) Koirala of the NC assumed office on 24 July 1959 as first prime minister under this constitution.

Less than 18 months later, on 15 December 1960, the king suspended the constitution, dissolved parliament, dismissed the cabinet, and again established his own government, this time with an appointed council of ministers. He ruled directly until April 1962 when he promulgated a new constitution establishing an indirect, nonparty system of rule through a tiered system of panchayats (council) culminating in a National Panchayat. Five years later, after growing agitation and hit-and-run attacks by NC elements based in India, the king—again under Indian pressure—promulgated a series of amendments introducing gradual liberalization.

In January 1972, Mahendra died suddenly and was succeeded by his 27-year-old son, Birendra Bir Bikram Shah Dev. The young monarch, who had attended Harvard University in the United States, was committed to maintaining the authority of the monarchy while keeping Nepal on the course of gradual political and social reform set by his father. Student demonstrations in early 1979 led him to call for a national referendum on whether to continue the panchayat system or create a more conventional multiparty system. With the king promising further liberalization, the existing panchayat system was endorsed by 55% of the voters in May 1980, and later that year, the king's subsequent constitutional amendments established direct elections and permitted the Panchayat, not the king, to choose the prime minister. The king's failure to lift the ban on political parties led party members—ineffectively—to boycott the elections of 1981 in which Surya Bahadur Thapa, a former civil servant who had become prime minister in 1979, was reaffirmed in June 1981 and continued in office until 1983 when he was replaced by Lokendra Bahadur Chand following the government's loss of its majority on an opposition "no confidence" motion.

In nonparty elections to the National Panchayat in May 1986, again in the face of a major party boycott, a majority of the incumbents were defeated, and Marich Man Singh Shrestha became prime minister. Most new members were opponents of the panchayat system, foreshadowing a new struggle between the king and his legislators. By early 1990, the NC and the United Leftist Front (ULF), a Communist alliance of seven parties, again went to the streets, organizing agitations that forced the king to make further constitutional changes in April; included were an end to the ban on political parties and their activities. The king dissolved the

National Panchayat and appointed NC president Krishna Prasad Bhattarai interim prime minister, who was assisted by a cabinet made up of members of the NC, the ULF, independents, and royal appointees. A Constitutional Reforms Commission produced a new constitution in November 1990 that ended the panchayat era and restored multiparty democracy in a constitutional monarchy. In May 1991, the first openly partisan elections in 32 years were held, resulting in an NC majority in the new House of Representatives which chose Girija Prasad Koirala as prime minister. As of December 2002, Koirala had held the office of prime minister four times in his career.

On 1 June 2001, the former Crown Prince Dipendra Bir Bikram killed most of the royal family with an assault rifle as they sat around a dinner table. Although many theories circulated as to the motive for the killings, it is generally accepted that he turned against his family because his mother did not approve of a young woman as his choice of bride. Dipendra murdered his father, King Birendra, his mother, Queen Aishwarya, his sister, Princess Sruti, his brother, Prince Nirajan, and five others. He then shot himself in the head. Dipendra was anointed king while in a coma; two days later he died, and his uncle, Gyanendra Bir Bikram Shah Dev, was named king.

In addition to the slayings, Nepal has been embroiled in civil war. In 1996, a "people's war" was launched by several Maoist organizations in the central-western hill districts of Nepal. The Maoists' aims are the removal of the constitutional monarchy and the eradication of rural poverty. As of December 2005, more than 12,000 people had been killed in the fighting. The insurgents call themselves the Communist Party of Nepal (Maoist), modeled after Peru's Maoist Shining Path guerrillas. As of December 2005, they controlled 45% of Nepal, and brought the economy and political system to a virtual standstill. They are led by Chhabi Lal Dahal, or "Prachanda," who is seen by his followers as charismatic and by his enemies as fanatical. In July 2001, the Maoists came into direct combat with the Nepalese army for the first time, and stepped up their campaign of violence. Koirala, who was prime minister at the time, resigned after losing support from his ruling coalition, and alluded to the violence as a reason why the country needed to work for national consensus. Sher Bahadur Deuba became prime minister. In November 2001, after more than 100 people were killed in four days of violence, the king called a State of Emergency. The emergency measures restricted freedom of the press, as well as freedom of assembly, expression and movement. Suspects could be detained for three weeks without charges.

In February 2002, international donor agencies and individual nations pledged US\$2.5 billion to Nepal, and the government increased military activity against the insurgents. In April, more than 300 people were killed in two of the most serious attacks of the rebellion, and the Maoists ordered a five-day national strike. Parliament was dissolved on 22 May, and national elections were scheduled for 13 November. In October, Prime Minister Deuba asked the king to put off the national elections for a year due to the mounting Maoist violence. King Gyanendra dismissed him and indefinitely put off the elections. Lokendra Bahadur Chand was appointed interim prime minister until elections were held and Surya Bahadur Thapa was elected prime minister in 2003. However former Prime Minister Deuba was later reinstated as prime minister in 2004. In February 2005, the King dismissed Prime

Minister Deuba (again), dissolved the Cabinet and declared a State of Emergency, which was lifted in April 2005.

In 2004 the cease-fire that had existed between the Maoist rebels and the government collapsed. The killings increased on both sides with the Maoist rebels assassinating government officials, usually at the local level, bombing and attacking Indian-owned establishments. The government officially invited the Maoists to negotiate again in 2004, but the rebels refused.

In the area of foreign policy, Nepal has remained generally non-aligned, maintaining friendly relations with China and with India, despite efforts to minimize traditional Indian influence and the occasional clash of policies on matters relating to trade. In 1961, Nepal signed an agreement with China (which had earlier absorbed Tibet) defining the boundary between the two countries along the traditional watershed. Nepal was uninvolved in the 1962 hostilities between India and China on portions of the border to the east and west of Nepal. One result of this conflict however, was India's occupation of Kalapani, a border region of northwestern Nepal which, as of 2005, was still a matter of dispute with India. The refugee issue of some 104,235 Bhutanese in Nepal remained unresolved as of December 2005 as well as the many Tibetan exiles who have crossed the border from China. Ninety percent of these displaced persons are housed in seven United Nations High Commissioner for Refugees (UNHCR) camps. Nepal also faces a severe illiteracy rate with only 30% of women being literate compared to 65% of males in 2005.

Nepal has a very low per capita GDP of US\$240 and a high population growth. The Nepalese economy is characterized by being highly dependent on international aid and having few export options (clothing, carpets and leather goods), although the tourist industry had resurged prior to the 2005 State of Emergency. Nepal also has pursued friendly relations with the great powers and has been the recipient of economic aid from India, the United States, the former USSR, and the World Bank.

### 13 GOVERNMENT

The 1990 constitution, Nepal's third (with variations) since 1951, established a constitutional monarchy in which the legislature consists of the king and two houses of parliament, the lower house, called the House of Representatives and the upper house, the National Council. The king is Gyanendra Bir Bikram Shah Dev, the descendent of an unbroken Rajput line going back more than 200 years. The House of Representatives has 205 members elected to terms of five years; at least 5% of the contestants from every party must be women. The National Council has 60 members, 35 of whom are elected by the House of Representatives. The National Council members included three elected women as of 2003. Suffrage is universal at 18 years of age.

The National Council is a permanent body, retiring one-third of its members every two years in elections that take place in May of even-numbered years. The king appoints 10 of the 60 members in the National Council. The remaining 15 members are selected by an electoral college.

In May 2002, parliament was dissolved, and elections were scheduled for 13 November of that year. However, King Gyanendra removed his prime minister who had called for a postponement of national elections for a year due to mounting Maoist vio-

lence. King Gyanendra subsequently indefinitely postponed the elections, which, as of December 2005, had not been held.

Nepal's supreme court chief justice is appointed by the king on recommendation of the Constitutional Council. Corruption is seen to be endemic in Nepal and government institutions had all but broken down in rural areas as of 2005. The government suppresses speech that might undermine the monarchy, interethnic or intercaste relations or national security. Internet access to Maoist websites is censored, but otherwise allowed. Most NGOs have abandoned efforts in western Nepal due to Maoist domination of the area. Both the government and the Maoist rebels have been accused of increasing human rights violations after the insurgency in 1996. Nepal has the highest number of unexplained political disappearances worldwide. The Maoist rebels consist of approximately 5,000 guerrillas supported by 15,000 fighters who control 45% of Nepal. Maoists have enacted their own judicial system within their jurisdiction termed "people's government". The Maoists are accused of recruiting, as well as abducting, children to be used as soldiers. International organizations estimate that several hundred thousand Nepalese have been displaced due to the Maoist insurgency. The Maoist insurgency has also drastically reduced Nepalese tourism which was once a major source of revenue for the government.

For development purposes, the country is also divided into five regions by geography (Eastern, Central, Western, Mid-Western, and Far-Western), each of which serves also as a parliamentary constituency, electing three members of the lower house. In 1992, the government undertook a reform of the civil service, lowering the age of retirement from 60 to 58, committing itself to reducing its overall size by 25% by 1993, and engaging in wholesale dismissals of those with 20 or more years of service. Nepal is a majority Hindu country and, although against the law, discrimination due to caste is widespread. The *dalits*, or untouchables, caste is routinely discriminated against through violence and socio-economic exclusion. Organized gangs traffic between 5,000–12,000 Nepalese women a year to India to work in brothels. The majority who return are HIV positive and are also strongly discriminated against.

### 14 POLITICAL PARTIES

The 1962 constitution originally prohibited the formation of political parties and associations, even though political groups continued to exist and operate underground, at times on a quasi-legal basis. Parties were legalized in 1990 and now operate freely in Nepal's multiparty constitutional monarchy. Nepal does not allow party formation along ethnic, caste, religious, tribal or regional lines. The main party through Nepal's modern history—providing nearly all of the country's prime ministers even when the ban on parties prohibited party activity—is the Nepali Congress Party (NC). Inspired by the socialist wing of the Indian National Congress and founded by the Koirala brothers, M. P. and B. P., in 1946, the party led Nepal's first democratic government in 1959. Most of its leaders were imprisoned during the 1960s, but with Indian help, the party operated from India, mounting hit-and-run attacks and maintaining an underground presence in Nepal.

The NC leadership led the opposition to King Mahendra's tiered panchayat system of indirect government. Although NC leaders called for a boycott of the May 1986 elections to the National Pan-

chayat, 1,547 candidates ran for office, and only 40 of the previously elected members retained their seats. After these elections, a Democratic Panchayat Forum (DPF) was formed by NC members to mobilize voters on a nonparty basis to counter the influence in local elections of the Communist Party of Nepal (CPN), whose members had won 16 seats in the National Panchayat.

The communist movement in Nepal has been severely fragmented for years by personal and ideological schisms, some of them occasioned by splits and the loss of orthodoxy in the communist movement worldwide in the 1960s and 1980s. Operating for electoral and agitational purposes in the 1980s as the United Leftist Front (ULF), the Communist Party (CPN) and its several communist allies have since split, fragmenting the movement into a number of splinter parties but leaving the CPN, now reassembled as the United Marxist-Leninists (UML) as the leading opposition party in the parliament. The latest elections to the House of Representatives were held on 3 and 17 May 1999. The results were: Nepali Congress (NC), 113 seats; Communist Party of Nepal/United Marxist-Leninist (CPN/UML), 69 seats; National Democratic Party (NDP), also called the Rastriya Prajatantra Party, 11 seats; Nepal Sadbhavana Party (NSP), 5 seats; Rastriya Jana Morcha, 5 seats; Samyukta Janmorcha Nepal, 1 seat; Nepal Workers and Peasants Party (NWPP), 1 seat. Elections scheduled to be held on 13 November 2002 were indefinitely postponed by the king.

## **15 LOCAL GOVERNMENT**

For centuries, the heads of petty principalities within Nepal exercised local judicial, police, and other powers. Under the panchayat reforms introduced in 1962, the country was divided into 14 zones, which in turn were divided into 75 districts. The zones were directly administered by commissioners appointed by the central government, and the zonal panchayats were executive bodies elected from the 11-member panchayats at the district level, the members of which were in turn selected from village and town panchayats. Each of the 3,600 villages with populations of more than 2,000 and each of the 33 towns with populations over 10,000 also had an 11-member panchayat, as well as its own local assembly.

In April 1990, the partyless panchayat system was abolished as a result of a people's movement organized by the Nepali Congress Party and several leftist parties. However, the country remains divided into 14 zones (headed by appointed commissioners) and 75 districts (under the charge of district officers responsible for law and order, collecting revenues, and setting development priorities). The districts are further divided into smaller units—into municipalities and village development committees (VDC). At present, there are 3,913 VDCs and 58 municipalities in the country. A VDC consists of 9 wards and the municipalities consist from 9 to 35 wards. Municipalities and VDCs are directly elected.

In 1997, a royal decentralization ordinance was enacted that allowed for increased political participation by women. The ordinance called for the reservation of 20% of local government ward seats for women. This election resulted in approximately 32,000 local government seats in Nepal held by women. However, due to lack of knowledge, skills and education needed to carry out their responsibilities, arguments ensued amongst representatives against the mandatory percentage afforded to women.

## **16 JUDICIAL SYSTEM**

Each district has a court of first instance, civil and criminal, as well as a court of appeals and 14 zonal courts. There are five regional courts—at Kāthmāndu, Dhankutā, Pokharā, Surkhet, and Dipayal—to which further appeals may be taken. At the apex is the supreme court in Kāthmāndu, which is empowered to issue writs of habeas corpus and decide on the constitutionality of laws. The court is composed of a chief justice, assisted usually by six other judges, with seven additional judges in reserve; all are appointed by the king. The Supreme Court is the court of last resort, but the king may grant pardons and suspend, commute or remit sentences of any court. There are separate military courts which generally deal only with military personnel. In 1992, the supreme court ruled that civilians may not be tried in the military courts. In April 2001, the supreme court appointed its first female judge.

The 1990 constitution declared the independence of the judiciary. The supreme court has exercised considerable independence in practice, declaring provisions of the Citizenship Act of 1991 and parts of the Labor Act of 1992 unconstitutional. In 1995 the constitutional court also ruled that the dissolution of the parliament at the request of a former prime minister was unconstitutional.

The 1990 constitution affords a number of procedural safeguards for criminal defendants including the right to counsel and protection from double jeopardy and from retroactive application of laws.

Although the judiciary remains, the monarch holds ultimate power, which can be seen in the decree forbidding news media from criticizing the King. While the State of Emergency was formally lifted on 29 April 2005, human rights organizations maintain that many freedoms have yet to be restored. This is most concerning in regards to the Terrorist and Disruptive Activities Ordinance (TADO), which allows up to one-year incommunicado detention. There are many reports of torture, execution and disappearances attributed to both the official government as well as the Maoists rebels.

There is no jury system. Special tribunals hear cases involving terrorism or treason under a treason act. Nepal is a member of the United Nations and the International Criminal Court.

## **17 ARMED FORCES**

Nepal's armed forces numbered 69,000 active personnel in 2005, all of it accounted for by the Army. The service's primary weapon systems included 40 reconnaissance vehicles, 40 armored personnel carriers and over 95 artillery pieces. The Army also had a small air wing of 320 personnel with no combat aircraft. Its air fleet was made up of 2 fixed wing transports, 7 support, and 5 utility helicopters. Nepal also had a paramilitary force of 62,000, which consisted of an armed police force of 15,000 under the Ministry of Home Affairs, and a regular police force of 47,000. The United Kingdom maintained a small military presence in Nepal involved in the recruitment and training of gorkha troops. In 2005, Nepal's defense budget totaled \$151 million. Nepalese troops were stationed in 11 countries or regions as UN peacekeepers.

Under separate treaty arrangements going back to 1816, gorkhas of the same mountain stock (especially Magars, Gurungs, Rais, and Limbus) are recruited in Nepal by Great Britain and, since 1947, by the Republic of India. Under British and Indian

flags, and with arms, training, and officers provided by their foreign recruiters, gurkhas are among the world's most renowned fighting men with extensive service in all parts of the globe in both world wars and several UN actions of this century.

## 18 INTERNATIONAL COOPERATION

Nepal was admitted to the United Nations on 14 December 1955 and is a member of ESCAP and several nonregional specialized agencies, including the FAO, the World Bank, ILO, IMF, UNESCO, UNIDO, and the WHO. It also belongs to the Asian Development Bank, the Colombo Plan, and G-77. In 1985, Nepal joined with six other Asian nations to form the South Asian Association for Regional Cooperation (SAARC); the secretariat is in Kāthmāndu.

Nepal is a member of the Nonaligned Movement. The country has offered support to UN missions and operations in Kosovo (est. 1999), Ethiopia and Eritrea (est. 2000), Liberia (est. 2003), Sierra Leone (est. 1999), East Timor (est. 2002), Burundi (est. 2004), Côte d'Ivoire (est. 2004), and the DROC (est. 1999).

In environmental cooperation, Nepal is part of the South Asia Cooperative Environment Program (SACEP), the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, International Tropical Timber Agreements, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 19 ECONOMY

Despite social and economic reforms begun in the 1950s, Nepal's per capita income was only \$1,100 (PPP) in 1998, and general living standards are low. The economy is based on subsistence agriculture, which engages about 80% of the labor force but is inefficiently organized and limited by a shortage of arable land in relation to population. Eight development plans, extending from 1955 to 1992, have slowly built up the nation's infrastructure. Nevertheless, the industrial sector is still small and dominated by traditional handicrafts, spinning and weaving, and similar occupations. Growth in medium-scale and cottage industry-based production of carpets and garments for export, expanding tourism, and some government-promoted development of heavy industry sustained an average GDP growth rate of over 5% from 1980–88. In 1989/90, Nepal weathered a major trade and transit dispute with India, maintaining a GDP growth rate of 2%, despite the potentially debilitating tariffs suddenly placed on trade with its largest import supplier and external market.

Nepal's economic potential is by no means insignificant. Kāthmāndu Valley and the Terai zone are fertile areas; there is great forest wealth, including valuable medicinal plants such as pyrethrum, belladonna, and ipecac; deposits of several minerals are known to exist; and swift Himalayan rivers offer great possibilities for hydroelectric development.

The principal challenge for the Nepalese is to provide for a rising and unequally distributed population and to achieve material progress without irrevocably depleting the environmental resource base. Structural adjustment measures initiated in 1989 have reduced the regulation of industry and imports, and are supported by similar liberalization in India, to which Nepal's economy is closely tied. However, aggregate economic growth remained sluggish during the early 1990s. Gross domestic product growth

declined from 4.6% in 1990/91 to only 2.1% in 1991/92, due in large part to declining agricultural output following poor weather. Gross domestic product growth averaged an annual rate of 5% between 1988 and 1998. International actors fund more than 60% of Nepal's development budget and account for more than 28% of total budgetary expenditures. In 1995 Nepal joined the South Asian Association for Regional Cooperation (SAARC) in the South Asian Preferential Trade Area.

The GDP growth rate was negative in 2002 (-0.3%), but the economy recovered in 2003 and 2004, expanding by 2.8% and 3.4% respectively; in 2005, the GDP growth rate was expected to be 3.5%. The inflation rate has been fluctuating, but at 2.9% in 2004, it was considered to be under control and did not pose a problem to the overall economy. Despite encouraging economic growth rates, Nepal remains one of the poorest countries in the world, land-locked, with a poor infrastructure, and meager connections to outside markets.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Nepal's gross domestic product (GDP) was estimated at \$42.2 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,500. The annual growth rate of GDP was estimated at 2.5%. The average inflation rate in 2005 was 2.9%. It was estimated that agriculture accounted for 40% of GDP, industry 20%, and services 40%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$785 million or about \$32 per capita and accounted for approximately 13.4% of GDP. Foreign aid receipts amounted to \$467 million or about \$19 per capita and accounted for approximately 8.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Nepal totaled \$4.57 billion or about \$185 per capita based on a GDP of \$5.9 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

In 2001 it was estimated that approximately 44% of household consumption was spent on food, 7% on fuel, 5% on health care, and 14% on education. It was estimated that in 1996 about 42% of the population had incomes below the poverty line.

## 21 LABOR

In the latest years for which data was available, as of 1998, Nepal's labor force was estimated to number 11 million. In 2002, the vast majority, approximately 81% of the workforce, was engaged in agriculture. Most agriculturists are peasant farmers, and there are many wage laborers, but only in the peak seasons. The service sector provides work for 16% of the labor force, and industry accounts for the remaining 3%. There is a severe lack of skilled labor. Among some tribes, women do most of the farm work, while in others, especially among strict Hindus, they do no farming at all. Many occupations are effectively restricted to certain castes, al-

though the practice has been declared illegal. In 2001, the unemployment rate was 47%.

Unions are allowed to organize and strike. The three largest trade unions are associated with political parties, but the government does not restrict union activity. However, the right of a union to strike is limited to nonessential services. About 20% of the workforce is covered by collective bargaining agreements.

Minimum wage rates and working conditions in the small industrial sector are set by the Nepal Factories and Factory Workers' Act of 1959, as amended. In 2002, the minimum wage was \$20 per month for unskilled, \$21 for semiskilled, and \$25 for skilled workers in the organized industrial sector. Wages can be as low as 50% of the minimum in the informal economy and the agricultural sector. The law establishes a minimum employment age of 16 years in industry and 14 years in agriculture.

## 22 AGRICULTURE

In 2003, agriculture provided about 41% of GDP. Only about 7% of the land can actually be cultivated. Regional imbalance and lack of integration also hamper Nepal's agriculture. Although the country produces an overall exportable surplus of food grains, some areas of the country, particularly Kāthmāndu Valley and the hill areas, have a food deficit. Lack of transportation and storage facilities prevents the movement of food grains from the Terai to the hills, with the result that Nepal both exports and imports the same food items.

Agriculture has been hampered by the lack of irrigated land, by the small size of farms (an average of four hectares/10 acres), and by inefficient farming methods. Some of the arable land is still held free of taxation by a few large landowners and farmed by tenants, whose productivity is low. The government has officially abolished tax-free estates (*birta*), eliminated the feudal form of land tenure (*jagira*), set a limit on landholdings, and redistributed the extra land to farm tenants. Its economic plans also include the use of fertilizers, insecticides, improved seeds, and better implements; the extension of irrigation; and the construction of transportation and storage facilities.

Rice, Nepal's most important cereal, is grown on more than half the cultivated land, mainly in the Terai but also on every available piece of ground in the Kāthmāndu Valley during the monsoon season. In 2004, rice production totaled 4,300,000 tons. Production of maize, grown on the carefully terraced hillsides, was 1,590,000 tons in 2004; land under cultivation with maize was 25% of the area allotted to food grains. The output of wheat in 2004 was 1,387,000 tons; millet, 283,000 tons; and barley, 30,000 tons. Cash crops (with 2004 output) included sugarcane, 2,305,000 tons; potatoes, 1,643,000 tons; mustard seed, 133,000 tons; linseed, 6,100 tons; jute, 6,900 tons; and tobacco, 3,300 tons. Sugarcane, jute, and tobacco are the major raw materials for Nepal's own industries. Potatoes are grown in Ilam and fruit mainly in Dharan, Dhankuta, and Pokhara. Tea is also grown in Ilam and elsewhere. In 2004, exports of agricultural products totaled \$94.8 million, while agricultural imports amounted to \$187 million.

## 23 ANIMAL HUSBANDRY

Livestock, adapted to many uses, forms an essential part of the economy. Livestock accounts for about 30% of gross agricultural output. In farm work, bullocks and asses are largely used. Herds of

yaks, cows, and their hybrids, zobos, are grazed in the central valley and to some extent along the borders of the foothill jungles. A few hogs usually are kept on the larger farms. Sheep and goats are used for food and also as pack animals, particularly in the distribution of salt over the trade routes; the sheep also supply a valuable type of wool.

In 2005, Nepal had an estimated 6,994,000 head of cattle, 4,081,000 water buffalo, 817,000 sheep, 7,153,000 goats, and 948,000 hogs. Modern poultry farms are operated principally by the Newaris, who carry on most of the agriculture in the Kāthmāndu Valley. There were about 22.8 million chickens in 2005, when 15,700 tons of poultry meat were produced. Traditionally, butter and cheese are among the leading exports of Nepal. Livestock products in 2005 included an estimated 380,000 tons of cow's milk, 20,000 tons of butter and ghee, and 590 tons of wool (greasy basis).

## 24 FISHING

The commercial fish catch amounted to 36,568 tons in 2003 (up from 5,281 tons in 1991), with aquaculture accounting for 48%. In the Terai are many small fish ponds and several government fish farms. Common fish species are carp, gar, and murrel.

## 25 FORESTRY

In 2000, forests covered an estimated 27.3% of Nepal's total land area. Timber cutting has been contracted out to private firms. About 91% of the 13.9 million cu m (491 million cu ft) of roundwood cut in 2004 was for fuel.

In 1961, the government established a department of medicinal plants to encourage Nepal's commercially important herb exports. There are regional herbal farms at Kāthmāndu and Nepalganj. There is also a royal research laboratory for drug analysis.

## 26 MINING

Although mining in Nepal was an ancient occupation, the country's mineral resources have been little exploited. Mining and quarrying was dominated by the production of cement, red clay, coal, limestone, magnesite, and marble. In 2004, cement production totaled 300,000 metric tons, while red clay output came to 29,234 metric tons. Coal output that same year (bituminous and lignite) totaled 10,517 metric tons, while limestone production totaled 388,109 metric tons. In 2004, the country also produced quartz, quartzite, salt, talc, and tourmaline. A lead and zinc deposit near Lari had reserves of two million tons, and there were known deposits of iron, copper, graphite, cobalt, mica, and slate. Development plans included the encouragement of small-scale mining, and provided for continuing mineral surveys.

## 27 ENERGY AND POWER

Nepal, as of 1 January 2004 had no proven reserves of crude oil, natural gas, or any refining capacity, and as of 2003, negligible reserves of coal.

In 2002, Nepal's imports of refined petroleum products averaged 15,620 barrels per day, while demand in that year averaged 15,510 barrels per year. Although there were no recorded imports of natural gas in 2002, Nepal did import 238,000 short tons of coal, and did produce 13,000 tons of bituminous coal.

The bulk of Nepal's electricity is hydroelectric. In 2002, electric generating capacity totaled 0.458 million kW, with hydroelectric accounting for almost 84% of that total. The remaining capacity was dedicated to conventional thermal sources. Electric power output in 2002 totaled 2.333 billion kWh, of which hydroelectric generation produced almost 90% of that amount. Demand for electricity in 2002 totaled 2.268 billion kWh. As of 2000, only 15% of Nepal's population had access to electricity.

## 28 INDUSTRY

Until the 1980s, modern industry was almost nonexistent; only 0.66% of Nepal's GDP was derived from industry in 1964/65. Since then, industrial development has been given emphasis in economic planning. Manufacturing as a percent of total GDP rose from 4.2% in 1980 to 6.1% in 1990 to 9.2% in 1995 to an estimated 22% in 2000. However, manufacturing is a sector that has been hit particularly hard by the Maoist insurgency and the intensification of violence since 2001. The CIA estimates that the industrial production growth rate for 1999/2000 was 8.7%. However, this had dropped to less than 1% for 2001/02 according to IMF estimates.

Starting in the 1930s, a number of public enterprises (PEs) were established by the government with an aim of building an industrial and manufacturing base. About 62 PEs in all were established, close to half in the industrial sector, with others in the trading, service, public utility and financial sectors. The oldest surviving PE is the Biratnagar Jute Mills (BJM), set up in 1936. The jute industry has been in decline since 1966. In 2002 BJM was being operated by a private conglomerate on terms of a five year lease from the government. PEs in the industrial sector include cement factories, brick factories, sugar mills, textile mills, jute products factories, tool factories, foundries, and industrial chemical and fertilizer factories. From the early 1990s, there have been planned campaigns to reform and privatize the PEs. By the beginning of the Ninth Five-Year Plan (1997–2002), 16 PEs, over half industrial, had been handed over to private owners, and four had been shut down. A list of 30 PEs, 13 in the industrial sector, were scheduled for privatization during the Ninth FYP, but, in fact, only one, the Nepal Tea Development Corporation, has been privatized. The slowdown of the reform is attributable to both the outbreak of the Maoist insurgency in 1996 and a growing resistance to the privatization program from many sides, but particularly from workers' unions who perceive jobs as threatened. The PEs were not originally set up as commercial enterprises, and most do not even maintain updated accounts that would allow an auditor to assess their market viability. Analysts generally agree, however, that they are inefficiently overstaffed with low skill labor, and that most of the industrial PEs have a negative worth. The IMF estimates that net profits from the PE sector as a whole plunged from around NR3 billion (about \$44 million) in 1998/99 to NR240 million (about \$3.23 million) in 2000/01, despite continued government transfers and investment. That the figure remained positive is due virtually entirely to the profitability of three public utility PEs. Some of the known liabilities in the industrial sector include wage arrears that reached 16 months for the Agricultural Tool Factory, and four months for the Lumbini Sugar Factory. According to a study of eight industrial PEs reported by the IMF, employees of these companies are owed for gratuity, sick and home leaves, medical allowance and insurance premiums to the amount of about NR15.2 billion (about \$204

million or 3–4% of Nepal's GDP). There are also large arrears to banks and suppliers, but monitoring mechanisms are insufficient to make reliable estimates. In February 2002, the government set up a special financing facility at 3% interest to encourage commercial banks to provide concessional loans to ailing industries, particularly those in the garment and hotel industries, which through exports and tourism are major earners of foreign exchange.

According to the CIA, major industries in Nepal include tourism, carpets, textiles, small rice jute, sugar, and oilseed mills; cigarettes, cement and brick factories. Aside from small-scale food processing (rice, wheat and oil mills), light industry, largely concentrated in southeastern Nepal, includes the production of jute goods, refined sugar, cigarettes, matches, spun cotton and synthetic fabrics, wool, footwear, tanned leather, and tea. The carpet, garment and spinning industries are the three largest industrial employers, followed by structural clay products, sugar and jute processing. Sugar production was 49,227 tons in 1995, jute goods, 20,187 tons; and soap, 23,477 tons. That year, 14.7 million m of synthetic textiles and 5.06 million m of cotton textiles were produced. Industrial production from agricultural inputs included 20,800 tons of vegetable ghee, 16.76 million of beer and liquor, 9 billion cigarettes, and 2,351 tons of tea.

Heavy industry includes a steel-rolling mill, established in 1965, which uses imported materials to produce stainless steel. During the 1980s, the government gave priority to industries such as lumber, plywood, paper, cement, and bricks and tiles, which make use of domestic raw materials and reduce the need for imports. Production by heavy industries in 1995 included 326,839 tons of cement and 95,118 tons of steel rods.

Industrial production growth rates have been higher than the overall economy growth rates, indicating that industry is a growth engine. However, this sector had a share of only 20% in the GDP, and employed only 3% of the working population; agriculture was by far the largest employer, and accounted for 40% of the economy; services came in second, with a 16% representation in the labor force, and a 40% share in the GDP.

## 29 SCIENCE AND TECHNOLOGY

The only advanced technology is that brought in under the various foreign aid programs. Foreign technicians provide training in cottage industries, and local workers are trained at the Cottage Industry Center in Kathmandu. In 1982, the Royal Nepal Academy of Science and Technology was established at Kathmandu to aid in socioeconomic development. The National Council for Science and Technology aims to formulate science and technology policy, promote scientific and technological research, coordinate research among ministries and Mehendra Sanskrit University, and disseminate information to the public. Tribhuvan University has faculties of science and technology, medicine, agriculture and animal science, engineering, and forestry. In 1987–97, science and engineering students accounted for 13% of college and university enrollments. In 2002 Nepal's expenditures on research and development (R&D) totaled \$220.821 million, or 0.67% of GDP. In that

same year, Nepal had 62 researchers and 145 technicians engaged in R&D per million people.

### 30 DOMESTIC TRADE

For the six and one-half years of the Maoist insurgency in Nepal domestic trade has been severely hampered in rural areas. For many Nepalese, local trade is a part-time activity, limited to such products as cigarettes, salt, kerosene, and cloth. Marketing centers are along the main trails and are supplemented by small local markets. Distribution channels generally move from manufacturer, to distributor, to retailer. Poor communications facilities make extensive domestic trade impractical. However, one major impediment, the local tax on trade called octroi, was eliminated in 1997. Also, in the early 1990s, domestic airline routes were privatized, quadrupling domestic air traffic.

Most shops are open from 10 AM to 8 PM. Businesses and government offices generally operate from 9 AM to 5 PM. Most stores and businesses are closed on Saturdays.

### 31 FOREIGN TRADE

Traditionally, Nepal's foreign trade was limited to Tibet and India. After 1956, Nepalese trading agencies in Tibet were confined to Xigaze, Gyirong, and Nyalam, with Lhasa, Xigaze, Gyangze, and Yadong specified as markets for trade. In 1980, however, Nepal and China agreed to open 21 new trade routes across the Tibetan frontier. Treaty arrangements with China strictly regulate the passage of both traders and pilgrims in either direction across the border. Up until 1989, treaty agreements between India and Nepal allowed for unrestricted commerce across 21 customs posts along the border, and duty-free transit of Nepalese goods intended for third-party countries through India. In 1989, a breakdown in the treaty renewal negotiations resulted in retaliatory actions on both sides. India's share of Nepali exports plummeted from 38% in 1986/87 to 9% in 1989/90. India's share of the country's imports declined by about 25–50%. Despite the severe shock sustained by the Nepali economy, the signing of a new interim agreement in 1990 prevented a prolonged crisis, helping to fuel a robust recovery in export growth as exports increased by 28% in 1990/91 over 1989/90, and again by 35% in 1991/92.

Under the renewal of the bilateral trade treaty with India in 1997, Nepali goods entered India essentially duty free and quota free. As a result, exports to India grew for four years, from 1997 to 2001, at an average rate of 42% a year. The most recent India-Nepal Treaty of Trade, signed in March 2002, continues to allow Nepali manufactures to enter the Indian market on a nonreciprocal, preferential, or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufactures can have up to 70% foreign content instead of the international norm of less than 50%). However, it places quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than Nepali exports to India.

The imposition of some nontariff barriers (NTBs) by India is just one factor in the estimated decline in the growth rate of Nepal's exports. Other factors are the damage to production caused by the intensification of the country's Maoist insurgency in 2001, the global economic slowdown, and a rapid decline in demand from Nepal's main third-country destinations, the United States and Germany, in the post-9/11 atmosphere. The end of the 1990s

#### Principal Trading Partners – Nepal (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	708.8	1,557.9	-849.1
India	317.8	575.7	-257.9
United States	192.2	24.1	168.1
Germany	105.5	21.1	84.4
United Kingdom	16.8	20.6	-3.8
Belgium	11.4	...	11.4
France-Monaco	10.3	27.0	-16.7
Japan	9.9	40.7	-30.8
China, Hong Kong SAR	7.1	95.7	-88.6
Switzerland-Liechtenstein	5.9	143.4	-137.5
Italy-San Marino-Holy See	4.2	12.8	-8.6

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Nepal (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>110.3</b>
Balance on goods		-987.8
Imports	-1,681.9	
Exports	694.1	
Balance on services		106.6
Balance on income		-20.2
Current transfers		1,011.7
<b>Capital Account</b>		<b>24.8</b>
<b>Financial Account</b>		<b>-413.3</b>
Direct investment abroad		...
Direct investment in Nepal		14.8
Portfolio investment assets		...
Portfolio investment liabilities		...
Financial derivatives		...
Other investment assets		-507.1
Other investment liabilities		79.0
<b>Net Errors and Omissions</b>		<b>370.8</b>
<b>Reserves and Related Items</b>		<b>-92.7</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

saw robust growth in Nepal's exports, which increased nearly 12% in 1997/98, nearly 18% in 1998/99 and 37.4% in 1999/2000. The export growth rate fell, however, to 4.6% in 2000/01, according to the IMF. In 2001/02, exports are estimated to have actually declined by 15%.

The CIA reported that for 2000/01, recorded exports from Nepal were an estimated \$757 million (FOB) and that imports for this period were \$1,600 million, indicating an apparently unsustainable merchandise trade deficit of \$843 million, or 111.5% of exports. However, the figure for exports does not include unrecorded border trade with India, including substantial gold smuggling.

The major export destinations in 2000/01 were India (48%), the United States (26%), and Germany (11%). Over the past decade, exports to India, while continuing to account for about half of Nepal's exports, have soared in value and become increasingly

diversified as Nepal's manufactures have carved out niches in the Indian market. Exports to the United States consist mainly of apparel, including pashmina (the Indian name for cashmere) products, whereas exports to Germany are dominated by woolen carpets. In the wake of 9/11, exports to the United States declined 15% in 2001, after an increase of 30% in 2000. For 2001/02, the IMF estimates that exports to countries other than India declined more than 40% due to the combination of external slowdown and internal supply disruptions.

In 2004, exports reached \$626 million (FOB—Free on Board), while imports grew to \$1.7 billion (FOB). The bulk of exports went to India (47.4%), the United States (22.7%), Germany (8.4%), and the United Kingdom (3.1%). Imports included petroleum products, vehicles and spares, other machinery and parts, textiles, and thread, and mainly came from India (46.3%), China (10.8%), the UAE (9.3%), and Saudi Arabia (4.1%).

### **3<sup>2</sup> BALANCE OF PAYMENTS**

Despite large recorded trade deficits, Nepal often maintains a surplus in its current account thanks to surpluses in services (including tourism), official aid transfers, and increasingly large remittances from Nepalese living abroad, and in spite of unrecorded trade and smuggling across the Indian border. The IMF reported small surpluses on Nepal's current account of \$24 million and \$28 million respectively, for the fiscal years 1998/99 and 1999/2000, even exclusive of official aid transfers. Adding in official transfers brought the total current account surpluses for these years to \$98 million and \$114 million, respectively, representing 2–3% of GDP. Nepal's overall balance of payments was positive for the fiscal years 1998/99 and 1999/2000, at \$136 million and \$192 million, respectively, as outflows of capital and other payments were estimated to be more than offset by inflows of capital grants and official disbursements. However, in 2001/02, by IMF's preliminary estimate, Nepal's overall balance of payments was a negative \$77 million (1.4% of GDP) due primarily to a falling off in foreign aid. Official reserves held by the central bank in 2000/01 were initially estimated to be sufficient to cover 6.7 months of imports, just above the 6 months' coverage deemed financially prudent. However, of these reserves, about \$290 million were being held in Indian rupees, with about \$732 million in convertible currencies, enough to cover only 4.8 months of imports. Total external debt in FY 2000/01 was \$2.55 billion, about 46% of annual GDP. Nepal's debt service ratio (the ratio of annual payments on the debt to annual exports) was a low 6% in this period, reflecting the highly concessional nature of its external finance. Nepal's debt has never been rescheduled. Its last arrangement with the IMF was in October 1992 under the Extended Structural Adjustment Facility (ESAF), for a line of credit of SDR 33.5 million—47% of Nepal's quota—of which only half, SDR 16.79, was ever drawn down by Nepal. The obligation was scheduled to be fully repaid by 2006, with payments of SDR 2.4 million in 2003; SDR 0.8 million in 2004; SDR 0.2 million in 2005; and SDR 0.2 million in 2006.

The International Monetary Fund (IMF) reported that in 2001 Nepal had exports of goods totaling \$721 million and imports totaling \$1.49 billion. The services credit totaled \$413 million and debit \$215 million. The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Nepal's exports

was \$757 million while imports totaled \$1.6 billion resulting in a trade deficit of \$843 million.

Exports of goods and services reached \$1.1 billion in 2004, up from \$925 million in 2003. Imports grew from \$1.8 billion in 2003, to \$2.1 billion in 2004. The resource balance was consequently negative in both years, reaching -\$882 million in 2003 and -\$999 million in 2004. The current account balance was also negative, decreasing from -\$88 million in 2003, to -\$144 million in 2004. Foreign exchange reserves (including gold) grew to \$1.5 billion in 2004, covering more than eight months of imports.

### **3<sup>3</sup> BANKING AND SECURITIES**

The central bank of Nepal is the Nepal Rastra Bank (NRB), established under the NRB Act of 1955, which, effective 31 January 2002, was replaced by a new NRB Act designed to give the central bank more autonomy in setting monetary policy and more supervisory authority. The new legislation outlines the procedures for appointing and dismissing the NRB Governor, Deputy Governor and board, as well as procedures for intervening with insolvent financial institutions. Further reforms are expected with the implementation of the Banking and Financial Institutions Act of 2003 which aims, inter alia, to reduce the government's role as owner and strengthen its role as regulator. Nepal's financial sector has historically been weak and nontransparent, characterized by politically-motivated interference, insider trading, weak management, disruptive unions, an inadequate financial information system, and a deeply entrenched culture of nonpayment of loans.

A World Bank report found that as of November 2002 Nepal had 15 commercial banks. The two largest, the Rastriya Banijya Bank (RBB), Nepal's largest bank with an estimated 27% of total banking assets, and the Nepal Bank Ltd. (NBL), Nepal's oldest commercial bank, founded in 1937, account for over 50% of banking assets. The RBB is wholly owned by the government (but slated for privatization), whereas the NBL, though founded with 51% government ownership, has sold shares to the public sufficient to reduce the government's share to 41%. There are also nine smaller joint venture banks (JVB's) with mixed public-private ownership, and four local commercial banks. The banking sector also includes two large development banks, the Agriculture Development Bank of Nepal (ADB/P) and the Nepal Industrial Development Corporation (NIDC), the second- and third-largest banks. The ADB/N maintains a micro-financing window, as does the NRB, the RBB, the NBL, and the regional development banks. According to the World Bank, as of November 2002, Nepal also had 48 finance corporations, 13 insurance companies, numerous finance institutions, 7 Grameen Replicator Banks, 35 financial cooperatives, and 25 financial NGOs.

Both of the largest commercial banks, the RBB and the NBL, are in precarious financial condition. According to a 2000 study by the World Bank, the most recent available, in 1998 the RBB and NBL together had a losses of \$146 million, equivalent to 8.6 % of Nepal's GDP or 46% of the government's budget. The condition of both banks has doubtless deteriorated since then. In 2001 government authorities, in conjunction with the IMF and the World Bank, concluded that external managers, selected by the World Bank and the United Kingdom, were needed to reform the RBB and the NBL. Opposition to these proposals came from all sides: the boards of directors, the employees' unions and the borrowers.

In January 2002, the NRB invoked the provisions of the new NRB Act and suspended the board of the NBL, effective 15 March 2002. For the RBB, the government entered into a contract on 31 January, 2002 with the American firm Deloitte Touch Tomatsu (DTT) for that company to take over management of the RBB. DTT, however, soon pulled out of the agreement, citing ambiguities in the contract and security concerns as the Maoist insurgency in Nepal became increasingly violent. In July 2002, a professional management team was installed at NBL, and in late 2002, a new CEO was appointed. The RBB is slated to be privatized in 2003.

Demand for new credit in Nepal was weak in 2001 and 2002, but the demand for credit to refinance from troubled debtors was substantial. Credit expanded in 2001 by about 10%, creating liquidity shortages at some commercial banks. In response, the NRB lowered Cash Reserve Requirements (CRRs) in January 2002 by 1.2% to around 9% (with a 3% of deposits required to be cash-in-vault). Also, refinancing rates were lowered 100–200 basis points to 2–5% in January 2002. In February 2002, the NRB set up a special refinancing facility at 3% interest to encourage commercial banks to make concessional loans to ailing businesses, particularly those in the garment and hotel enterprises hit by sharp declines in export demand and tourism.

At the end of FY 2000/01, in July 2001, net foreign assets held by monetary authorities in Nepal totaled \$1 billion, and broad money supply totaled about \$2.87 billion. The broad money supply grew by 21% in 1999, 21.7% in 2000, and 15% in 2001, considerably ahead of inflation rates for those years, mostly due to expansion of paper currency resulting from the progressive monetization of the Nepalese economy. However, for FY 2001/02, the IMF estimates that broad money growth slowed to 6% because of the weakened economy and stagnant bank deposits due to the voluntary disclosure of income scheme (VDIS) and other asset verification efforts by the tax authorities. Inflation as reflected in consumer prices has been substantially moderated since October 1997 when Nepal shifted its exchange regime to one pegged only to the Indian ru-

pee, instead of to a composite of currencies. Earlier, in February 1993, Nepal had ended its dual currency system where by both the Indian and Nepalese rupee were allowed to circulate freely. In 2001, weak domestic demand and stable Indian prices combined to produce a subdued inflation rate of 3%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$962.8 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

The NIDC, along with the NRB, controlled the Security Exchange Center (SEC), set up in 1981, which was subsequently converted into the Nepal Stock Exchange (NEPSE) in 1984. In January 2003, there were 55 companies listed on the NEPSE, virtually all actively traded.

### 34 INSURANCE

The World Bank reported in November 2002 that Nepal had 13 insurance companies. All are government owned or have some government participation. Nepal joined the Multilateral Investment Guarantee Agency (MIGA) in 1993. The US Overseas Private Investment Corporation (OPIC) and other investment insurance programs are free to operate in Nepal without restriction. OPIC is authorized to offer its extended-risk guarantee facility to US investments in Nepal.

### 35 PUBLIC FINANCE

Nepal's fiscal year ends on July 15. The continued and increasingly violent Maoist insurgency, entering its tenth year in 2006, has had crippling impacts on Nepal's public finances, interfering with tax collections and disrupting production while at the same time requiring increased public spending on security and to repair damaged infrastructure. Most fundamentally, the insurgency hampers the government's efforts to address the poverty and other social problems fueling the rebellion. The perception of widespread corruption aggravates the present difficulties as does the global economic slowdown. Historically, most deficits on capital account have been financed by foreign grants, while domestic revenues have been sufficient to cover expenditures. Macroeconomic policy in FY 2001/02 was focused on increasing revenue collection, maintaining strict expenditure priorities, and containing domestic borrowing. A voluntary disclosure of income scheme (VDIS) plus other special revenue measures probably contributed to raising domestic revenues collected to 11.4% of GDP in FY 2000/01 and FY 2001/02, up from an average of less than 10.5% for the three previous fiscal years, but the relative rise in expenditures—1.5% of GDP—has outpaced the 0.9% rise in the revenue effort. Domestic public rose from about 14% of GDP in FY 1998/99 to about 18% of GDP in FY 2001/02, raising concerns that with increased domestic financing, in an environment in which bank deposit rates are stagnant, banks will have to draw on Nepal's scarce hard currency reserves. For FY 2000/01 the CIA estimated Nepal's external debt at \$2.55 billion. By IMF estimates, total public debt in FY 2000/01 came to 49.9% of GDP, somewhat below the average for the previous five years of 52.2% of GDP.

#### Public Finance – Nepal (2003)

(In millions of rupees, central government figures)

<b>Revenue and Grants</b>	<b>61,250</b>	<b>100.0%</b>
Tax revenue	42,617	69.6%
Social contributions	...	...
Grants	8,372	13.7%
Other revenue	10,261	16.8%
<b>Expenditures</b>	<b>74,715</b>	<b>100.0%</b>
General public services	18,829	25.2%
Defense	7,450	10.0%
Public order and safety	7,065	9.5%
Economic affairs	16,454	22.0%
Environmental protection	...	...
Housing and community amenities	3,419	4.6%
Health	4,065	5.4%
Recreational, culture, and religion	...	...
Education	13,282	17.8%
Social protection	4,079	5.5%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were NR61,250 million and expenditures were NR74,715 million. The value of revenues was us\$804 million and expenditures us\$980 million, based on a market exchange rate for 2003 of us\$1 = NR76.141 as reported by the IMF. Government outlays by function were as follows: general public services, 25.2%; defense, 10.0%; public order and safety, 9.5%; economic affairs, 22.0%; housing and community amenities, 4.6%; health, 5.4%; education, 17.8%; and social protection, 5.5%.

### **36 TAXATION**

The principle sources of domestic revenue are customs tariffs, value-added taxes (VAT), excise duties, and income taxes on personal and corporate incomes. There are also local development taxes, as well as license and registration fees for houses, land and vehicles.

The standard corporate income tax rate is 25%, with a minimum rate of 20%. However, financial institutions are liable for 30%. Capital gains are taxed at a 10% rate. Ordinary income cannot be offset by capital losses, and ordinary losses cannot be offset by capital gains.

The VAT was introduced in November 1997 as a reform designed to replace sales taxes and most excises. The "octori," a traditional local tax on trade, was also eliminated at this time. Five years after its introduction, however, the VAT had yet to be completely implemented, as indicated by a finding that whereas net taxes from VAT have increased 65% over the first five years, refunds have increased by a factor of 23. The VAT rate is 10% and is collected at every stage of selling goods and services. Goods exempted for the VAT include primary food stuffs, agricultural products, and industrial machinery. There is no VAT on goods for export, or on raw materials imported by an export promotion industry, nor the products of such an industry.

Excise taxes are applied mainly to goods deemed hazardous to health, such as alcoholic beverages, cigarettes and soft drinks. In January 2002, a new Excise Act went into effect that raised rates slightly as part of the government's effort to pay for increased security expenditures since 2001.

On April 1, 2002 the government put into effect a new Income Tax Act, replacing the previous act of 1958, and developed in close cooperation with the IMF. The new act covers all sources of income—from employment, business and investment—and encourages self-assessment and pooled depreciation. In July 2002, personal income tax brackets were adjusted upward somewhat. With these adjustments, there are two tax tiers, 15% and 25%. For individuals, income below NR65,000 (about \$850) is exempt, and for couples, NR85,000 (about \$2100). The highest marginal rate, 25%, applies to income above NR140,000 (about \$1850) for individuals, and NR160,000 (about \$2000) for couples.

In addition to regular taxes, the government has imposed a number of "security surcharges" to deal with the increased security expenditure needed to deal with the intensifying Maoist insurgency. Special fees of 3% have been added to the taxable income of individuals, couples, companies, partnerships and nonresident taxpayers. Surcharges of 1–3% have been applied to imports, plus a NR1 (about \$.013) per liter tax has been added to petroleum products. The government also mounted a voluntary disclosure

of income scheme (VDIS), which had questionable results. Over 3,000 new taxpayers were registered, but a simultaneous decline in bank deposits suggests more taxable income was being hidden than disclosed.

### **37 CUSTOMS AND DUTIES**

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0–140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 110%, although alcoholic beverages with more than 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewelry are prohibited except under bag and baggage regulations. According to the World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include: archeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Efforts to combat smuggling appeared to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.

### **38 FOREIGN INVESTMENT**

Foreign direct investment in Nepal, always low in this land-locked kingdom, has seen annual decreases across the five years of the Ninth economic plan (1997/98 to 2001/02), from an annual total of \$11 million in 1997/98 to annual totals of \$6 million in both 2000/01 and 2001/02, according to IMF estimates. The fiscal year 1999/2000 actually had the lowest annual total, at \$3 million. In 2001, according to the government of Nepal, there were 670 foreign investment projects in the country, worth together about \$1 billion. Of these, 35% were Indian and 11% (69 projects) were from the United States with other prominent participants being Japan, China, Germany, and Korea. India's dominance is due not just to its proximity, but also to incentives for Indian investors to take advantage of the preferential trade regime India extends to Nepal's

manufactures through their bi-lateral trade agreements. The bi-lateral trade treaty signed 4 December 1996 lifted all customs duties on Nepalese industrial products, while imposing more lenient rules of origin than the international norm. The renewed treaty in March 2002, while imposing quotas on four primary and raw material exports, preserved the preferences on industrial products intact. Besides India, Nepal has negotiated bilateral investment agreements with Bhutan, Germany, and Norway.

In conjunction with the advent of multiparty democracy in 1991, Nepal has undertaken economic reforms that, at least on paper, have been aimed at making Nepal increasingly attractive to foreign investors, beginning with the Foreign Investment and One Window Policy Act of 1992 and the establishment of an Investment Promotion Board. Steps have been taken to privatize dozens of government-owned public enterprises (PEs), and to open up for private investment previous government monopolies in telecommunications, hydroelectric power, and air transportation.

Licensing requirements have been streamlined, and 100% foreign ownership is now permitted. In 1999, minimum investment requirements were also lifted. The legal basis for the full-scale private development of Nepal's massive hydroelectric resources and private export to India have been laid. The first fully private power projects are now in operation, though less than 1% of the potential has been exploited. Repatriation on income by foreign permanent nonresidents is taxed at 10%. Foreign investors are entitled to repatriate outside of Nepal the amount received from the sale of all or part of shares in their Nepali investment, and all amounts received as profits or dividends.

The US State Department, however, has reported that the implementation of the liberalizing reforms has been distorted not only by bureaucratic delays and inefficiencies, but by contradictory policies that mitigate and even negate the reforms. Many sectors remain closed to foreign investment, including financial services and management consulting, as well as traditional cottage industries, defense-related industries, alcohol and tobacco. On intellectual property rights both legislation and practice are considered inadequate. All foreign investment and technology transfer must have specific permission from the Department of Industries. Problems doing business in Nepal, even aside from the intensifying insurgency, make a formidable list: lack of direct access to airports, poor ground transportation, lack of skilled labor and technological expertise, unclear rules on labor relations, inadequate power, inadequate water supply, few local raw materials, non-transparent and arbitrary tax administration, and inadequate and obscure commercial legislation. One result, according to the US State Department, is the necessity for constant interaction with government officials, far from the "One Window" policy set out in the 1992 legislation.

In 2002, the government has spoken about plans for new bankruptcy and debt recovery legislation, new intellectual property legislation, and intentions to open the country to international accounting and auditing firms, but these have not taken concrete form. For 2002/03 perhaps the promising step is the introduction of a 10 year multi-entry visa for nonresident Nepalis (NRNs) willing to invest in Nepal.

In 2004, there were 927 foreign investment projects in Nepal, whose value rose to approximately \$1.7 billion. The total share of FDI included in these projects was \$442 million. Most of the in-

vestments went to the manufacturing and tourism industry. Major investors included India, the United States, China, the British Virgin Islands, Norway, Japan, and South Korea. Although the government has made some progress in creating a better business environment for foreign investors, Nepal remains an inaccessible country (with the nearest accessible port in Calcutta, India), with a very poor infrastructure, a poorly educated population, scarce natural resources, an inefficient energy sector, and an obtuse law system.

### **39 ECONOMIC DEVELOPMENT**

In July 2002, Nepal completed its ninth economic planning period, and embarked on its tenth (2002/03 to 2007/08). It has not been a triumphant progression. Buffeted by a sagging world economy, the aftermath of the 11 September 2001 terrorist attacks on the United States, and an increasingly violent Maoist rebellion, Nepal reported its lowest growth rate—0.8% of GDP—in over a decade, and a 23.4% plunge in development spending, a serious stumble in the moderate, but steady progress it had been making in the 1990s.

Planned economic development began in 1953 with construction of roads and airfields and of irrigation projects to bring more acreage under cultivation. In 1956, these projects were integrated into the first five-year plan (1956–61) to assist existing industries, revive and expand cottage industries, encourage private investment, and foster technological training. With the second plan (1962–65), the government introduced land reform with programs to set ceilings on land holdings, to protect tenancy to redistribute land to the landless, and to initiate a compulsory saving plan. Though declared a success at the time, land holdings have remained seriously skewed in distribution mainly because large land holders were able parcel out land to relatives, and because the poor have been forced to sell their redistributed land to pay debts. The third economic plan (1965–70), was the first to be administered under the panchayat system, the system overthrown in the economic reforms of the early 1990s. The fourth (1970–75) and fifth (1975–80) five-year plans continued to emphasize infrastructural development, primarily in transportation, communications, electricity, irrigation, and personnel. The sixth development plan (1980–85) allocated nearly one-third of its total expenditure to agriculture and irrigation. However, money targeted for development projects was used for other purposes.

The objectives of the seventh plan (1986–90) were to increase production, create opportunities for employment, and fulfill basic needs. Of the total expenditure, 65% was to be used for investment, allocated as follows: agriculture, irrigation, and forestry, 30.6%; industry, mining, and electricity, 26%; transportation and communications, 17.7%; social services, 25.2%; and other sectors, 0.5%. Foreign aid was expected to fund about 70% of these projects.

With the establishment of multiparty government in 1991, a comprehensive set of reforms affecting all sectors of the economy was initiated under the eighth five-year plan (1992–97). Nepal's public enterprises (PEs) were slated for privatization, government monopolies in hydroelectric power, telecommunications, and transportation were opened to private investment, customs were streamlined, and the country declared open for foreign investment. The ninth plan (1997–2002) emphasized investments

in agriculture and hydroelectric power, liberalization and privatization of the economy, and a thorough reform of the tax system and banking practices. Under the tenth plan, to run until 2007/08, priorities have shifted to security and poverty reduction, but with a renewed emphasis on privatization and the effort to encourage private investment.

Nepal has considerable development potential. Its vast hydroelectric power resources are estimated at 83,000 MW, of which less than 1% has been brought on line. The legal framework for the full-scale private development of the hydro-electric sector, with private exports to India, is in place. Other promising growth sectors are air transportation and telecommunications, both open to private investment, and tourism. There is growth potential in both malefactors and agricultural products for export. Although there have been many slips in the implementation of the government's economic liberalization program, it has maintained a stable, non-inflationary currency regime, and, until the eruption of problems in 2001, a record of unspectacular but steady 5% annual growth rates in GDP. The government also claims improvement in the reduction of poverty, from 42% of the population in 1997 to 38% in 2003.

Nevertheless, the challenges to Nepal's economic development are formidable. These include limited natural resources, difficult topography, poor infrastructure, landlocked location, weak human capital (with both low levels of education and health), poor public management, and a long history of political interference in the economy. Nepal's economy is characterized by a high vulnerability to shocks, natural and man-made. Its growth has been arrested since 2001, and with a per capita income below \$300 in nominal terms, it remains one of the world's poorest countries. It remains to be seen whether its economic reform programs will be swept away, or prove to be built solidly enough to weather the passing storms.

The economy has been expanding modestly in 2003, and 2004, and is expected to continue the trend for at least a couple of more years. The main growth engines of the economy are remittances from Nepali workers overseas. The on-going Maoist conflict, as well as expected insufficient precipitations (which will negatively affect the agriculture sector), will likely place the expansion rate of the economy below its potential.

#### 40 SOCIAL DEVELOPMENT

The government maintains a countrywide village development service, which endeavors to meet the villagers' needs for food, clothing, shelter, health services, and education. Village development workers demonstrate improved methods of sanitation and health and teach the villagers to read and write. The Employee Provident Fund administers a program of old age, disability, and death benefits for government and corporate employees, funded by contributions from both employers and employees. Pensions are provided as a lump sum equal to contributions plus interest. Retirement is at age 55. There is a social assistance program that provides benefits to Nepalese citizens aged 75 or older. Employees of establishments with 10 or more workers are covered by work injury insurance, which is funded by the employer through a private carrier. Severance pay is also mandated in some circumstances.

Women are subject to gender discrimination, especially in traditional rural areas. The present constitution has strengthened

provisions protecting women, including equal pay for equal work, but few women work in the money economy. Women's inheritance and marriage rights have been strengthened, but women suffer discrimination in both areas. Domestic abuse and violence against women are serious societal problems that citizens and governmental authorities do not recognize. The tradition of dowry remained strong and the killing of brides for default are still reported in 2004. There are also reports of women being abused because they are suspected of witchcraft. The abduction of young girls to be taken to India to work as prostitutes is a serious problem.

The human rights record remained poor. Members of lower castes suffer from widespread discrimination and many are in positions of bonded labor. Senior positions in politics and the civil service are dominated by urban-oriented castes, such as the Brahmin and Chhetri.

#### 41 HEALTH

As of 2004, there were fewer than 5 physicians, 26 nurses, and 7 midwives per 100,000 people. In the same year, there were 9 private hospitals and at least 10,000 private pharmacies in the country. Most of the medical personnel work in the Kāthmāndu Valley and health services elsewhere are in short supply. The public sector provides most of the country's health care. Traditional medicine and faith healing are still used frequently, especially in the hill districts. Only one in 10 rural dwellers lived within one hour of a hospital. Total health care expenditure was estimated at 5.4% of GDP.

Although protected by mountain barriers, Nepal is in frequent danger from epidemics, notably cholera. Japanese encephalitis is endemic in the Terai plain and inner Terai zone. Overall, 70% of illness is from communicable disease. Common afflictions are black fever (*kala-azar*), amoebic dysentery, eye diseases, typhoid, and venereal diseases. Malnutrition, contaminated water, and inadequate sanitation cause widespread health problems. Improved health programs in rural areas have helped control malaria, leprosy, and tuberculosis. However, tuberculosis remains a significant health problem. Approximately 81% of the population had access to safe drinking water and 27% had adequate sanitation.

Immunization rates for children up to one year old were as follows: tuberculosis, 96%; diphtheria, pertussis, and tetanus, 78%; polio, 78%; and measles, 85%. Major causes of illness in children are perinatal conditions, diarrhea, measles, and severe respiratory conditions.

Nepal has a large number of drug addicts. Stringent amendments to the Narcotic Drug Control Act were adopted in 1986 in response to pressure from the United States and the United Kingdom.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 32.9 and 10 per 1,000 people. Birth control was used by 29% of married women. The infant mortality rate was 66.98 per 1,000 live births in 2005. In the same year, the average life expectancy was 62.73 years. Malnutrition is a common problem. Over half of all children under five were underweight. It was estimated that 54% of children under five were malnourished.

As of 2004, there were approximately 61,000 people living with HIV/AIDS in the country. There were an estimated 3,100 deaths

from AIDS in 2003. The HIV/AIDS prevalence was 0.50 per 100 adults in 2003.

## 42 HOUSING

Most of the population lives in rural villages where houses are made of stone or mud bricks, with thatched roofs and raised eaves. Bamboo and reed huts are also prevalent. Most houses have two stories, but some contain only two rooms, a sleeping room and a room for cooking. In slum areas, wood, straw, paper, and plastic sheeting are used for temporary shelters. The well-constructed houses of the Sherpas are generally built of stone and timber, roofed with wooden slats.

In 2001, there were about 3,598,212 dwellings serving about 4,174,372 households. The average household size is 5.4 members. About 49.7% of all households live in temporary housing, those made with bamboo, reeds, mud, or other nondurable materials. About 23.5% live in permanent structures made of concrete, brick, stone, tile, and other durable materials. About 88.3% of all dwellings are owner occupied. About 93% of rural dwellings are owner occupied; compared to 60% of urban dwellings. A little over 53% of all households have access to piped water and only 46% have toilet facilities. Wood is the most commonly used fuel for cooking. Only about 39.8% of households have electric lighting.

## 43 EDUCATION

Traditional schools (*pathshalas*) provide a classical education emphasizing languages. Gompas along the northern border train boys and men to become Buddhist religious leaders. English schools are modeled after those in India. Under a 1954 plan, a national school system with a single curriculum has been replacing the traditional schools, although English schools have increased.

Free primary education was introduced in 1975. Schooling is compulsory for five years, which is the duration of primary school studies. Students then move on to either technical school (8 to 10 years) or general secondary school (about 7 years). In 2001, about 12% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 70% of age-eligible students; 75% for boys and 66% for girls. Secondary school enrollment in the same year was about 43% of eligible students; 49.8% for boys and 37.4% for girls. It is estimated that about 80% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 36:1 in 2003; the ratio for secondary school was about 35:1. In 2003, private schools accounted for about 14.7% of primary school enrollment and 27.8% of secondary enrollment.

Tribhuvan University is composed of five institutes (medicine, engineering, science, agriculture and forestry), four research centers, and four faculties (humanities and social science, management, law, and education) at 61 constituent and 140 affiliated campuses. Other institutions of higher learning include the Mahendra Sanskrit University, Kāthmāndu University, Purbanchal University, and B. P. Korala Institute of Health Science. In 2003, about 5% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 48.6%, with 62.7% for men and 34.9% for women.

As of 2003, public expenditure on education was estimated at 3.4% of GDP, or 14.9% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The National Library in Kāthmāndu has 75,000 volumes in Nepali, English, Sanskrit, Hindi, and other Indian languages. The Bir Library, founded in the 14th century, contains 15,000 manuscripts. Other important collections are maintained by the library of Tribhuvan University (18,000 volumes) and the Singh Darbar, Nepal-Bharat (41,000), and the British Council libraries, all in Kāthmāndu. The Kaiser Library, also in Kāthmāndu, contains the private collection of Kaiser Shumsher Jung Bahadur Rana; with about 50,000 volumes, it also serves as a reference library open for public use. The Library and Documentation Center of the Royal Nepal Academy of Science and technology maintains a collection of about 13,000 books. There are about 600 public libraries within the country, many of which have fairly small collections and some of which are located in community centers.

The National Museum (1928) and the Natural History Museum (1975) are both in Kāthmāndu, along with a postage museum and the King Tribhuvan Memorial Museum. There is a Museum of Excavated Archeological Antiquities in Lalitpur and a National Art Gallery housed in the Palace of Fifty-Five Windows in Bhaktapur.

## 45 MEDIA

Postal, telephone, and telegraph services are operated by the government. Telephone service connects Kāthmāndu with Birganj on the Indian frontier, and another line links the capital with foothill towns in the eastern Terai. The telecommunications network includes a 5,000-telephone automatic exchange of over 90 radio relay stations, and an earth satellite station established with help from the United Kingdom in 1982. In 2003, there were an estimated 16 mainline telephones for every 1,000 people; about 319,500 people were on a waiting list for telephone service installation. Also in 2003, there were approximately two mobile phones in use for every 1,000 people.

Radio Nepal, a commercial, semigovernmental network, broadcasts in Nepali and English on both short and medium wavelengths. Television was introduced into the Kāthmāndu Valley in 1986 and the Nepalese Television Corporation, operated by the government, broadcasts about 23 hours a week. While there are private stations, media restrictions imposed in 2005 by King Gyanendra forced many of these stations to cease broadcasting political news. In 2003, there were an estimated 39 radios and 8 television sets for every 1,000 people. The same year, there were 3.7 personal computers for every 1,000 people and three of every 1,000 people had access to the Internet. There were eight secure Internet servers in the country in 2004.

Dailies, weeklies, and monthlies in Nepali, Newari, Hindi, and English are published mainly in Kāthmāndu. The largest daily newspapers (with 2002 circulation) are the *Gorkhapatra* (75,000), the *Nepali Hindi Daily* (62,000), *Samaya* (18,000), and the English-language *Rising Nepal* (20,000). The 2005 media restrictions set strict guidelines for print media, so that some papers no longer publish editorials and practice self-censorship.

Though the constitution specifies that the government may not censor expression, including that of the press, the press is licensed by the government, and licenses have been suspended and indi-

viduals arrested for criticism of the monarchy or support of a political party.

#### 46 ORGANIZATIONS

The leading commercial organization is the Federation of Nepalese Chambers of Commerce and Industry. The variety of professional organizations includes the Garment Association of Nepal, the Nepal Journalist Association, and the Nepal Drivers' Association.

National youth organizations include the Foolchow Youth Star Club, the All Nepal National Free Students Union, Democratic National Youth Federation, Junior Chamber, the Nepal Children's Organization, the Council of Free Students Union of Nepal, the Nepal Scouts Associations, YMCA/YWCA, and Youth for Human Rights, Education and Development. There are several active sports associations as well. National women's organizations include the Nepal Women's Organization, the Nepal Association of University Women, and the Women's Development Society.

Organizations involved in educational pursuits include the Environment, Culture, Agriculture, and Research Development Society in Nepal and the Royal Nepal Academy of Science and Technology. Nepal Medical Association promotes research and education on health issues and works to establish common policies and standards in healthcare. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions. The World Conservation Union, promoting education and action concerning environmental issues, has an office in Kāthmāndu.

International Organizations with national chapters include Amnesty International, CARE Nepal, Defence for Children International, Caritas, Habitat for Humanity, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

In 1951, the government of Nepal reversed its long-standing policy and began to encourage visitors; before then, mountaineering expeditions had been permitted into the country only under severe official scrutiny and restraining regulations. For mountain trekkers, travel agencies in Kāthmāndu provide transportation to mountain sites, as well as Sherpa guides and porters. Tents, sleeping bags, and other mountain-climbing gear are available in Kāthmāndu. White-water rafting and kayaking are also popular.

Tourism was first officially included among the country's major potential assets in 1956. There were 338,132 tourists who visited Nepal in 2003, of whom 25% came from India. The 20,063 hotel rooms had 38,270 beds. Tourist expenditure receipts totaled \$232 million that year. A valid passport and visa are required to enter Nepal. Upon arrival visitors may obtain a tourist visa at specified ports of entry.

In 2004, the US Department of State estimated the daily cost of travel in Kāthmāndu and Pokhara at \$188. Other areas were significantly less expensive at \$92 per day.

#### 48 FAMOUS NEPALESE

Buddhism, one of the world's great religions, is based on the teachings of Siddhartha Gautama, who became known as the Buddha ("Enlightened One"). He was born (traditionally about 624 BC but according to most modern scholars about 563 BC) in Lumbini, near Kapilavastu in the Terai, then part of India, and died

at Kushinagara (traditionally about 544 BC but according to the modern view about 483 BC).

Amar Singh Thapa, Nepalese military leader of the 19th century and rival of Gen. David Ochterlony in the war between British India and Nepal, is a national hero. The two best-known Rana prime ministers were Sir Jung Bahadur Rana (1817–77) and Sir Chandra Shamsher Jang Rana (1863–1929). The most highly regarded writers are Bhanubhakta, a great poet of the 19th century, and the dramatist Bala Krishna Sama (Shamsher, 1902–81).

King Mahendra Bir Bikram-Shah (1920–72), who introduced the partyless political system, based on the Nepalese tradition of the village panchayat (council), was succeeded on the throne by his son, King Birendra Bir Bikram Shah Dev (1945–2001), who democratized the panchayat system. Birendra and most of his family were killed in 2001 by his eldest son and heir, Dipendra (1971–2001), who killed himself in the rampage. Gyanendra Bir Bikram Shah Dev (b.1947) ascended to the throne in June 2001. Well-known political leaders include the brothers Matrika Prasad Koirala (b.1912), head of the Nepali Congress Party and the first post-Rana prime minister of Nepal (1951–52 and 1953–55), and Bisweswar Prasad Koirala (1915–82), head of the Nepali Congress Party and the first elected prime minister of Nepal (1959–60).

World renown was gained for Nepal by a Sherpa porter and mountaineer, Tenzing Norgay (Namgyal Wangdi, 1914–86), who, with Sir Edmund Hillary, a New Zealander, ascended to the summit of Mt. Everest in 1953.

#### 49 DEPENDENCIES

Nepal has no territories or colonies.

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# NEW ZEALAND



**CAPITAL:** Wellington

**FLAG:** The flag has two main features: the red, white, and blue Union Jack in the upper left quarter and the four-star Southern Cross in the right half. On the blue state flag the stars are red outlined in white. On the red national flag, used by individuals or commercial institutions at sea, the stars are white.

**ANTHEM:** *God Save the Queen* and *God Defend New Zealand* have, since 1977, enjoyed equal status.

**MONETARY UNIT:** The New Zealand dollar (nz\$) is a paper currency of 100 cents; it replaced the New Zealand pound on 10 July 1967. There are coins of 5, 10, 20, and 50 cents and 1 and 2 dollars, and notes of 5, 10, 20, 50, and 100 dollars. NZ\$1 = US\$0.69930 (or US\$1 = NZ\$1.43) as of 2005.

**WEIGHTS AND MEASURES:** Metric weights and measures are used.

**HOLIDAYS:** New Year's Day, 1 January; Waitangi Day, 6 February; Anzac Day, 25 April; Queen's Birthday, 1st Monday in June; Labor Day, 4th Monday in October; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays are Good Friday and Easter Monday. Each province has a holiday on its own anniversary day.

**TIME:** 12 midnight = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in the southwest Pacific Ocean, New Zealand proper, with a total area of 268,680 sq km (103,738 sq mi), consists of the North Island, covering 114,669 sq km (44,274 sq mi) including small islands nearby; the South Island, 149,883 sq km (57,870 sq mi); Stewart Island, 1,746 sq km (674 sq mi); and various minor, outlying islands. Comparatively, the area occupied by New Zealand is about the size of the state of Colorado. The Chatham Islands, lying 850 km (528 mi) E of Lyttelton, on South Island, have a land area of 963 sq km (372 sq mi). Other outlying islands have a combined area of 778 sq km (about 300 sq mi). New Zealand extends 1,600 km (994 mi) NNE–SSW and 450 km (280 mi) ESE–WNW. It has a total coastline of 15,134 km (9,404 mi).

New Zealand's capital city, Wellington, is located on the southern tip of North Island.

## <sup>2</sup>TOPOGRAPHY

Less than one-fourth of the land surface of New Zealand lies below the 200-m (656-ft) contour. The mountain ranges in the North Island do not exceed 1,800 m (6,000 ft) in height, with the exception of the volcanic peaks of Egmont, or Taranaki (2,518 m/8,261 ft), Ruapehu (2,797 m/9,176 ft), Ngauruhoe (2,290 m/7,513 ft), and Tongariro (1,968 m/6,457 ft), the last three of which are still active. This volcanic system gives rise to many hot springs and geysers.

The South Island is significantly more mountainous than the North Island, but is without recent volcanic activity. The Southern Alps, running almost the entire length of the South Island from north to south, contain 19 peaks of 3,000 m (9,800 ft) or above, of which the highest is Mt. Cook or Aorangi, 3,764 m (12,349 ft). There are also several glaciers in the Southern Alps, the largest being the Tasman Glacier, 29 km (18 mi) long and 1 km (0.6 mi)

wide. The rivers are mostly swift-flowing and shallow, few of them navigable. There are many lakes, those in the South Island being particularly noted for their magnificent mountain scenery.

Seismic activity in New Zealand causes frequent earthquakes. Though most of these are moderate or light in magnitude (at 5.0 or lower on the Richter scale), there are periodic earthquakes of higher magnitudes. On 4 May 2003, a 6.7 magnitude earthquake occurred at the Kermadec Islands; the same year, a 7.2 magnitude quake occurred at South Island on 21 August, causing structural damage but no reported injuries. A 7.1 magnitude earthquake occurred on 22 November 2004 with a center off the coast of South Island.

## <sup>3</sup>CLIMATE

New Zealand has a temperate, moist ocean climate without marked seasonal variations in temperature or rainfall. The prevailing winds are westerly, with a concentration of strong winds in the Cook Strait area. The generally mountainous nature of the country, however, causes considerable variation in rainfall (e.g., between the eastern and western sides of the Southern Alps), and, by preventing stratification of air into layers of different density, results in an absence of extensive cloud sheets and a consequent high percentage of sunshine. Mean annual temperatures at sea level range from about 15°C (59°F) in the northern part of the North Island to 12°C (54°F) in the southern part of the South Island. Mean annual rainfall ranges from around 30 cm (12 in) near Dunedin to more than 800 cm (315 in) in the Southern Alps.

## <sup>4</sup>FLORA AND FAUNA

Like other regions separated from the rest of the world for a long period, New Zealand has developed a distinct flora. About 75% of the native flora is unique, and it includes some of the world's oldest plant forms. However, the flowering plants, conifers, ferns, ly-

copods, and other vascular tracheophytes that constitute much of the land vegetation do show affinities with plants of the Malayan region, supporting the theory of an ancient land bridge between the two regions. More than 250 species are common to both Australia and New Zealand. The Antarctic element, comprising more than 70 species related to forms in the flora of South America and the Southern Ocean islands, is of great interest to botanists. The kauri pine, now found only in parts of the North Island, for more than a century has been world famous for its timber. The rimu and the totara also are timber trees. Other handsome trees include the pohutukawa and other species of rata and kowhai. New Zealand flax, formerly of great importance in the Maori economy, is found in swampy places. Undergrowth in the damp forests consists largely of ferns, of which there are 145 species; they clothe most of the tree trunks and branches, and tree ferns form part of the foliage. Tussock grass occurs on all mountains above the scrub line and over large areas in the South Island.

Apart from seals and two species of bats, New Zealand has no indigenous land mammals. Some of the land mammals introduced to New Zealand have become pests, such as the rabbit, the deer, the pig (now wild), and the Australian possum. Sea mammals include whales and dolphins.

There is a great diversity of birds, some 250 species in all, including breeding and migratory species. Among the flightless birds the most interesting is the kiwi, New Zealand's national symbol and the only known bird with nostrils at the tip of the bill instead of at the base. Other characteristic birds are the kea, a mountain parrot, and the tui, a beautiful songbird. All but one of the genera of penguins are represented in New Zealand. Several species of birds, the most famous being the Pacific godwit, migrate from breeding grounds in the Arctic Circle to spend spring and summer in New Zealand. There are many flightless insects and a diversity of small life forms.

## 5 ENVIRONMENT

Because of its relatively small population, New Zealand's natural resources have so far suffered less from the pressures of development than have those of many other industrialized nations. Air pollution from cars and other vehicles is an environmental concern in New Zealand. The use of fossil fuels contributes to the problem. New Zealand's concern about the effects of air pollution on the atmosphere is, in part, due to the fact that the nation is among the world leaders in incidence of skin cancer. In 1996, New Zealand produced 29.7 million metric tons of carbon dioxide emissions from industrial sources. In 2000, the total of carbon dioxide emissions within the country was at 32.1 million metric tons.

Water pollution is also a problem due to industrial pollutants and sewage. The nation has 327 cu km of renewable water resources, of which 44% of the annual withdrawal is used for farming activity and 10% for industrial purposes. The nation's cities have produced an average of 2.3 million tons of solid waste per year.

Another environmental issue in New Zealand is the development of its resources—forests, gas and coal fields, farmlands—without serious cost to natural beauty and ecological balance. Two-thirds of the nation's forests have been eliminated. Principal governmental agencies with environmental responsibilities are the Commission for the Environment (established in 1972), an

investigative and advisory agency that audits environmental impact reports; the Environmental Council (1970), an advisory body that publishes information on environmental issues; and the Nature Conservation Council (1962), an advisory body that may inquire into the environmental effects of proposed public or private works projects and is free to make its reports and recommendations public.

In 2003, about 29.6% of the total land area was protected. There are two natural UNESCO World Heritage Sites in the country and six Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 8 types of mammals, 74 species of birds, 12 types of reptiles, 4 species of amphibians, 16 species of fish, 5 types of mollusks, 9 species of other invertebrates, and 21 species of plants. Endangered animal species in New Zealand include the takahe, two species of petrel (black and New Zealand Cook's), the black stilt, orange-fronted parakeet, kakapo, and Codfish Island fernbird. Extinct are the bush wren, laughing owl, Delcourt's sticky-toed gecko, South Island kokako, New Zealand quail, and New Zealand grayling. Endangered species on the Chatham Islands were the Chatham Island petrel, magenta petrel, Chatham Island oystercatcher, New Zealand plover, Chatham Island pigeon, Forbes's parakeet, and Chatham Island black robin. The Chatham Island swan and Chatham Island rail are extinct.

## 6 POPULATION

The population of New Zealand in 2005 was estimated by the United Nations (UN) at 4,107,000, which placed it at number 123 in population among the 193 nations of the world. In 2005, approximately 12% of the population was over 65 years of age, with another 22% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 4,702,000. The overall population density was 15 per sq km (39 per sq mi), with nearly 75% of the population living on the North Island.

The UN estimated that 86% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.73%. On the North Island, the capital city, Wellington, had a population of 343,000 in that year. The largest urban area, also on the North Island, is Auckland (1,152,000). Other large cities on the North Island include Hamilton (148,625), Palmerston North (70,951), and Tauranga (70,803). On the South Island, the largest cities include Christchurch (307,179) and Dunedin (109,503).

## 7 MIGRATION

Between 1946 and 1975, New Zealand experienced a net gain from migration of 312,588; from 1975 to 1990, however, there was a net outflow of 110,877. Under new immigration policy guidelines issued by the government in May 1974, immigrants are selected according to specific criteria, such as job skills, health, character, age, and family size. The same restrictions now apply to British subjects as to others who wish to take up permanent residence. Citizens of Fiji, Tonga, and Western Samoa may be admitted under special work permits for up to 11 months. About 7,000 Indo-Chinese refugees settled in New Zealand between 1975 and 1990. In 1998 immigration policy initiatives were passed aimed at mak-



LOCATION: 33° to 53°S; 162°E to 173°W. TERRITORIAL SEA LIMIT: 12 miles.

ing New Zealand a more appealing choice for entrepreneurs, investors, and students. In 2004, New Zealand's unemployment rate was at a 17-year low of 4%. New Zealand changed its point system to make it easier for skilled immigrants to gain visas by adding points if applicants could fill jobs in which there are "absolute skill shortages," including automotive mechanics, radiologists, electricians, and speech therapists. In 2005, a campaign was launched to

attract immigrants in medicine and education and the immigrant quota was raised from 50,000 to 51,500.

The number of asylum applications increased from 712 in 1995 to 1,964 in 1998. In 2004, New Zealand harbored 5,175 refugees and 746 asylum seekers. New Zealand is one of only 10 countries in the world with an established resettlement program, with an annual quota of 750 as of 2006.

Australia is the preferred destination for New Zealanders departing permanently or long term. In 2003 worker remittances were \$234 million. In 2005, the net migration rate was an estimated 3.83 migrants per 1,000 population.

## **8 ETHNIC GROUPS**

About 75% of the population is classified as New Zealand European; 15% are Maori and 6.5% are Pacific Islander. Less than 5% are Asia.

The most significant minority group, the indigenous Maori people, is a Polynesian group with a distinctive culture and a well-ordered social system. Although the Treaty of Waitangi (1840) guaranteed to the Maori people all the rights and privileges of British subjects and full and undisturbed possession of their lands, these guarantees were often overlooked. As a result of war and disease, the Maori population declined to fewer than 42,000 by 1896. At the turn of the century, however, a group calling itself the Young Maori Party began to devote itself to the promotion of Maori welfare and status. Although Maori acquisition and development of land have been promoted, there is not enough land to afford a livelihood to more than about 25% of the Maori population. Thus, many Maoris leave their tribal villages to seek job opportunities in the towns and cities. By 1981, four-fifths of all Maoris lived in urban areas.

Increasing numbers of migrants from New Zealand's former colonies and from other Pacific islands have come to New Zealand. Many of these, especially the Cook Islanders, are Polynesians having ethnic and linguistic ties with the Maoris.

## **9 LANGUAGES**

English is the universal language, although Maori, a language of the Polynesian group, still is spoken among the Maori population and is taught in Maori schools. It is the first language of about 50,000 Maori New Zealanders and became an official language (with English) in 1987, with the right of use in courts of law and before a number of tribunals. There are Maori-language pre-schools, immersion primary schools, and many radio stations.

## **10 RELIGIONS**

According to the 2001 census, about 55% of the total population were nominally Christian. Anglicans were the largest denomination with about 15% of the population. About 13% were Roman Catholic, 11% Presbyterians, 3% Methodists, 1% Baptist, 1% Mormon, and 1% Ratana, a Maori Christian group. Ringatu and Ratana are small Christian sects that are indigenous to New Zealand. About 1% of the population were Hindu and 1% Buddhist. About 26% of the population claimed no religion. There are also small numbers of Sikhs, Taoists, Muslims, Hindus, and Rastafarians.

## **11 TRANSPORTATION**

The mountainous nature of New Zealand has made the development of rail and road communications difficult and expensive, particularly on the South Island. In 2004, there were 3,898 km (2,425 mi) of state-owned railways in operation, all of it narrow gauge. New Zealand has electrified some 506 km (314 mi) of its rail lines in order to reduce dependence on imported fuel.

Capital investment in roads exceeds that for all other forms of transport service. Total length of maintained roadways as of

2002 was 92,382 km (57,462 mi), of which 59,124 km (36,775 mi) were paved, including 169 km (105 mi) of expressways. As of 2003, registered motor vehicles included 2,473,500 passenger cars and 468,800 commercial vehicles. The 1,609 km (999 mi) of waterways are of little importance in satisfying total transportation requirements.

New Zealand's merchant marine in 2005 consisted of 13 ships of 1,000 GRT or more, totaling 77,523 GRT. New Zealand is largely dependent on the shipping of other nations for its overseas trade. In 1974, a government-owned firm, the Shipping Corp. of New Zealand, was set up to operate shipping services; its trade name, the New Zealand Line, was adopted in 1985. Auckland and Wellington, the two main ports, have good natural harbors with deep-water facilities and modern port equipment. Other ports capable of efficiently handling overseas shipping are Whangarei, Tauranga, Lyttelton (serving Christchurch), Bluff, Napier, Nelson, Dunedin, and Timaru.

New Zealand had an estimated 116 airports in 2004, of which 46 had paved runways as of 2005. Thirteen are major air facilities, of which those at Auckland, Christchurch, and Wellington are international airports. The government-owned Air New Zealand Ltd. operates air services throughout the Pacific region to Australia, Singapore, Hong Kong, Tokyo, Honolulu, and Los Angeles, among other destinations. In 2003, 12.259 million passengers were carried on scheduled domestic and international flights.

## **12 HISTORY**

New Zealand's first people were the Maoris. Owing to the absence of written records, it is impossible to give any accurate date for their arrival, but according to Maori oral traditions, they migrated from other Pacific islands to New Zealand several centuries before any Europeans came, with the chief Maori migration taking place about 1350. It seems likely, however, that the Maoris arrived from Southeast Asia as early as the end of the 10th century. The first European to discover New Zealand was Abel Tasman, a navigator of the Dutch East India Company, who sighted the west coast of the South Island in 1642. He did not land, because of the hostility of the Maori inhabitants. No other Europeans are known to have visited New Zealand after Tasman until Captain James Cook of the British Royal Navy made his four voyages in 1769, 1773, 1774, and 1777. In this period, he circumnavigated both islands and mapped the coastline.

In the 1790s, small European whaling settlements sprang up around the coast. The first mission station was set up in the Bay of Islands in 1814 by Samuel Marsden, chaplain to the governor of New South Wales. In 1840, the Maori chieftains entered into a compact, the Treaty of Waitangi, whereby they ceded sovereignty to Queen Victoria while retaining territorial rights. In the same year, the New Zealand Company made the first organized British attempt at colonization. The first group of British migrants arrived at Port Nicholson and founded the city of Wellington. The New Zealand Company made further settlements in the South Island: in Nelson in 1842, in Dunedin in 1848 (with the cooperation of the Presbyterian Church of Scotland), and in Canterbury in 1850 (with the cooperation of the Church of England). After the Maori Wars (1860–70), which resulted largely from discontent with the official land policy, the colony of New Zealand rapidly increased in wealth and population. Discovery of gold in 1861 resulted in a

large influx of settlers. The introduction of refrigerated shipping in 1882 enabled New Zealand to become one of the world's greatest exporters of dairy produce and meat. The depression of the early 1930s revealed to New Zealand the extent of its dependence on this export trade and led to the establishment of more local light industry.

The British Parliament granted representative institutions to the colony in 1852. In 1907, New Zealand was made a dominion, and in 1947 the New Zealand government formally claimed the complete autonomy that was available to self-governing members of the British Commonwealth under the Statute of Westminster, enacted by the British Parliament in 1931.

New Zealand entered World Wars I and II on the side of the United Kingdom; New Zealand troops served in Europe in both wars and in the Pacific in World War II. After World War II, New Zealand and US foreign policies were increasingly intertwined. New Zealand signed the ANZUS Pact in 1951 and was a founding member of the Southeast Asia Treaty Organization (SEATO) in 1954. New Zealand troops fought with UN forces in the Korean conflict and with US forces in South Vietnam. The involvement in Vietnam touched off a national debate on foreign policy, however, and all New Zealand troops were withdrawn from Vietnam by the end of 1971. New Zealand's military participation in SEATO was later terminated.

In 1984, a Labour government led by Prime Minister David Lange took office under a pledge to ban nuclear-armed vessels from New Zealand harbors; a US request for a port visit by one of its warships was denied because of uncertainty as to whether the ship carried nuclear weapons. The continuing ban put a strain on New Zealand's relations within ANZUS, and in 1986 the United States suspended its military obligations to New Zealand under that defense agreement, also banning high-level contacts with the New Zealand government. The United States ended its ban on high-level contacts in March 1990; however, New Zealand's official stance against nuclear presence in its territory remained strong.

In the late 1990s, New Zealand's environmental concerns extended beyond nuclear issues. In 1999, when pirates decimated the population of Patagonian toothfish in the Southern Ocean off Antarctica, threatening not only fish, but also the sea birds that fed upon them, New Zealand responded to the threat to the fragile ecosystem by sending a patrol frigate to the area.

Extensive Maori land claims (to all the country's coastline, 70% of the land, and half of the fishing rights) led, in December 1989, to the formation of a new Cabinet committee designed to develop a government policy towards these claims. The committee, including former Prime Minister Lange, aimed to work with the 17-member Waitangi Tribunal, established in 1975 to consider complaints from Maoris.

The 1993 general election resulted in the governing National Party (NP) winning a bare majority of 50 seats to the Labour Party's 45. In 1996 the NP formed a coalition government with the New Zealand First Party. The coalition was led by James Bolger, who in 1994 lobbied to convert New Zealand into a republic—a move that was met by NP resistance and public apathy. This was the first election under New Zealand's 1993 referendum on proportional representation. It issued in Bolger's third term as prime minister. Winston Peters, a fierce critic of Bolger, became the country's deputy prime minister and treasurer—a new post responsible

for New Zealand's budget. Peters brought the First Party into the coalition over the Labour Party, which won 37 of the 120 seats in the 1996 election. In 1996 the government settled a NZ\$170 million agreement with the Waikato Tainui tribe in the North Island for its wrongful confiscation of lands during the 1860s. The Queen signed the legislation, which also contained an apology.

The National Party-First Party coalition government remained in power until 1999, when the Labour Party won 49 seats and again became the majority government. The Labour Party formed a government in coalition with the progressive Alliance Party, with Helen Clark as prime minister. In 1999 tension arose between the Maori and white New Zealanders, centering on the growing Maori claims to the natural resources of the country. The Clark administration expressed its commitment to goals aimed at benefiting all New Zealanders, and closing the economic gap between the Maori and the rest of the population. The Labour-Alliance coalition also built alliances with other nonnuclear states and worked to strengthen the Nuclear Free Zone in the South Pacific.

General elections were held 27 July 2002, which resulted in a Labour Party victory, returning Helen Clark as prime minister. The Labour Party entered into coalition with Jim Anderton's Progressive Coalition Party, and received support from the United Future Party. The National Party recorded its worst showing in 70 years. General elections held in September 2005 resulted in a Labour Party victory again.

### 13 GOVERNMENT

New Zealand is an independent member of the Commonwealth of Nations. Like the United Kingdom, it is a constitutional monarchy, the head of state being the representative of the crown, the governor-general, who is appointed for a five-year term.

The government is democratic and modeled on that of the United Kingdom. The single-chamber legislature, the House of Representatives, has 120 members (2003), elected by universal adult suffrage for a term of three years. Adult male suffrage dates from 1879; adult women received the right to vote in 1893. The voting age was lowered to 18 in November 1974. Since 1867, the House has included representatives of the Maoris, and in 1985, the Most Reverend Paul Reeves, Anglican archbishop of New Zealand, became the first person of Maori descent to be appointed governor-general. As of 2003, six seats in the 120-member parliament were reserved for its native Maori minority population. Persons of at least half-Maori ancestry may register in either a Maori electoral district or a European district. Members are elected by simple majority. Elections have resulted in coalition governments, a two-party system usually operates. The party with a majority of members elected to the House of Representatives forms the government; the other party becomes the opposition.

On his appointment, the prime minister, leader of the governing party, chooses 20 other ministers to form the cabinet. Each minister usually controls several government departments, for which he is responsible to the House of Representatives. Although the cabinet is the *de facto* governing body, it has no legal status. Members of the cabinet and the governor-general form the Executive Council, the highest executive body.

An act of 1962 established the post of ombudsman, whose principal function is to inquire into complaints from the public relating to administrative decisions of government departments and relat-

ed organizations. In 1975, provision was made for the appointment of additional ombudsmen under the chief ombudsman.

In a September 1992 referendum, nearly 85% of voters rejected the established electoral system of simple plurality (first-past-the-post) in favor of a system based upon a mixed member proportional system, as used in Germany. Final approval came in a second referendum held as part of the 1993 general election, and the proportional voting system was introduced during the 1996 elections. Under New Zealand's proportional representation system each voter casts two votes, one for a candidate and one for a political party. Each party is awarded seats according to its share of the overall vote, with a minimum set at 5%.

## 14 POLITICAL PARTIES

Although the New Zealand legislature began to function in 1854 under an act of 1852, it was not until near the end of the century that political parties with a national outlook began to form. This development was hastened by abolition of the provincial parliaments in 1876.

From 1890 to 1912, the Liberal Party was in power. It drew its strength from small farmers and from the rapidly increasing working class in the towns. It enacted advanced legislation on minimum wages, working conditions, and old age pensions, and established the world's first compulsory system of state arbitration. A Reform Party government replaced the Liberal government in 1912; the main items in the Reform platform were the "freehold" for certain types of farmers (i.e., the right to purchase on favorable terms the land they leased from the crown) and the eradication of patronage in the public service. During part of World War I, there was a coalition of Reform and Liberal parties. The Labour Party was formed in 1916 when several rival Labour groups finally came together. This party derived partly from old Liberal tradition, but its platform on socialization and social welfare was more radical.

The Reform Party continued in office until 1928 and was then succeeded by the United Party, a revival of the old Liberal Party. In 1931, these two parties came together, governing as a coalition until 1935. In that year, after a severe economic depression, a Labour government came to power. Labour remained the government until 1949, although for periods during World War II a coalition war cabinet and later a war administration were created, in addition to the Labour cabinet. During its term of office, Labour inaugurated an extensive system of social security and a limited degree of nationalization.

After their defeat in 1935, the old coalition parties joined to form the National Party. Coming to power in 1949, this party held office until 1957, when it was replaced by Labour. The National Party returned to power in the 1960 election, and maintained its majority in the elections of 1963, 1966, and 1969. A Labour government was elected in 1972, but in 1975 the National Party reversed the tide, winning 55 seats and 47.4% of the total vote; a National Party cabinet was formed, with Robert Muldoon as prime minister. Led by Muldoon, the National Party was returned again in the 1978 and 1981 elections, but by much lower margins.

On 14 July 1984, the National Party was defeated at the polls, winning only 37 seats (36% of the vote), to 56 seats (43%) for Labour. The Social Credit Political League won 2 seats (8%), and the New Zealand Party, a conservative group formed in 1983, won most of the remaining popular vote, but no seats. David Lange

formed a Labour government and was reelected in August 1987, when Labour won 56 seats and 47.6% of the vote, and the National Party won 41 seats and 45% of the vote. No other parties won seats.

David Lange resigned as prime minister on 7 August 1989 after Roger Douglas, a political foe in the Labour Party, was reelected to the Cabinet. Labour's MPs selected Geoffrey Palmer as prime minister and party leader. Palmer resigned as prime minister in September 1990 and was replaced by Michael Moore, also of the Labour Party. In October 1990 the National Party, led by Jim Bolger, won a general election victory. Bolger's government instituted major cuts in New Zealand's welfare programs. The National Party won reelection in the November 1993 general election, capturing 50 of 99 seats. The Labour Party won 45, and both the New Zealand First Party, led by Winston Peters, and The Alliance, led by Jim Anderton, won 2 seats. In December 1993 Helen Clark replaced Michael Moore as leader of the Labour Party, becoming the first woman to lead a major party in New Zealand.

The 1996 elections were the first under proportional representation. James Bolger was elected as prime minister for a third term, to lead a coalition government formed by the National Party and the First Party. The National Party won 44 seats; Labour, 37; New Zealand First Party, 17; Alliance Party, 8; and the United Party, 1.

In the November 1999 elections, the balance of power once again shifted, with the New Zealand National Party losing 5 seats and capturing only 30.5% of the total vote, while the New Zealand Labor Party gained 12 seats and took 38.7% of the vote, thus becoming the majority party. Under Prime Minister Helen Clark, a coalition government was formed between the Labour Party and the Alliance Party, which consisted of five small parties: the New Labor Party, the Democratic Party, the New Zealand Liberal Party, the Green Party, and Mana Motihake.

In the July 2002 elections (held early), the Labour Party captured 41.3% of the vote and 52 seats to the National Party's 20.9% and 27 seats. The New Zealand First Party took 10.4% of the vote and 13 seats. It was the worst showing for the National Party in 70 years. Prime Minister Helen Clark formed an alliance with the United Future Party, after forming a coalition with Jim Anderton's Progressive Coalition Party. United Future claimed it would not form a coalition with the Labour Party, but would support the government.

While the Liberal and Reform Parties, and in more recent times, the Labour and National Parties, have played the major roles in New Zealand's government, many other political groups have existed over the years, with varying agendas and membership. In 2002, those with enough support to win parliamentary seats included ACT New Zealand (libertarian), the New Zealand First Party (nationalistic), the Green Party of Aotearoa (ecologist), the United Future Party (liberal), and Jim Anderton's Progressive Coalition (progressive). There were 21 registered political parties as of June 2002.

The total number of seats increased in the September 2005 elections to 121 because the Maori Party won one more electorate seat than its entitlement under the party vote. The results were as follows: the Labour Party 41.1%, 50 seats; National Party 39.1%, 48 seats; New Zealand's First Party 5.72%, 7 seats; Green Party 5.3%, 6 seats; Maori 2.12%, 4 seats; United Future Party 2.67%, 3 seats; ACT New Zealand 1.51%, 2 seats; and Progressive Coalition

1.16%, 1 seat. The next elections were scheduled to be held no later than November 2008.

## **<sup>15</sup>LOCAL GOVERNMENT**

The Local Government Act (1974), with subsequent modifications, substantially changed the structure of local government in New Zealand. The previous system was based on territorial local authorities: boroughs, which served concentrated populations of at least 1,500; counties, which were predominantly rural; and town districts, an intermediate form. In addition, there were special-purpose authorities to administer harbors, hospitals, electricity and water distribution, and other public services. The 1974 legislation added two tiers to this structure. Regional bodies—including united councils, which are appointed by the constituent territorial authorities in a region, and regional councils, which are directly elected—are charged with two mandatory functions, regional planning and self-defense, and may undertake other regional functions. Moreover, within territorial local authorities, communities may be established. Each community may have either a district community council (if the population is 1,500 or more), which exercises nearly all the powers of its parent territorial authority, or a community council, to which the parent authority may delegate powers. The purpose of these community bodies is to increase residents' participation in local government. The Local Government Act also introduced a new form of territorial local authority, the district council, established to serve areas of mixed rural and urban character.

The Local Government Commission was charged with the task of constituting the regional bodies, of which there were 22 (2 regional councils and 20 united councils) by 1983. As of 1996 there were also 93 county councils, 9 district councils, and 3 town districts. By 1999, a new administrative structure was instituted that divided local government into 17 regions that were subdivided into 57 districts and 16 cities. In 2003, there were 12 regional councils, 59 district councils and 15 city councils. Most units of local government are elected at three-year intervals. In boroughs the mayor is elected directly by the voters, while the council itself elects the chairman of a county council.

## **<sup>16</sup>JUDICIAL SYSTEM**

In most civil and criminal cases heard first in district courts (known until 1980 as magistrates' courts), there is the right of appeal to the High Court (formerly Supreme Court), which is usually the court of first hearing for cases where a major crime or an important civil action is involved. Family courts were established in 1980 to hear cases involving domestic issues. The highest court, the Court of Appeal, exercises an appellate jurisdiction only. Its decisions are final unless leave is granted to appeal to the Privy Council in London. There are also several special courts, such as the Arbitration Court, the Maori Land Court, and the Children and Young Persons Court. The judicial system is based on British common law. The judiciary is independent and impartial. The judicial system provides citizens with a fair and efficient judicial process.

The law prohibits arbitrary interference with privacy, family, home, or correspondence and the authorities respect these provisions in practice.

## **<sup>17</sup>ARMED FORCES**

In 2005, New Zealand's armed forces had 8,660 active personnel with 10,800 reservists. The Army had a full-time regular force of 4,430 and whose equipment included 105 armored personnel carriers and 74 artillery pieces. The Navy had 1,980 active personnel whose major naval units included 2 frigates, 4 patrol/coastal vessels, and 5 logistics/support ships. The Navy's aviation arm operated five antisubmarine warfare helicopters. The Air Force numbered 2,250 members. The service had six combat capable aircraft that consisted of P-3K Orion maritime patrol aircraft. In 2005, New Zealand forces participated in 11 NATO, UN, European Union or other missions in a supporting or peacekeeping role. The defense budget in 2005 totaled \$1.42 billion.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

New Zealand is a charter member of the United Nations, having joined on 24 October 1945; it participates in ESCAP and several nonregional specialized agencies, such as the FAO, IAEA, ILO, the World Bank, UNESCO, UNHCR, UNIDO, and the WHO. In addition, New Zealand belongs to the WTO, the Asian Development Bank, APEC, the Commonwealth of Nations, the European Bank for Reconstruction and Development, the Colombo Plan, Commonwealth of Nations, OECD, the South Pacific Commission, the Pacific Island Forum, and the South Pacific Regional Trade and Cooperation Agreement (Sparteca). It is a dialogue partner in ASEAN.

New Zealand also forms part of the ANZUS alliance with Australia and the United States; in 1986, however, following New Zealand's decision to ban US nuclear-armed or nuclear-powered ships from its ports, the United States renounced its ANZUS treaty commitments to New Zealand.

New Zealand is part of the Australia Group and the Nuclear Suppliers Group (London Group). In environmental cooperation, New Zealand is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Whaling, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## **<sup>19</sup>ECONOMY**

New Zealand's economy has traditionally been based on pastoral farming. The last decades, however, have seen the beginnings of heavy industry, and there has been a large expansion in light industries such as plastics, textiles, and footwear, mostly to supply the home market. There has been a trend toward the development of resource-based industries, and the forest industry has greatly expanded. Pulp, log, and paper products are a major earner of overseas exchange. In 2004, agricultural production amounted to approximately 4.6% of GDP, industry 27.4%, and services 68%.

For financing imports both of raw materials and of a high proportion of manufactured goods, New Zealand has traditionally relied on the receipts from the export of its restricted range of primary products (mainly wool, meat, and dairy products). This dependence on the income from so few commodities makes the economy vulnerable to fluctuations in their world prices, and sharp drops in these prices, as have occurred periodically, inevita-

bly result in the restriction of imports or a substantial trade deficit. Other important industries in 2006 were the manufacture of machinery and transportation equipment, banking and insurance, and eco-tourism.

The economy has been subjected to two major crises in last 30 years: first, in 1968, the loss of the protected market for its agricultural goods when the United Kingdom joined the European Community (now the European Union), and second, inflation and stagnation in the early 1980s in the aftermath of the second international oil shock. The first produced a government-led program to transform the economy into an independent, more industrialized competitor in the world market, and the second, a neoliberal transformation of the economy combining a strict monetary regime to eliminate inflation, liberalization of the country's trade and investment regimes, and deregulation and privatization of the domestic economy. The liberalization and stabilization program transformed New Zealand from a heavily protected and regulated economy to one of the most market-oriented and open in the world.

By 1996, New Zealand was posting annual growth rates in real GDP of 5–6%, surpluses in the government's budget, and a per capita GDP in line with those of the big European economies. Subsequent disruptions, however, resulting in declines in industrial production and per capita income, raised concerns that the gap is no longer closing. The Asian financial crisis erupting in the second half of 1997 helped lower annual growth to 3.1% in 1997, and, combined with a summer drought, pushed the economy into recession in the first half of 1998. The economy recovered sufficiently to register a positive 1.9% growth for 1998, and 3.5% in 1999. Despite increased fuel costs that sent inflation to 4% in 2000, real GDP growth improved to 4.6%. The global slowdown in 2001–02 had a relatively mild impact on New Zealand's economy, reducing real GDP growth to 2.3%. While inflation moderated to 2.1% the government continued operating in the black with an operating surplus and positive returns from state enterprises, although the budget surplus steadily declined from 2.6% of GDP in 1999/98 to 0.8% of GDP in 2000/01. The current account deficit, a combination of a small merchandise trade surplus and a large deficit on investment income, fell from 7% of GDP to 4.8% of GDP in 2001. Gross public debt fell from 36% of GDP in 1999 to 30% of GDP in 2002, in line with the target set by government planners.

Real GDP growth averaged 3.5% over the 2001–05 period, when inflation averaged 2.5%. Real GDP growth was expected to slow to 2.2% in 2006, as domestic demand weakened, but was forecast to rise to 2.7% in 2007. Inflation was expected to average 3% in 2006, before easing to 2.4% in 2007, in line with fuel prices lower than those in 2005, when inflation was estimated at 3.2%. The current account deficit was forecast to narrow from an estimated peak of 7.6% of GDP in 2005 to an annual average of 7.1% of GDP in 2006–07. Despite increased social and other spending, the Labour government in 2005 was expected to run sizeable operating surpluses in order to build up the new pension fund. The public debt in 2004 was estimated at 22.1% of GDP. The unemployment rate that year stood at 4.2%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 New Zealand's gross domestic product (GDP) was estimated at

\$97.4 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$24,100. The annual growth rate of GDP was estimated at 2.5%. The average inflation rate in 2005 was 3%. It was estimated that agriculture accounted for 4.7% of GDP, industry 27.8%, and services 67.6%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.199 billion or about \$299 per capita and accounted for approximately 1.5% of GDP.

The World Bank reports that in 2003 household consumption in New Zealand totaled \$35.68 billion or about \$8,899 per capita based on a GDP of \$79.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.2%. In 2001 it was estimated that approximately 21% of household consumption was spent on food, 12% on fuel, 3% on health care, and 2% on education.

## 21 LABOR

In 2005, New Zealand's workforce was estimated at 2.13 million. As of 2003, Services accounted for 69.3% of employment, with industry accounting for 22.3%, agriculture 8.2%, and the remainder of the labor force in undefined occupations. Before 1978, New Zealand had maintained virtually full employment, but the oil crisis had a major impact, and from 1978, unemployment climbed from about 3% to 10.6% in 1991. After peaking in 1991–92, unemployment was reduced to an estimated 4% in 2005.

As of 2005, workers in New Zealand had the right to organize and join a union, to engage in collective bargaining and exercise the right to strike. However, members of the armed forces are prohibited from organizing a union and collective bargaining. Also, uniformed and plainclothes police (excluding support and clerical staff) were banned from striking or any other form of industrial action, but can organize and bargain collectively. All unions are required to register with the government, have at least 15 members, be governed by democratic rules and cannot engage in collective bargaining over political or social issues. About 22% of New Zealand's workforce in 2005 was unionized.

In 2005, the minimum wage rate was around \$6.65 per hour for workers over 18 years of age. The minimum for those 16 and 17 years old the minimum wage rate that same year was about \$5.32 per hour. Employment may not interfere with education. By law, employees in most occupations have a 40-hour workweek, eight hours a day, five days a week. Excess hours are generally paid at overtime rates. Legislation or industrial contracts secure sick leave, paid holidays, and accident compensation for all workers. Children under 15 years of age cannot work in mining, forestry or manufacturing, and cannot work between 10 pm and 6 am. Children attending school cannot be employed, even after school hours if the employment interferes with their education. The safety, health and welfare benefits, holiday provisions, hours of work, and overtime of all workers are closely regulated.

## 22 AGRICULTURE

Over 13% of the total land area of New Zealand is devoted to agriculture. Capital investment in land improvement and mechanization has contributed greatly to the steady growth in agricultural production without an increase in the farm labor force. About 76,000 tractors and 3,100 combines were in use in 2003. Agriculture contributes about 50% to GDP and 11% of exports in 2004.

Cereal cultivation, more than 90% of which takes place on the South Island plains and downlands, fluctuates in terms of both acreage and size of crop. In 2004, areas harvested to wheat totaled an estimated 40,000 hectares (199,000 acres), with a yield of 287,000 tons; 18,000 hectares (20,000 acres) yielded 34,500 tons of oats; and 70,000 hectares (173,000 acres) yielded 380,000 tons of barley.

New Zealand is largely self-sufficient in horticultural products and exports some of these, such as apples and honey. In 2004, 999,800 tons of fresh fruit and melons were produced. The kiwi—a fruit that has become popular in the United States, Japan, and elsewhere—represented 90% of horticultural exports. In 1985, New Zealand accounted for more than half the world's supply of kiwi fruit. Since the mid-1980s, New Zealand has lost some of its market share in the production of kiwi, as other countries began or expanded their own domestic kiwi production—by the early 2000s, New Zealand accounted for less than one-third of world kiwi supply. Kiwi production in 2004 was estimated at 320,000 tons. In 2004, New Zealand produced 500,000 tons of apples, 55,000 tons of peas, 14,200 tons of avocados, and 170,000 tons of corn. About 70% of apple exports is derived from the Braeburn, Gala, and Royal Gala varieties developed in New Zealand. In 2004, exports of 358,327 tons of apples were valued at \$314 million.

The Department of Agriculture and the Department of Scientific and Industrial Research provide farmers and horticulturalists with advice and encouragement on new farming methods, elimination of plant diseases, and improvement of unproductive land. Government subsidies have assisted in improving and bringing under cultivation marginal and hitherto unused scrub land. However, since the mid-1980s there has been a shift in government policy, and many subsidies to agriculture have been removed or phased out.

## 23 ANIMAL HUSBANDRY

Relatively warm temperatures combined with ample rainfall make New Zealand one of the world's richest pastoral areas. In 2003, pastures occupied 13.9 million hectares (33.9 million acres), or 51% of the total land area. Even in the south, where winters may be quite severe, animals need not be housed. In 2005, there were 40 million sheep, 9.4 million head of cattle (over half of which are dairy cattle), and about 390,000 pigs. Dairying and beef production are concentrated in the North Island, and sheep farming is more evenly distributed between the North and South islands. The natural tussock land in the mountainous areas of the South Island and the surface-sown grassland in the less steep parts of the North Island are used to raise sheep for wool. The extensive use of aircraft for the spread of top dressing has greatly improved hill pasture, most of which is not readily accessible to normal top dressing with fertilizers. Some 24,000 farms stock mainly sheep, occupying over 11 million hectares (27.1 million acres), with an average flock

of 1,800 head. Although fine-woolen Merino sheep have grazed in New Zealand since the 1830s, most of the clip nowadays comes from Romney sheep, whose coarser, thicker wool is ideal for carpet-making and knitting yarns.

Products of animal origin account for more than half the total value of New Zealand's exports, with meat industry products accounting for about 18% of exports. New Zealand is the world's largest exporter of mutton and lamb, second-largest exporter of wool, and a leading exporter of cheese. The wool clip, which, having increased steadily since 1948, had fallen during the early 1970s, later rose to 380,700 tons in 1980/81; in 2004, 230,000 tons were produced. Exports of greasy and scoured wool were valued at \$470.9 million in 2004. Beef and veal production in that year reached 685,000 tons; and mutton, 520,000 tons. New Zealand accounts for over 50% of the world's mutton exports.

With many more cows than people to milk them, New Zealand pioneered and relies on mechanical milking. In 2003, New Zealand had 13,800 milking machines. Whole milk is pumped through coolers to vats where it is transferred to tanker trucks. In 2005, 14,625,000 tons of fresh milk were produced. Milkfat production averages about 336,000 tons annually, of which 13% is consumed as milk or fed to stock. The balance is used for dairy products.

Although wild goats and deer were once regarded as vermin, over the last decade, the profitability of venison and mohair exports led to the domestication of both animals. About 1.7 million deer and 155,000 goats are being farmed. Alpacas, llamas, and water buffalo have been imported to improve the breeding potential as well as wool and meat production.

## 24 FISHING

Although many kinds of edible fish are readily obtainable in New Zealand waters, the fishing and fish-processing industry has remained relatively small. Since the 1960s, however, the government has taken a number of measures to expand the industry and increase fishery exports. In 1978, the government began implementing a 322-km (200-mi) exclusive economic zone. During the next four years, it approved nearly 40 joint ventures with foreign companies in order to exploit the zone, which, with an area of about 1.3 million sq mi (nautical), is one of the world's largest. These waters support over 1,000 species of fish, about 100 of which have commercial significance. The volume of fish landed in New Zealand increased from 6,488 tons in 1936 to 633,808 tons in 2003. New Zealand's domestic vessels account for about 60% of the catch. With the rapid growth of fishing in the 1980s, about 75% of the catch is exported (with a value of \$702.9 million in 2003), mostly to the United States, Japan, and Australia. The principal finfish species caught included blue grenadier, mackerel, whiting, snoek, and orange roughy. In addition, New Zealand fishermen in 2003 landed 73,730 tons of squid. The most valuable part of the catch is made of orange roughy, hoki, squid, and rock lobster. Oyster and mussel aquaculture are well established; scallop, salmon, and abalone farming are developing.

## 25 FORESTRY

At the time Europeans began coming to New Zealand, about 70% of the land was forest. The major indigenous tree species are beech, kauri, rimu, taraire, and tawa. This proportion has been reduced

by settlement, farming, and exploitation to about 30%. Much of the remaining natural forest is reserved in national parks, or as protected forest on mountain land. About 5% of New Zealand is covered by planted forests, which provides a large and sustainable volume of wood. The Ministry of Agriculture and Forestry (MAF) estimated the planted forest area at 1.8 million hectares (4.4 million acres) in 2004, with 70% on North Island and 30% on South Island.

For wood production, New Zealand relies heavily on its planted forests of quick-growing exotic species, mainly radiata pine, which can be harvested every 25–30 years. These provide over 90% of the wood for production of sawn timber, wood panel products, pulp, paper, and paperboard. Due to these replanting efforts and privatization of forest lands, exports of softwood logs have skyrocketed since the early 1980s. Timber production is expected to pick up again around 2010 from the large number of trees planted in the 1980s and early 1990s. Exports of forestry products in 2004 amounted to \$1.46 billion; about 35% is exported as logs. Most of New Zealand's softwood logs and lumber go to Australia, the ROK, and Japan. Forestry accounts for about 4% of GDP. Imports of forest products consist mostly of specialty papers.

Roundwood production in 2004 was estimated at 17.08 million cu m (602.9 million cu ft). Softwood logs for export and lumber production that year were estimated at 7.1 million and 1.6 million cu m (250.6 million and 56.5 million cu ft), respectively. Plywood production for 2004 was estimated at 296,000 cu m (10.5 million cu ft).

The Forestry Corporation (FC) was established as a state-owned enterprise in April 1991. The FC manages 188,000 hectares (465,000 acres) of forest in the Bay of Plenty on North Island. The FC consists of three principal forests: Rotoehu Forest, Whakarewarewa Forest, and the Kaingaroa Forest in the Rotorua district that covers 149,735 hectares (370,001 acres) and is claimed to be the largest planted forest in the world. In 1996, the government sold FC for NZ\$2 billion to a joint venture consortium, which planned to invest NZ\$260 million over the next several years. New Zealand's forestry sector has become more fragmented as the large companies that previously dominated the industry have divested much of their business. Prior to this change, harvests were becoming of poorer quality, as younger trees were being harvested to satisfy a strong export market. The ownership change to long-term investment now focuses on wood processing.

## 26 MINING

Because of its diverse geology and dynamic tectonic history, New Zealand had a wide variety of potentially profitable mineral deposits, although few have been extensively exploited. Mining was a leading industry in 2003, with gold and silver dominating the metal mining sector. Minerals production (excluding oil and natural gas) in 2003 was valued at around \$635 million (estimated) or under 1% of the country's estimated gross domestic product (GDP) of about \$78 billion that year. In 2002, the last year for which export data was available, major mineral exports included ironsand, halloysite clay (for the manufacture of high-quality ceramics), cement, salt (by solar evaporation of seawater), and silver. Most output of industrial minerals was for domestic use, because the distances to overseas markets limited most exports to

the high-value commodities or products with unique applications or specifications.

Gold production for 2003 was 9,305 kg. Production came from two large hard-rock mines: the Martha Hill, at the base of the Coromandel Peninsula, at Waihi, southeast of Auckland; and the Macraes open cut mine, north of Dunedin; as well as the Grey River dredging operation on the Grey River on South Island; plus 50 other small-scale operations. The Macraes Mine, accounted for about 40% the country's production in 2003.

In 2003, 1,947,000 tons of ironsand (titaniferous magnetite) was extracted. Iron ore in the form of titanomagnetite-rich sand derived from the coastal erosion of the Mount Taranaki volcanics was mined from beach and dune sands, concentrated at two sites along the western coast of North Island. Although the existence of large quantities of iron-bearing sands has been known for more than a century, the steel industry was not able to exploit them until the late 1960s.

Silver mine output in 2003 was 29,930 kg. Output of building materials in 2003 included an estimated 8,000,000 tons of sand and gravel for building aggregate, and 20,520,000 tons of limestone and marl for roads. New Zealand also produced bentonite, clays for brick and tile, diatomaceous earth (which included zeolite), dolomite, kaolinite (pottery), lime, marble, nitrogen, perlite (which included zeolite), quartzite, rock for harbor work, salt, sand and gravel (including silica [glass] sand and amorphous silica), serpentinite, and dimension stone. Considerable potential for platinum and platinum-group metals from hard-rock deposits and alluvial concentrations existed, the most promising area being the Longwood Range, in western Southland. Uranium-bearing minerals have been located on the South Island.

State-owned "Crown minerals," based on the British legal system, were owned and regulated by the New Zealand Crown Minerals Act 1991 and the Crown Minerals Amendment Act (No. 2), passed in 1997. Crown-owned minerals included all naturally occurring gold, silver, and uranium; substantial amounts of coal; other metallic and nonmetallic minerals and aggregates; and all petroleum. Minerals not designated as Crown owned were privately owned. New Zealand has not enacted native title legislation to gain access to Maori lands, claims for which were handled through the Treaty of Waitangi Tribunal.

Gold was discovered in New Zealand in the early 19th century when European sealers and whalers were first exploring the country. The mining industry began in 1852, upon the discovery of hard-rock gold on the Coromandel region, North Island, by European settlers. Gold deposits were discovered on the South Island in 1861. By 1870, copper, iron, lead, and silver deposits had been discovered and worked, and deposits of antimony, arsenic, chromium, zinc, and other minerals had been located. After World War II, industrial minerals, aggregate, and stone production grew steadily, coal mining fluctuated, and gold output declined. Extensive exploration in the 1950s and 1960s found natural gas and gas condensate, ironsand, and geothermal energy.

## 27 ENERGY AND POWER

New Zealand has modest reserves of oil, natural gas, and coal. Most of its electricity comes from hydroelectric sources.

New Zealand, as of 1 January 2002, had proven reserves of petroleum and natural gas of 89.62 million barrels and 58.94 billion

cu m, respectively. Petroleum output that year averaged 40,990 barrels per day, of which crude oil accounted for an average of 30,390 barrels per day. Refined petroleum production that year averaged 113,130 barrels per day. Consumption of refined products in 2002 averaged 145,250 barrels per day. Imports of all petroleum products averaged 130,890 barrels per day, of which 92,470 barrels per day was crude oil. Natural gas output and consumption in 2002 each totaled 215.70 billion cu ft.

Coal production totaled 4,916,000 short tons in 2002, of which bituminous coal accounted for 4,675,000 short tons. Lignite or brown coal accounted for the remainder. Coal reserves are estimated at 129 million tons, of which 85% is located in the untapped lignite fields in Southland.

Although the bulk of New Zealand's electricity is generated from hydroelectric sources, future hydroelectric potential is limited, and thermal power, based primarily on coal and natural gas, is becoming increasingly important. Total generating capacity was 8.555 million kW in 2002, with hydroelectric capacity accounting for 61.4% of capacity, and conventional thermal sources for 31% of capacity. Geothermal/other sources accounted for the remainder. In 2002, electric power output totaled 39.056 billion kWh, with hydropower producing 24.211 billion kWh. Conventional thermal generation accounted for 10.942 billion kWh. Geothermal/other sources produced 3.903 billion kWh in that year. Consumption of electricity in 2002 was 36.322 billion kWh.

## **28** INDUSTRY

Industrial production has increased rapidly since the end of World War II, stimulated by intermittent import controls that often enabled domestic industry to increase output without competition. A most significant feature of New Zealand industry in recent decades has been the establishment of heavy industry with Commonwealth and US capital. Plants include metal and petroleum processing, motor vehicle assembly, textiles and footwear, and a wide range of consumer appliances. The New Zealand Steel company manufactures billet slabs and ingots using domestically produced iron sands; Pacific Steel, which processes scrap metal, uses billets from New Zealand Steel. The Tiwai Point aluminum smelter, operated by an Australian-Japanese consortium, has an annual capacity of some 250,000 tons. The small but growing electronics industry produces consumer goods as well as commercial products, such as digital gasoline pumps. Wool-based industries have traditionally been an important part of the economy, notably wool milling, the oldest sector of the textile industry. Other significant industrial areas include a diverse food-processing sector, tanneries, sheet glass, rubber, and plastics.

Progressive withdrawal of government support beginning in 1985 led manufacturing to decline from 1987–89 due to a more competitive environment. However, after cutting overcapacity, many firms increased productivity and were ultimately in a stronger financial position. Industrial output has recovered since 1990. Manufacturing's contribution to GDP rose by 2.3% annually between 1988 and 1998. The manufacturing sector, which until the mid-1980s focused on production for the small domestic market, has increasingly been geared toward export markets. By 2004, industry accounted for some 27.4% of GDP.

## **29** SCIENCE AND TECHNOLOGY

Most scientific research in New Zealand is funded by the government, principally by the Department of Scientific and Industrial Research (DSIR) and the Ministry of Agriculture and Fisheries. The Cawthron Institute at Nelson, established in 1919, conducts research in chemistry, biology, and environmental and marine studies. New Zealand has 20 other institutes conducting research in agriculture, veterinary science, medicine, and general sciences and 17 universities and technical institutes offering degrees in basic and applied sciences. In 1987–97, science and engineering students accounted for 20% of college and university enrollments. In 2002, of all bachelor's degrees awarded, 20.7% were in the sciences (natural, mathematics and computers, engineering). Among New Zealand's 42 scientific and technical learned societies, the most prominent is the Royal Society of New Zealand, founded in 1867.

In 2001, research and development (R&D) expenditures totaled \$954.960 million, or 1.18% of GDP. Of that amount, the largest portion, 46.4%, came from government sources, followed by the business sector at 37.1%. Higher education and foreign sources accounted for 9.9% and 6.6%, respectively. In that same year, there were 2,593 researchers engaged in R&D per million people. In 2002, New Zealand's high technology exports totaled \$388 million, or 10% of the country's manufactured exports.

## **30** DOMESTIC TRADE

New Zealand has developed an open market economy over the past two decades, as the government has given up control of many areas of domestic economic regulation, including the elimination of agriculture subsidies and controls on prices and wages. The trend in retail establishments is moving from small shops to supermarkets and shopping centers. Several retail establishments have converted to self-service operations. There is very little retail mail-order trade. Automobiles and large appliances are increasingly being sold on the installment (hire-purchase) plan. General and trade papers, regional publications, and television and radio are used extensively as advertising media.

Business hours vary, especially since the introduction of staggered work hours, known as glide time. Offices open as early as 7:30 AM and remain open until about 6 PM. Stores may be open at any time between 7 AM and 9 PM, Monday through Saturday. Saturday trading is becoming more prevalent at popular beach resorts near the larger urban areas. Sunday trading is confined to "dairy shops," permitted by law to sell a restricted range of foodstuffs. All offices and banks are closed on Saturdays, Sundays, and statutory holidays. Banking hours are 9:30 AM to 4:30 PM, Monday to Friday.

## **31** FOREIGN TRADE

New Zealand's trade per capita and as a percentage of GNP is among the highest in the world. In 1974/75, more than 70% of export receipts derived from meat, dairy products, and wool; but this figure was down to 56% by 1984/85 and was only 32% in 1994/95, as manufactured goods and forest products have taken an increasing share of the total. Imports consist mainly of machinery, manufactured goods, petroleum and petroleum products, and raw materials for industry. Foreign trade more than doubled in value between 1976 and 1981 and again from 1981 to 1985. Be-

**Principal Trading Partners – New Zealand (2003)**

(In millions of US dollars)

Country	Exports	Imports	Balance
World	16,520.0	18,548.9	-2,028.9
Australia	3,559.5	4,187.8	-628.3
United States	2,396.6	2,184.7	211.9
Japan	1,816.8	2,170.1	-353.3
China	800.7	1,622.3	-821.6
United Kingdom	793.0	613.6	179.4
Korea, Republic of	577.8	495.4	82.4
Germany	433.9	982.2	-548.3
Belgium	367.4	198.3	169.1
Other Asia nes	364.0	404.2	-40.2
China, Hong Kong SAR	325.2	89.5	235.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

tween 1992/93 and 1995/96, the value of trade increased by nearly 16%. However, 1996 would prove to be a peak for New Zealand's foreign trade; it has not quite reached that level since.

New Zealand produces a large amount of food, including meat, dairy products, fruits and nuts, and fish. Other important exports include wool, aluminum, wood, and starch. New Zealand's major exports in 2004 were dairy products (17% of all exports), meat (15.5%), and forestry products (7.1%). Major imports that year included machinery and electrical equipment (23% of all imports), transportation equipment (15.6%), and mineral fuels and oils (10.5%). New Zealand's leading markets in 2004 were Australia (20.8% of all exports), the United States (14.4%), and Japan (11.2%). New Zealand's leading suppliers in 2004 were Australia (22.4% of all imports), the United States (11.2%) and Japan (11.2%).

**Balance of Payments – New Zealand (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>-3,337.0</b>
Balance on goods		-391.0
Imports	-17,219.0	
Exports	16,828.0	
Balance on services		803.0
Balance on income		-3,895.0
Current transfers		145.0
<b>Capital Account</b>		<b>508.0</b>
<b>Financial Account</b>		<b>3,405.0</b>
Direct investment abroad		-299.0
Direct investment in New Zealand		2,438.0
Portfolio investment assets		-856.0
Portfolio investment liabilities		2,184.0
Financial derivatives		...
Other investment assets		318.0
Other investment liabilities		-379.0
<b>Net Errors and Omissions</b>		<b>206.0</b>
<b>Reserves and Related Items</b>		<b>-782.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.**<sup>32</sup> BALANCE OF PAYMENTS**

Since New Zealand's foreign trade depends on agricultural and livestock products, and since prices for these commodities are volatile, New Zealand's balance of payments may swing sharply from one year to the next. Generally, deficits outweighed surpluses during the 1950s and 1960s. Consistent surpluses were recorded between 1969 and 1973, when international reserves nearly quadrupled. However, a poor trade performance in 1974, largely attributable to increased oil import costs, contributed to a large current accounts deficit. Since then, New Zealand has continued to register payments deficits, which have been partially offset by compensatory financing, including overseas loans.

Exports of goods rose to \$20.5 billion in 2004 (balance-of-payments basis), but imports of goods grew faster, to \$21.9 billion, widening the trade deficit to \$1.4 billion, from \$0.5 billion in 2003. This led to an increase in the current account deficit from \$3.4 billion (4.3% of GDP) in 2003 to \$6.2 billion (6.4% of GDP) in 2004.

**<sup>33</sup> BANKING AND SECURITIES**

The Reserve Bank of New Zealand, established in 1933, exercises control over monetary circulation and credit. It is the bank of issue, handles all central government banking transactions, manages the public debt, and administers exchange control regulations. The Reserve Bank of New Zealand Amendment Act (1973) empowers the Bank to regulate credit from all sources and requires it to make loans (as the minister of finance may determine) in order to ensure continued full employment.

New Zealand's financial services sector is dominated by the commercial banks, leaving only a minor role for nonbank finance companies and savings institutions. In part this reflects the impact of deregulation since the mid-1980s. Before 1984, the financial sector was highly segmented with tight government controls on what different institutions could offer. (For example, only trading banks could offer checking accounts to clients.) The easing of regulations means that there are now only two formal categories of financial institution: registered banks and other financial institutions. However, both can offer a wide range of financial and banking services.

In 2001, the government of New Zealand dedicated NZ\$78 million (US\$ 63 million) to the establishment of a new People's Bank, to be run by the New Zealand Post and offer personal banking services, but not corporate or commercial banking. The fees of the People's Bank were expected to be 30% lower than those at other banks.

To be defined as a bank, a financial institution must register with the central Reserve Bank and meet a range of eligibility criteria, such as minimum capital adequacy, experience in the financial intermediation industry, and a commitment to stability of the financial system. The number of registered banks peaked at 24 in 1994, but in 2000 there were 18.

A number of bank mergers have increased the concentration of total banking assets in foreign ownership. Over 95% of total banking assets are foreign-owned, compared with 65% in 1990. The New Zealand banking industry is increasingly influenced by developments in Australia, since Australian banking groups control over two-thirds of banking assets in New Zealand; this

share is unlikely to increase further, with the announcement in April 1996 of a conditional buy-out by Westpac Banking Corp. of Trust Bank, New Zealand's last domestically owned bank with a national branch network. The Post Office Savings Bank (established in 1865) has about 1,270 offices and agencies throughout New Zealand.

New Zealand is advantageously placed, since its trading day opens before the US market closes and before the Asian and Australian markets open. The main functions of the New Zealand Exchange Limited (NZX) are to provide an orderly market for the trading and transfer of securities, to protect investors' interests, and to ensure that the market is fully informed. As of 2003, there were 196 companies listing 213 securities worth NZ\$42.3 billion on the NZX. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$43.4 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.76%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.75%.

The Stock Exchange Association of New Zealand, the forerunner to the New Zealand Stock Exchange (NZSE), was founded in 1915. In May 2003, the NZSE became the New Zealand Exchange Limited (NZX). The stock exchanges in Auckland, Wellington, Christchurch, Dunedin, and Invercargill are members of the NZX, with headquarters in Wellington. Official listing is granted to companies that comply with the Exchange's requirements. These do not impose qualifications as to share capital but do provide that the company must be of sufficient magnitude and its shareholding sufficiently well distributed to ensure a free market for its shares. Subject to the recommendation and approval of the stock exchange nearest to the registered offices, companies may secure unofficial listing for their shares. All transactions in

shares quoted in the unofficial list are subject to special brokerage rates. As of 2004, a total of 158 companies were listed on the NZX, which had a market capitalization of \$43.731 billion. In 2004, the NZSX 50 Index rose 25.1% from the previous year to 3,064.4.

### 34 INSURANCE

The government provides insurance through the Government Life Insurance Office and the State Insurance Office, which undertakes accident, fire, and marine insurance.

New Zealand has one of the world's highest ratios of value of life insurance policies to national income. Life insurance offices mobilize long-term household savings in conjunction with the provision of life insurance coverage, and are also closely associated with the management of pension and superannuation funds. The long-term contractual nature of household-sector savings through life insurance offices gives them the capacity to acquire long-term government and corporate debt instruments and to take equity positions in commercial property and company shares. In addition, they may provide mortgage financing to policy holders. General insurance companies have substantial funds available for investment to cover claims outstanding and unexpired risks. These funds are available on a short-term basis and are invested mainly in marketable securities and liquid assets. New Zealand has a no-fault compensation scheme for personal injury, established in 1992 under the Accident Rehabilitation and Compensation Insurance Act of 1992. All people, including visitors are eligible for the benefits. Under the same act, however, the right to sue for compensation was abolished. Additional personal injury can be purchased from insurers.

Like its Australian counterpart, the New Zealand insurance market is one of the most competitive in the world, with some 50 general insurers and the same number of life insurers. The top five general insurers accounted for more than 70% of the total premiums written in 1997. The same pattern exists for life business. In 2003, the value of all direct insurance premiums written totaled \$4.730 billion, of which nonlife premiums accounted for \$3.671 billion. New Zealand's top nonlife insurer that same year was IAG New Zealand, which had gross written nonlife premiums of \$601 million, while the nation's leading life insurer, Sovereign had gross written life insurance premiums of \$227.1 million that year.

### 35 PUBLIC FINANCE

In 1994, in response to a decade of economic reforms that have opened the economy to foreign investment and triggered strong economic growth, the budget produced a surplus for the first time in 50 years. In 1995, public debt service dropped to 1.9% of GDP and 12% of expenditures. External debt accounted for 23% of total government debt. Interest on external debt equaled 3.5% of exports of goods and services plus investment income. The surpluses continued in 1996, but showed signs of weakness in 1997 as forecasts of slower economic growth and uncertainty over the intentions of the newly elected government prompted a drop in business confidence. Nevertheless, in June of 1997, the new government proposed a three-year program of increased spending on social programs and postponed a round of promised tax cuts. As a result of privatization and restructuring, New Zealand now has one of the most open economies in the world.

#### Public Finance – New Zealand (2003)

(In millions of New Zealand dollars, central government figures)

<b>Revenue and Grants</b>	<b>50,509</b>	<b>100.0%</b>
Tax revenue	42,264	83.7%
Social contributions	132	0.3%
Grants	...	...
Other revenue	8,113	16.1%
<b>Expenditures</b>	<b>46,281</b>	<b>100.0%</b>
General public services	4,167	9.0%
Defense	1,339	2.9%
Public order and safety	1,890	4.1%
Economic affairs	3,126	6.8%
Environmental protection	...	...
Housing and community amenities	676	1.5%
Health	7,657	16.5%
Recreational, culture, and religion	1,018	2.2%
Education	9,799	21.2%
Social protection	16,609	35.9%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

The US Central Intelligence Agency (CIA) estimated that in 2005 New Zealand's central government took in revenues of approximately US\$43.1 billion and had expenditures of US\$37.5 billion. Revenues minus expenditures totaled approximately US\$5.5 billion. Public debt in 2005 amounted to 21.4% of GDP. Total external debt was US\$57.67 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were NZ\$50,509,000 and expenditures were NZ\$46,281,000. The value of revenues was US\$8,679,000 and expenditures US\$7,952,000, based on a market exchange rate for 2003 of US\$1 = NZ\$5.820, as reported that year by the IMF. Government outlays by function were as follows: general public services, 9.0%; defense, 2.9%; public order and safety, 4.1%; economic affairs, 6.8%; housing and community amenities, 1.5%; health, 16.5%; recreation, culture, and religion, 2.2%; education, 21.2%; and social protection, 35.9%.

### **36 TAXATION**

The income tax rate for corporations, including subsidiaries of overseas corporations, is 33%, and is applied to aggregate income. There are also tax incentives for exporters. Generally, capital gains are not taxed, although gains from the sale of personal property that is related to a person's business or where the property was acquired for resale may be taxed as business income. Dividends, generally are subject to a withholding tax of 30%, with interest and royalty income, and payments made to contractors subject to a withholding rate of 15%. Earnings are taxed in one combined general income and social security tax, which for wage and salary earners is deducted by the employer on a pay-as-you-earn basis (called PAYE), with annual adjustments. There is a fringe benefits tax (FBT) payable quarterly by employers on the value of fringe benefits provided to employees and shareholders. Employers can choose to pay a flat rate of 64% or fully or partially attribute the value of the fringe benefits to the individual's income and pay at the appropriate rate. Capital gains are charged at the same rate as other income.

As of 2005 New Zealand had a progressive personal income tax with a top rate of 39%. However there is a system of low-income rebates that includes, in addition to standard deductions for the taxpayer and dependents, rebates for housekeeping or child-care expenses, and tuition. There are also rebates for certain dividend and interest income, life insurance premiums, and contributions to retirement funds.

The main in direct tax is a value-added tax (VAT), called the goods and services tax (GST), set at 12.5%. Exported goods, goods held overseas, services in connection with temporary imports and exported goods are zero-rated for the GST. Excise taxes are imposed on motor vehicles, gasoline, tobacco products, and alcoholic beverages. The government ratified the Kyoto Protocol on climate change in December 2002, and plans to introduce an appropriate carbon tax.

Local authorities are largely dependent on property taxes. There are three main systems of rating: (1) capital (land improvements) value; (2) annual value; (3) unimproved value. The actual amount of the rate is fixed by each local authority.

### **37 CUSTOMS AND DUTIES**

Customs taxation is based principally on an ad valorem scale, but specific duties are applied to some goods. Rates of duty payable depend on the country of origin. With the exception of some automotive products, preferential rate scales for the United Kingdom were phased out by 1 July 1977, as a result of that nation's entry into the European Community. In 1978, preferential rates for Commonwealth countries were also discontinued. Two years earlier, New Zealand had introduced a revised generalized system of preferences (GSP) favoring the developing countries. Tariffs range from 0–30%. There is also a goods and services tax (GST) of 12.5% that applies to Free on Board (FOB; cost of the product, plus all transportation costs from the manufacturer to the port of departure, plus costs of loading the vessel) value.

### **38 FOREIGN INVESTMENT**

Investment in New Zealand's economy by overseas companies through New Zealand subsidiaries has increased steadily, with the largest contribution from Australian sources, outstripping both US and UK sources. At the end of 1991, total foreign direct investment (FDI) in New Zealand was \$11 billion whereas as of March 2001 total FDI stock was \$49.3 billion. FDI from Australia rose from \$4.8 billion to \$17.2 billion in the period 1991 to 2001; from the United States, \$2.8 billion to \$7 billion; and from the United Kingdom, \$1.9 billion to \$6.7 billion. In 2000/01, FDI flow peaked at \$7.7 billion, more than double the rates in the previous four years: \$2.9 billion in 1997, \$3.4 billion in 1998, \$1.78 billion in 1999, and \$2.96 billion in 2000. Foreign portfolio investment has been more volatile. A small net outflow of \$285 million in 1997 was followed by two years of positive inflow (\$927 million in 1998 and \$747 million in 1999), and by then a large outflow of \$6 billion in 2000. In 2001, portfolio investment was a record \$3.89 billion.

In contrast, the stock of FDI held by New Zealanders in other parts of the world totaled \$14.7 billion as of March 2001.

As of March 2004, the total stock of FDI in New Zealand was \$42.7 billion, or 46.8% of New Zealand's GDP. New Zealand's direct investment abroad was \$8.89 billion, or 10% of GDP. From 2001–05, FDI inflows averaged 1.9% of GDP.

The legal framework for FDI in New Zealand is laid out in the Overseas Investment Act of 2005, administered by the Overseas Investment Office (OIO). Under the regulations an overseas person must obtain consent to acquire or establish 25% or more ownership in any New Zealand business; property worth more than \$100 million; "sensitive land"—for instance, land that is or includes foreshore or seabed; or certain fishing quotas.

### **39 ECONOMIC DEVELOPMENT**

Economic policy is implemented through taxation, Reserve Bank interest rates, price and monopoly controls, and import and export licensing. From 1958 to about 1975, import controls, tightened in 1961 and again in 1973, were employed to correct deficits in the balance of payments. Then in the mid-1970s the government began an industrial restructuring program focused on certain industries, such as textiles, footwear, automobiles, and electronics, whose domestic prices were much higher than those of foreign substitutes, with the aim of reducing the protection granted such products. In 1977, the New Zealand Planning Council

was charged with advising the government on economic, social and cultural planning, and on the coordination of planning. In 1978 the Economic Monitoring Group was established to make reports on economic trends working independently of the Planning Council. The government gradually liberalized import controls, and by 1981 about 79% of private imports to New Zealand were exempt from licensing.

In June 1982, in an effort to control mounting inflation, the government announced a freeze on wages, prices, rents, and dividends. The freeze was lifted in March 1984, temporarily reimposed by a new Labour government, and then terminated late in 1984. In March 1985, the New Zealand dollar was floated as part of a broad-based deregulation of the economy, and the Reserve Bank has not intervened since. The termination of the freeze, combined with a devaluation of the dollar, led to a resumption of high inflation, which lasted until the crash of financial markets in October 1987. From this point the government began implementing a strict monetary policy designed to achieve a stable price level. The immediate cost was a sharp rise in unemployment (from 7% to 10.4%), but by 1991 inflation had been brought down to the low levels that have prevailed since. The target set by the government is a range between 1% and 3% per year. For the year ending September 1991, inflation was 2.2%. The average inflation rate for the five years 1997 to 2001 was 1.5%, with a low of negative 0.4% in 1999 and a high of 3.2% in 2001. The inflation rate was estimated at 3.2% in 2005, and was expected to fall to 3% in 2006 and to 2.4% in 2007.

Also from the mid-1980s, the New Zealand government has embarked on a major restructuring program to transform the economy from an agrarian economy dependent on preferences in the British market to a competitive and more industrialized free market economy with per capita incomes on par with the leading industrialized nations. In the course of the last two decades, New Zealand has been changed from being one of the most regulated in the OECD to one of the most deregulated. For most of the 1990s, the economy grew strongly, but then was slowed by the Asian financial crisis. Real growth rates dropped to 1.9% and 0.4% in 1998 and 1999, respectively. Recovery in 2000 to 4.6% growth was reduced to 2.6% in 2001 as the economy felt the impact of the global slowdown. Real GDP growth was expected to slow to 2.2% in 2006, as domestic demand weakened, but was forecast to rise to 2.7% in 2007.

The Labour-Alliance government elected in November 1999 set as its goals the transformation of New Zealand into a competitive, knowledge-based economy with emphasis on the development of high skills, high employment and high value-added production. Monetary policy remains guided by the Reserve Act of 1989, which aimed at maintaining price stability. Fiscal policy is guided by the framework set out in the Fiscal Responsibility Act of 1994. Specific goals include keeping gross governmental debt below 30% of GDP, holding government expenditures to around 35% of GDP, and running an operating surplus in order to build up a fund (the New Zealand Superannuation Fund or NZS Fund) to meet the future costs of publicly provided retirement income. The major foci of the government's economic policy have been building conditions for enhancing New Zealand's sustainable economic growth rate and making it back into the top half of the OECD in terms of per capita income. The government has iden-

tified several key policy areas: an open, competitive microeconomy, macroeconomic stability, and improving skills and talents, innovation and global connectedness. A main barrier to New Zealand's economic development is a vulnerability to global economic and geopolitical shocks. One such example was the opposition of Prime Minister Helen Clark's government to the US invasion of Iraq in 2003, which raised tensions with the United States, one of New Zealand's main trading partners. Another challenge to New Zealand's economic prosperity is its continuing dependence on commodities, most agriculture- and forestry-related. This dependency leaves the small, open economy vulnerable to fluctuations in commodity prices and the impact of the weather on agricultural output. There has been a shift in the early 2000s towards further processing of primary commodities, to add value and to counter fluctuating world commodity prices. The manufacturing sector has increasingly been geared towards export markets.

In 1984/85, New Zealand contributed a total of \$36.25 million in Official Development Assistance, \$30 million in technical and capital assistance and direct aid or loans to developing nations, and \$6.25 million in multilateral aid through the UN, the South Pacific Commission, ADB, and other organizations. In 1995, New Zealand's ODA reached \$123 million, and then peaked at \$154 million in 1997. In 1998, under the strains of the Asian financial crisis, New Zealand's total aid declined to \$130 million, and in 2000/01 fell further to \$99.1 million. New Zealand's ODA stood at \$99.7 million in 2004. New Zealand's international aid effort has normally amounted to between 25% and 27% of GNP. The major recipients of its development assistance are the nations of the South Pacific, who receive about 70% of New Zealand's bilateral aid and more than 60% of its total overseas aid.

#### 40 SOCIAL DEVELOPMENT

A dual system of universal and social assistance is provided to all residents. Old age pensions have been in place since 1898. Benefits are paid for retirement, unemployment, sickness, and emergencies; and to widows, orphans, families, invalids, and minors. Retirement is set at age 65. Benefits are funded by the government. Medical benefits include medical, hospital, and pharmaceutical payments. Work injury compensation legislation provides for dual universal and compulsory insurance systems. The plan is financed by insurance premiums paid by employers and the self-employed and by a contribution from general revenue. Maternity benefits are provided for single women for six months. There are extensive benefits for families including a child disability allowance, low income family support, and child, parental, and family tax credits.

Although prohibited by law, discrimination in the workplace still exists. Women continue to earn less than men, and sexual harassment is a serious problem. The Ministry of Women's affairs aggressively addresses these issues. Domestic violence and abuse is a growing concern, although the law penalizes spousal rape. The law broadened the definition of domestic violence to include various kinds of psychological abuse. The government provides support to victims of domestic violence.

The government respects the human rights of its citizens. It also protects the rights of citizens living in the territories of Tokelau, Niue, and the Cook Islands.

## 4<sup>1</sup> HEALTH

For over 50 years, comprehensive health services, most of them supported by the state, have been available to all New Zealanders. About 80% of all health care costs are met by the public sector. Treatment at public hospitals is free for people ordinarily resident in New Zealand. In private hospitals, medical care is subsidized; a full range of maternity services is paid for by the Department of Health. The Health Service provides hospital treatment, maternity services from a general practitioner, most prescribed drugs, laboratory diagnostic services, dental care, routine immunizations for children under 16, and some health appliances free of charge. Partial benefits are paid for private hospitalization, X-ray services, physiotherapy, and hearing aids. Care is free for infants and preschool children. Most children are immunized free by their family doctors, but the Department of Health also has immunization clinics. Children up to one year old were vaccinated against tuberculosis, 20%; diphtheria, pertussis, and tetanus, 84%; polio, 84%; measles, 87%; and hepatitis B, 81%. Rates for DPT and measles were, respectively, 88% and 83%.

Area health boards, formed to combine primary and hospital care facilities for each region under a single administrative unit, were established in 1985. Market-oriented health care reforms were introduced in the 1990s, but many were reversed at the end of the decade when a Labour-Alliance government came to power. The country's health care system is still mostly tax funded. Twenty-one district health boards were formed by the New Zealand Public Health and Disability Act of 2000. Total health care expenditure was estimated at 8.1 % of GDP.

Public hospitals are managed under the supervision of the Minister of Health by local hospital boards, whose members are elected; all costs are borne by the state. Private hospital costs are partly paid for by the state; additional fees may be claimed from patients. Voluntary welfare organizations make valuable contributions to public health and are assisted by grants from public funds. Most physicians practice under the National Health Service, established by the Social Security Act of 1938, but private practice outside the scheme is permitted. As of 2004, there were an estimated 223 physicians, 868 nurses, 42 dentists, and 100 pharmacists per 100,000 people.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 14.2 and 7.6 per 1,000 people. About 70% of married women (ages 15 to 49) were using contraceptives. In 2000, the total fertility rate was two children per woman living throughout her childbearing years. Infant mortality in 2005 was 5.85 per 1,000 live births. Life expectancy at birth was 78.66 years. The principal causes of death are heart disease, stroke, chronic obstructive pulmonary disease, and lung and colorectal cancer. There were about six reported cases of tuberculosis per 100,000 people.

The health of the Maori people, although greatly improved over recent decades, is still not on a par with that of the general population. Alcoholism is a significant public health problem in New Zealand. Estimates of the number of chronic alcoholics range upward from 53,000 and another 250,000 New Zealanders may be classified as excessive drinkers. Tobacco consumption in New Zealand has decreased from 2.3 kg (5.1 lbs) a year per adult in 1984–86 to 2.0 kg (4.4 lbs) in 1995. The heart disease mortality rate for those over 65 years old is higher than the average for coun-

tries defined as high human development by the World Bank. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,400 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003. New Zealand has adopted needle exchange programs to reduce HIV spread among IV users.

## 4<sup>2</sup> HOUSING

The number of houses and apartments built in New Zealand fell steadily from 1974/75, when 34,000 new houses and flats were built, to 1981, when only 14,300 were constructed; since then, numbers have generally risen, reaching 18,000 in 1992, when New Zealand's housing stock totaled 1,220,000. As of 2001, there were 1,359,843 private dwellings nationwide. About 80% were separate, single family houses. There were about 5,265 temporary dwellings (i.e., cabins, tents, mobile homes). About 67.8% of all dwellings are owner occupied. The average household had 2.7 people. The average private dwelling has three bedrooms, a living room, dining room, kitchen, laundry, bathroom, toilet, and garage. Most units are built of wood and have sheet-iron or tiled roofs. The estimated number of dwellings nationwide at the end of 2004 was 1,608,900.

In recent decades, the government has introduced measures designed to assist the financing of housing by contractors and private owners. These include increases in the maximum housing loans advanced by the State Advances Corporation, low-interest loans for families with low incomes, and the establishment of a home savings scheme through the Post Office Savings Bank. Since 1937, the government Housing Corp. has built houses and flats for rental, with preference given to low-income families; by March 1985, 90,469 of these had been completed. Since 1951, the government has generously subsidized local authorities to provide pensioners' housing.

## 4<sup>3</sup> EDUCATION

Education in New Zealand is compulsory for 10 years for children between ages 6 and 16, although most children attend school from the age of five. Public primary and secondary schools are administered by district education boards (or boards of governors) and school committees (the latter elected by householders), under the authority of the Department of Education. Kindergartens are run either by private persons or by voluntary organizations with partial state subsidies. Primary education lasts for eight years and is given at primary and intermediate schools (the latter giving the last two years of primary education). Secondary education covers five years of study and is offered through general secondary schools, technical high schools, or consolidated schools for pupils who live in rural areas. Evening classes are given by technical and secondary schools, and adult education classes are offered by the universities. Most state schools are coeducational, but some private schools are not. New Zealand has about 2,300 state primary schools and 60 privately owned schools. At the secondary level, there are 315 state-run schools and 15 private schools. The academic year runs from February to November.

In 2001, about 86% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was

about 93% of age-eligible students. It is estimated that about 95% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 18:1 in 2003; the ratio for secondary school was about 16:1.

Attendance at vocational schools has grown tremendously, from a total enrollment of 3,071 in 1980 to 63,658 in 1994. For children in isolated areas, there is a public Correspondence School. In some regions there are special state primary and secondary schools for Maori children, but most Maori children attend public schools. Private primary and secondary schools are operated by individuals and religious bodies. Since 1975, under new legislation, many private schools have been voluntarily integrated into the public system.

There are six universities, all operating under the aegis of the University Grants Committee and the Universities Entrance Board: the University of Auckland, University of Waikato (at Hamilton), Massey University (at Palmerston North), Victoria University of Wellington, University of Canterbury (at Christchurch), and University of Otago (at Dunedin). All universities offer courses in the arts, social sciences, commerce, and science. An agricultural institution, Lincoln College, is associated with the University of Canterbury. Law is offered at Auckland, Waikato, Victoria, Canterbury, and Otago, and medicine at Auckland and Otago. The Central Institute of Technology, near Wellington, is the leading institution in a network of 24 polytechnic institutions. There are evening classes for adults interested in continuing their education at secondary schools, institutes and community centers. University tuition fees are low, and financial assistance is given to applicants who have passed special qualifying examinations. In 2003, about 74% of the tertiary age population were enrolled in some type of higher education program; 59% for men and 90% for women. The adult literacy rate has been estimated at about 99%.

As of 2003, public expenditure on education was estimated at 6.7% of GDP, or 15.1% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

The Alexander Turnbull National Library of New Zealand was founded in 1966 by the amalgamation of three state libraries and service divisions. It contains a general lending collection of over 530,000 volumes, plus a large number of materials in special collections. Its Extension Division provides services to public and school libraries throughout the country, and the Library School offers courses for the training and certification of librarians. The two largest university libraries are at the University of Auckland (1.6 million volumes) and the University of Canterbury at Christchurch (571,000). The largest public library systems are in Auckland, Christchurch, Dunedin, and Wellington.

Outstanding art galleries and museums are the Auckland City Art Gallery (European and New Zealand paintings); the Canterbury Museum, Christchurch (ornithology, anthropology, and history); the Dunedin Public Art Gallery (paintings, period furniture, and china); the Otago Museum, Dunedin (ethnography, classical antiquities, ceramics); and the National Museum, Wellington (botany, ethnology, history). The nation's largest collection of Maori and Polynesian artifacts is found in the War Memorial Museum in Auckland. The Auckland Museum, founded in 1852, also has a fine collection of Maori artifacts. There is also a Museum of Puppets in Auckland and a Melanesian Mission House

highlighting the Christian conversion of the indigenous peoples. There are hundreds of other historical and anthropological museums and sites throughout the country.

#### 45 MEDIA

In 1990, Telecom Corp., which runs the country's telephone services, was sold to a consortium led by American Information Technologies Corp. and Bell Atlantic. In 2003, there were an estimated 448 mainline telephones for every 1,000 people. The same year, there were approximately 648 mobile phones in use for every 1,000 people.

After undergoing decentralization in the early 1970s, the national broadcasting system was again reorganized in the latter half of the decade, and united under one central board, the Broadcasting Corp. of New Zealand. Under its authority are the Radio New Zealand network, a unified television service operating the two formerly competing national networks, TV1 and TV2, and one privately owned channel. As of 1998 there were 124 AM and 290 FM radio stations and 41 television broadcast stations. In 2003, there were an estimated 991 radios and 574 television sets for every 1,000 people. About 7.1 of every 1,000 people were cable subscribers. The same year, there were 413.8 personal computers for every 1,000 people and 526 of every 1,000 people had access to the Internet. There were 1,773 secure Internet servers in the country in 2004.

The largest daily newspapers and their estimated 2004 circulation figures are: *New Zealand Herald* (Auckland), 210,910; *The Press* (Christchurch), 91,111; *The Dominion Post* (Wellington), 99,089; and *Otago Daily Times* (Dunedin), 44,546. The largest weeklies in 2002 were *Sunday Star Times* (Auckland), 199,420; *Sunday News* (Auckland), 135,229; *The New Zealand Listener* (Auckland), 96,000; and *Dunedin Star Weekender* (Dunedin), 43,000.

The law provides for freedom of expression including free speech and a free press. Aside from the usual British legal limit for libel, the press enjoys complete editorial freedom.

#### 46 ORGANIZATIONS

Almost all aspects of New Zealand life have their appropriate organizations. A few of the more important ones are the Federated Farmers of New Zealand, the New Zealand Fruitgrowers' Association, the New Zealand Employers' Federation, the Chamber of Commerce (represented in almost every large town), the Returned Servicemen's Association, the New Zealand Federation of Labour, the Plunket Society (which deals with child welfare), the Royal Society of New Zealand, "Heritage" (devoted to the assistance of children deprived of one parent), the New Zealand Medical Association, the New Zealand Press Association, the New Zealand Institute of Public Administration, and the New Zealand Public Service Association.

Important cultural organizations are the New Zealand Symphony Orchestra, the New Zealand Opera Company, Creative New Zealand, the New Zealand Ballet, the Queen Elizabeth II Arts Council, the New Zealand Academy of Fine Arts, and the New Zealand Music Federation. There are also several associations available for hobbyists.

National youth organizations include the Girl Guides Association of New Zealand, New Zealand Scouting Association, Nation-

al Council of the YMCA/YWCAs of New Zealand, branches of the Junior Chamber, New Zealand Federation of Young Farmer Clubs, New Zealand Student Association for the United Nations, New Zealand University Student Association, and Young Socialists. There are numerous sports associations for all ages, including a National Rifle Association.

Social action groups include the National Advisory Council on the Employment of Women, the National Council of Women of New Zealand, and New Zealand Men for Equal Rights Association. Volunteer service organizations, such as the Lions Clubs and Kiwanis International, are also present. International organizations with national chapters include Amnesty International, Greenpeace, Habitat for Humanity, Salvation Army, Caritas, Save the Children Fund, and the Red Cross.

#### **47 TOURISM, TRAVEL, AND RECREATION**

New Zealand draws many thousands of tourists to its shores because of the beauty, diversity, and compactness of its natural attractions and its varied sporting facilities. There are 14 national parks; of these, Fiordland is the largest, with some portions still unexplored. Te Urewera, noted for its forests and bird life, is the park in which early Maori culture is most strongly preserved; Tongariro includes two active volcanoes and is an important ski resort; and Mount Cook National Park includes Tasman Glacier, the largest glacier outside the polar regions. New Zealand has numerous thermal spas, particularly in the Rotorua area, which also offers Maori villages where traditional arts and crafts may be observed. The Waitomo Cave, on the North Island, is lit by millions of glow-worms and may be toured all year. Lake Taupo and its streams form one of the world's richest trout fishing areas; Christchurch is home to one of the world's finest botanical gardens. Skiing is available on both the North and South Islands, and good deep-sea fishing along the North Island coast. New Zealand has first-class golf courses. Spectator sports include horse racing, football (soccer), cricket, and rugby.

All overseas visitors need passports valid for at least three months beyond their intended stay in New Zealand. Visas are not required for Australian citizens with Australian passports or nationals of the 50 countries who hold visa waivers. There are no vaccination requirements.

In 2003, about 2,104,400 tourists visited New Zealand, of whom 12.5% came from the United Kingdom and 10% from the United States. There were 20,072 hotel rooms with an occupancy rate of 54%. That year travelers stayed an average of two nights.

In 2005, the US Department of State estimated the daily cost of staying in Rotorua at us\$225; in Christchurch, us\$230, and in Wellington, us\$283.

#### **48 FAMOUS NEW ZEALANDERS**

Among New Zealand's best-known statesmen are Sir George Grey (1812–98), governor and later prime minister; Richard John Seddon (1845–1906), prime minister responsible for much social legislation; William Ferguson Massey (1856–1925); and Peter Fraser (1884–1950), World War II prime minister. Robert David Muldoon (1921–92) was prime minister from 1975 to 1984, when David Lange (1942–2005) became the youngest man to hold that office in the 20th century. Sir John Salmond (1862–1924) was an eminent jurist. William Pember Reeves (1857–1932), outstanding

journalist, politician, and political economist, was the director of the London School of Economics. Frances Hodgkins (1869–1947) was a highly regarded painter. Katherine Mansfield (Kathleen Beauchamp Murry, 1888–1923), author of many evocative stories, was a master of the short-story form. Other well-known authors include Sylvia Ashton-Warner (1908–84) and Maurice Shadbolt (1932–2004). Two outstanding leaders of the Maori people were Sir Apirana Ngata (1874–1950) and Sir Peter Buck (1880–1951). Sir Truby King (1858–1938) pioneered in the field of child care.

Lord Ernest Rutherford (1871–1937), pioneer in atomic research and 1908 Nobel Prize winner for chemistry, was born in New Zealand. Other scientists include Sir Harold Gillies (1882–1960) and Sir Archibald McIndoe (1900–62), whose plastic surgery methods did much to rehabilitate war victims; Sir Brian G. Barratt-Boyes (1924–2006), a researcher in cardiac-thoracic surgery; and Albert W. Liley (b.1929), a researcher in perinatal psychology. Prominent in the arts have been ballet dancers Alexander Grant (b.1925) and Rowena Jackson (b.1926); the singer and actor Inia Watene Te Wiata (1915–71); and the soprano Kiri Te Kanawa (b.1944). Film actor Russell Crowe (b.1964) was born in New Zealand. Filmmakers Jane Campion (b.1954) and Peter Jackson (b.1961) have both won Academy Awards. In 1993, Campion won the Oscar for best screenplay for her film, *The Piano*. In 2003, Jackson's film, *The Return of the King*, the third film in *The Lord of the Rings* trilogy, won 11 Oscars, 3 for Jackson himself (best picture, best director, and best screenplay). Sir Edmund Percival Hillary (b.1919) was the conqueror of Mt. Everest. The celebrated political cartoonist David Low (1891–1963) was born in New Zealand.

#### **49 DEPENDENCIES**

##### **Cook Islands**

Part of New Zealand since 1901, the Cook Islands became internally self-governing on 4 August 1965. The Cook Islands Constitution Act of 1964 established the island group as wholly self-ruling but possessed of common citizenship with New Zealand as well as of a common head of state (the Queen). New Zealand exercises certain responsibilities for the defense and external affairs of the islands, in consultation with the Cook Islands government. Full independence from New Zealand is planned for 2007.

A parliamentary type of government, like New Zealand's, characterizes the new political relationship, with a cabinet composed of a prime minister and six other ministers. The 24-member Legislative Assembly—to which the prime minister and other cabinet members are responsible—is elected by the adult population of the islands every four years and can void the applicability of New Zealand laws to the territory under its jurisdiction. The constitution of the autonomous islands also allows a declaration of independence, if ever this should be the wish of the political leadership. The office of New Zealand high commissioner was abolished in 1975 and replaced by the office of Queen's representative. Cook Islands products continue to enter New Zealand freely, and the level of subsidies to the islands from the New Zealand government has persisted.

The Cook Islands, 15 islands lying between 8° and 23°s and 156° and 167°w, more than 3,220 km (2,000 mi) northeast of New Zealand, were discovered by James Cook in 1773. They became a British protectorate in 1888 and were annexed to New Zealand

in 1901. They consist of the Southern Group—8 islands, the largest of which are Rarotonga (6,666 ha/16,472 acres) and Mangaia (5,191 ha/12,827 acres); and the Northern Group—7 islands varying in size from Penrhyn (984 ha/2,432 acres) to Nassau (121 ha/299 acres). The total area is 241 sq km (93 sq mi). The northern islands are low-lying coral atolls, while the southern islands, including Rarotonga, the administrative seat, are elevated and fertile, and have the greater population. Except for Rarotonga, the islands suffer from lack of streams and wells, and water must be conserved. The islands lie within the hurricane area and sometimes experience destructive storms.

The population (estimated in 2002 at 20,811) is Polynesian and close in language and tradition to the New Zealand Maori. They are converts to Christianity. The islands are visited by government and freight vessels, and interisland shipping services are provided by commercially owned boats. An international airport opened for full services in 1973. There are three radio stations (1 AM and 2 FM).

The economy is based on agriculture, with the main exports being copra, papayas, fresh and canned citrus fruit, and coffee. Other exports are fish, pearls, pearl shells, and clothing. Total exports were valued at us\$9.1 million in 2000. The main imports are foodstuffs, textiles, fuels, timber, and capital goods. In 2000, imports amounted to us\$50.7 million.

Revenue for public finances is derived mainly from import duties and income tax. The 2000–01 budget envisioned expenditures of us\$27 million. The New Zealand government provided grants and subsidies for capital development in health, education, other social services, economic development, and other purposes, covering one-third of the budget.

Free compulsory education is provided by the government at primary and secondary levels for all children between the ages of 6 and 15, and an estimated 95% of the population is literate. All Cook Islanders receive free medical and surgical treatment, and schoolchildren receive free dental care.

### Niue

An isolated coral island, Niue is 966 km (600 mi) northwest of the southern Cook Islands, and located at 19°02's and 169°52'w. Niue became a British protectorate in 1900 and was annexed to New Zealand in 1901. Although Niue forms part of the Cook Islands, because of its remoteness and cultural and linguistic differences it has been separately administered. Niue has an area of 258 sq km (100 sq mi). Its population (of Polynesian stock) was 2,134 in 2002, up slightly from 1,997 in 1993, but still below the peak of 5,194 in 1966. The population decline was principally due to emigration to New Zealand, where Niueans outnumber those remaining on the island by two to one.

Niue became self-governing on 19 October 1974, in free association with New Zealand. Under the constitution, the former leader of government became the premier. An assembly of 20 members is elected by universal suffrage; 14 members represent village constituencies, and 6 are elected at large. The constitution provides for New Zealand to exercise various responsibilities for the external affairs and defense of Niue and to furnish economic and administrative assistance.

Niue's soil, although fertile, is not plentiful; arable land is confined to small pockets of soil among the coral rocks, making ag-

riculture difficult, although the economy is based mainly on agriculture. Since there are no running streams, the island is dependent on rainwater. Exports include canned coconut cream, copra, honey, vanilla, passion fruit products, pawpaws, root crops, limes, footballs, stamps, and handicrafts; in 1999 income from exports was \$137,200. As of 2001, there were 234 km (146 mi) of road, 86 km (54 mi) of which are paved. A telephone system, with nearly 400 main lines as of the 1990s, connects the villages, and an airport became fully operational in 1971.

Budget deficits are met by the New Zealand government, which also makes grants for capital development. Health services and education are free. Education is compulsory for children 5 to 14 years of age.

### Tokelau Islands

The Tokelau Islands, situated between 8° and 10°s and 171° and 173°w, about 483 km (300 mi) north of Western Samoa, consist of three atolls, Fakaofu, Nukunonu, and Atafu. Total area is about 10 sq km (4 sq mi). Each atoll has a lagoon encircled by a number of reef-bound islets varying in length from about 90 m to 6.4 km (100 yards to 4 mi), in width from 90 m to 360 m (100–400 yards), and extending more than 3 m (10 ft) above sea level. All villages are on the leeward side, close to passages through the reefs. Lying in the hurricane belt, the islands have a mean annual rainfall of 305 cm (120 in). The inhabitants, of Polynesian origin, are British subjects and New Zealand citizens. Total population in 2002 was estimated at 1,431, down from 1,760 in 1992. Formerly part of the Gilbert and Ellice Islands group, the Tokelau Islands were transferred to New Zealand at the beginning of 1949. There is no resident European staff; executive functions are carried out on each atoll by appointed Tokelau mayors, magistrates, clerks, and other officials. An administrative officer based in Samoa coordinates administrative services for the islands. Samoan is the official language.

Subsistence farming and the production of copra for export are the main occupations. The total fish catch was 190 tons in 1994. Visits are made regularly by New Zealand Air Force planes, and a chartered vessel makes regular trading visits. Sources of revenue are an export duty on coconuts, copra, customs dues, postage stamps, and trading profits.

Government expenditure is devoted mainly to agriculture, the provision of social services, and administrative costs. Annual deficits are met by New Zealand government subsidies. New Zealand's annual budgetary aid was estimated at us\$4 million in 2000. Nutrition and health are reasonably good.

### Ross Dependency

The Ross Dependency (between 160°E and 150°W and south of 60°S) is a section of the Antarctic continent that was brought under the jurisdiction of New Zealand in 1923. Its area is estimated at 414,400 sq km (160,000 sq mi). It is almost entirely covered by ice and is largely uninhabited. New Zealand activities in the dependency are coordinated and supervised by the Ross Dependency Research Committee (a government agency) and implemented by the Antarctic division of the Department of Scientific and Industrial Research. Exploitation of the region, apart from scientific expeditions, has been confined to whaling. A joint US-New Zealand scientific station established at Cape Hallett in 1957 for par-

ticipation in the International Geophysical Year continues to operate for purposes of scientific research.

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# OMAN

Sultanate of Oman  
*Saltanat ‘Uman*



**CAPITAL:** Muscat (Masqat)

**FLAG:** The flag is red with a broad stripe of white at the upper fly and green at the lower fly. In the upper left corner, white crossed swords overlay a ceremonial dagger.

**ANTHEM:** *Nashid as-Salaam as-Sutani (Sultan’s National Anthem).*

**MONETARY UNIT:** The Omani riyal (ro), established in November 1972, is a paper currency of 1,000 baizas. There are coins of 2, 5, 10, 25, 50, 100, 250, and 500 baizas, and notes of 100, 250, and 500 baizas (the last two being replaced by coins) and 1, 5, 10, 20, and 50 riyals. ro1 = \$2.56410 (or \$1 = ro0.39) as of 2005.

**WEIGHTS AND MEASURES:** The metric system was adopted on 15 November 1974. The imperial and local system also are used.

**HOLIDAYS:** Accession of the Sultan, 23 July; National Day, 18 November; Sultan’s Birthday, 19 November. Movable Muslim religious holidays include ‘Id al-Fitr, ‘Id al-‘Adha, and Milad an-Nabi.

**TIME:** 4 PM = noon GMT. Solar time also is observed.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Sultanate of Oman is the second-largest country after Saudi Arabia on the Arabian Peninsula, with an area officially estimated at 212,460 sq km (82,031 sq mi). Comparatively, the area occupied by Oman is slightly smaller than the state of Kansas. Oman’s territory includes the tip of the strategically important Ra’s Musandam, which juts into the Strait of Hormuz. Oman’s part of the peninsula is separated from the rest of the country by the territory of the United Arab Emirates (UAE). Oman proper extends 972 km (604 mi) NE–SW and 513 km (319 mi) SE–NW. It is bordered on the N by the Strait of Hormuz, on the NE by the Gulf of Oman, on the E and S by the Arabian Sea, on the SW by the People’s Democratic Republic of Yemen (PDRY), on the W by the Ar-Rub’ al-Khali (Empty Quarter) and Saudi Arabia, and on the NW by the United Arab Emirates. The total estimated boundary length is 3,466 km (2,154 mi), of which 2,092 km (1,300 mi) is coastline.

## <sup>2</sup>TOPOGRAPHY

Physically, Oman, except for the Dhofar (Zufar) region, consists of three divisions: a coastal plain, a mountain range, and a plateau. The coastal plain varies in width from 16 km (10 mi) to practically nothing near Muscat, where the hills descend abruptly to the sea. The highest point, Jabal Shams, is at 2,980 meters (9,777 ft) in the Al Jabal range of the north. The plateau has an average height of about 300 m (1,000 ft) and is mostly stony and waterless, extending to the sands of the Ar-Rub’ al-Khali. The coastline southward to Dhofar is barren and forbidding. From Salalah, a semicircular fertile plain extends to the foot of a steep line of hills, some 1,500

m (4,920 ft) high, and forms the edge of a stony plateau also extending to the sands of the Empty Quarter.

## <sup>3</sup>CLIMATE

Annual rainfall in Muscat averages 10 cm (4 in), falling mostly in January. Dhofar is subject to the southwest monsoon, and rainfall up to 64 cm (25 in) has been recorded in the rainy season from late June to October. While the mountain areas receive more plentiful rainfall, some parts of the coast, particularly near the island of Masirah, sometimes receive no rain at all within the course of a year. The climate generally is very hot, with temperatures reaching 54°C (129°F) in the hot season, from May to October.

## <sup>4</sup>FLORA AND FAUNA

Desert shrub and desert grass, common to southern Arabia, are found. Vegetation is sparse in the interior plateau, which is largely gravel desert. The greater rainfall in Dhofar and the mountains makes the growth there more luxuriant. Coconut palms grow plentifully in Dhofar and frankincense grows in the hills. Oleander and varieties of acacia abound.

Indigenous mammals include the cheetah, hyena, fox, wolf, and hare. Birds include the Arabian see-see partridge, redleg chukor partridge, and Muscat bee eater. As of 2002, there were at least 56 species of mammals, 109 species of birds, and over 1,200 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Maintaining an adequate supply of water for agricultural and domestic use is Oman’s most pressing environmental problem. The

nation has only one cubic kilometer of renewable water resources, with 94% of annual withdrawals used in farming and 2% for industrial activity. Both drought and limited rainfall contribute to shortages in the nation's water supply. The nation's soil has shown increased levels of salinity. Pollution of beaches and other coastal areas by oil tanker traffic through the Strait of Hormuz and Gulf of Oman is also a persistent problem.

In 2003, about 14% of the total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 12 types of mammals, 14 species of birds, 4 types of reptiles, 18 species of fish, 1 species of invertebrate, and 6 species of plants. Decrees have been passed to protect endangered species, which include the South Arabian leopard, mountain gazelle, goitered gazelle, Arabian tahr, green sea turtle, hawksbill turtle, and olive turtle. The Arabian Oryx Sanctuary is a UNESCO World Heritage Site.

## **6<sup>POPULATION</sup>**

The population of Oman in 2005 was estimated by the United Nations (UN) at 2,436,000, which placed it at number 137 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 33% of the population under 15 years of age. There were 128 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 2,984,000. The population density was 12 per sq km (30 per sq mi), with the greatest concentrations around Muscat and on the Batinah coast; together, these two regions have more than half the population.

The UN estimated that 76% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.27%. The capital city, Muscat (Masqat), had a population of 638,000 in that year. Salalah is the principal town of the south.

## **7<sup>MIGRATION</sup>**

There is frequent movement of workers between Oman and neighboring states. In 2000 there were 682,000 migrants living in Oman, primarily foreign laborers. In 2001, foreigners were nearly 25% of the labor force. Oman declared that, by the end of 2003, cashiers, drivers, security officers, and workers in retail stores and supermarkets must be Omanis. By 2007 restaurants catering mainly to tourists would also be Omanized.

In 2004, there were 7 refugees and 24 asylum seekers. The net migration rate was an estimated 0.31 migrants per 1,000 population in 2005.

## **8<sup>ETHNIC GROUPS</sup>**

The indigenous population is predominantly Arab except on the Batinah coast, where there is significant Baluchi, Iranian, and African representation, and in Muscat and Matrah, where there are

Khojas and other Indians, Baluchis, and Pakistanis. Tribal groups are estimated to number over 200.

## **9<sup>LANGUAGES</sup>**

The official language is Arabic. Urdu, Baluchi, and several Indian dialects are also spoken, especially in the cities of Muscat and Matrah. English is taught as a second language.

## **10<sup>RELIGIONS</sup>**

The state religion is Islam, with most of the population adhering to the Ibadhi or Sunni sects. Tribes in the north are mainly Sunni Muslims of the Hanbali, Shafai, and Wahhabi rites. A minority of the population is Shia Muslim. There is a small community of Indian Hindu citizens and there is reportedly a very small number of Christians. Non-Muslims, the majority of whom are non-citizen immigrant workers from South Asia, are free to worship at churches and temples, some of which are built on land donated by the Sultan.

The Basic Statute of the State allows for the freedom to practice religious rites as long as these rites do not breach public order. In practice, the government has reserved the right to place some restrictions on non-Muslim faiths. Non-Muslims may not proselytize to Muslims and non-Muslim groups may not publish religious materials within the country. Certain Muslim holidays are celebrated as national holidays.

## **11<sup>TRANSPORTATION</sup>**

As of 2002, there were 32,800 km (20,382 mi) of roadways, of which only 9,840 km (6,115 mi) were paved, including 550 km (342 mi) of expressways. A major 800-km (500-mi) highway links Nazwa in the north to Thamarit and Salalah in the Dhofar region. A main coastal road has been laid from Muscat to Suhar, a distance of 240 km (150 mi), and the road from Muscat to Buraymi on the United Arab Emirates border has been completed. In 2003, there were 266,325 passenger cars and 113,370 commercial vehicles registered. There are no railways or waterways in Oman.

In 2004, there were an estimated 136 airports. As of 2005, a total of six had paved runways, and there was also one heliport. Seeb International Airport, 30 km (19 mi) northwest of Muscat, is served by numerous international carriers, including Gulf Air, in which Oman holds a 20% interest. A second modern airport, at Salalah in the south, serves domestic flights. In 2003, about 2.777 million passengers were carried on scheduled international and domestic airline flights.

Mina's Qabus, near Muscat, is the main port in the north, serving international and regional shipping. Port Salalah, 1000 km (621 mi) down the coast from Muscat is the main port for the south. Opened in 1998, Port Salalah is the only port between Europe and Singapore that can accommodate the S-class ships, the world's largest class of container vessel. It is now among the top 20 container ports in the world in terms of handling capacity, and among the top 10 in terms of efficiency. All Omani crude oil is exported from Mina's al-Fahl, west of Matrah. In 2005, Oman had one merchant vessel (a passenger ship) of 1,000 GRT or more, totaling 15,430 GRT.

## 12 HISTORY

Oman's history can be traced to very early times. In Genesis 10:26–30, the descendants of Joktan are said to have migrated as far as Sephar (now Dhofar). The area was already a commercial and seafaring center in Sumerian times, and Phoenicians probably visited the coastal region. Other groups that probably came to the area in ancient times include the Baida and Ariba, Semitic tribes from northern Arabia, now extinct; the first Himyar dynasty from Yemen, which fell to the Persians in the time of Cyrus, about 550 BC; ancient Greek navigators; and the Parthians (174–136 BC).

The entire population was converted to Islam during the lifetime of Muhammad, but Oman soon became—and remains today—the center of the Ibadhi sect, which maintained that any pious Muslim could become caliph or imam and that the imam should be elected. Omani tribes have elected their imams since the second half of the 8th century.

The first prolonged contact with Europe came in 1507–08, when the Portuguese overran Muscat. They maintained control until they were driven out with Persian aid in 1649. During the next 75 years, Oman conquered Mombasa, Mogadishu, the island of Zanzibar, and the Portuguese possessions in East Africa. Later it held parts of what are now Iran and Pakistan.

The first sultanate was established in Muscat about 1775. In 1798, Britain concluded its first treaty with Muscat. Sa'id bin Sultan (r.1804–56) became dependent on British support, and after his death his sons quarreled over his succession (the basic Ibadhi tenet having been rejected). Thus weakened by political division, Muscat lost control of the interior. In 1920, the Treaty of Seeb was signed between the sultan of Muscat and the imam of Oman, acknowledging the autonomy of the imamate of Oman under the sovereignty of the Sultan. From 1920 to 1954 there was comparative peace. On the death of the imam in 1954, Sultan Sa'id bin Taymur moved to succeed him.

That year, Sa'id concluded a new agreement with Petroleum Development (Oman) Ltd., a British-managed oil company that had the oil concession for Oman. By this agreement, the company maintained a small army, the Muscat and Oman Field Force (MOFF), raised and led by the British. In early 1955, it subdued the area up to and including the town of 'Ibri. When British troops took Buraymi, MOFF occupied the rest of Oman and expelled the rebellious new imam. By 1959 when the last of the insurgents supporting the imam were defeated, the sultan voided the office and declared the Treaty of Seeb terminated. The imam, exiled in Saudi Arabia, tried in vain to muster Arab support for his return.

Under the terms of the Anglo-French Declaration of 10 March 1962, the sultanate of Muscat was proclaimed an independent and sovereign state. Certain Arab states charged, however, that the United Kingdom was maintaining a colonial presence in the former imamate of Oman. In 1965 and repeatedly thereafter, the UN called unsuccessfully for the elimination of the British presence. Oman joined the UN late in 1971.

Meanwhile, as early as 1964, a tribal rebellion had been brewing in the Dhofar region. The rebel tribes, organized as the Dhofar Liberation Front and aided by South Yemen, later joined forces with the Marxist Popular Front for the Liberation of Oman and the Arab Gulf. The insurgency was suppressed in 1975 with direct



LOCATION: 51°50' to 59°40'E; 16°40' to 26°20' N. BOUNDARY LENGTHS: Total coastline, 2,092 kilometers (1,301 miles); Yemen, 288 kilometers (179 miles); Saudi Arabia, 676 kilometers (420 miles); UAE, 410 kilometers (255 miles).

TERRITORIAL SEA LIMIT: 12 miles.

military assistance from Jordan and Iran. A treaty with Yemen defining the border was ratified in 1992.

Qaboos bin Sa'id ousted his father, Sa'id bin Taymur, on 23 July 1970 and has ruled as sultan since that time. He immediately changed the name of the country from Muscat and Oman to the Sultanate of Oman and has presided over an extensive modernization program, easing his father's harsh restrictions and opening

the country to the outside world, while preserving political and military ties with the British. Oman has been a proponent of co-operation among the Gulf States. A member of the Gulf Cooperation Council (GCC), it has also sought to keep good relations with Iran. Because Oman dominates the Strait of Hormuz, which links the Gulf of Oman with the Persian Gulf, its strategic importance drew it and the United States closer together with the start of the Iran–Iraq war in 1979. Under the terms of a pact signed in 1980, US military personnel and ships have been given access to Omani military and naval bases and are permitted to preposition military material for use in contingencies.

Oman pursues a moderate, independent foreign policy. Unlike most Arab states, it supported the Camp David accords and did not break relations with Egypt following its peace treaty with Israel. Similarly, during the Gulf War, Oman sent forces to Saudi Arabia and granted strategic facilities to the United States, but did not sever diplomatic relations with Iraq during the conflict.

In 1994 reports began appearing of arrests of critics of the Omani government. It was estimated that the Omani government detained nearly 500 such critics with points of view ranging from the Arab nationalist Ba'th movement to Islamists supporting the Sunni Muslim Brotherhood.

Through 1995 Oman was considered as having “graduated” from the ranks of under-developed nations needing World Bank loans. Its ambitious economic goals included a 10-year plan for cultivating tourism and plans to improve its infrastructure, including water desalinization. However, in 1998, the economy was adversely affected when the price of oil dropped below \$10 per barrel, a 25-year low. Oman agreed with the Organization of Oil Exporting Countries (OPEC), of which Oman is not a member, to reduce global oil production by 2.1 million barrels of crude per day until April 2000 in the hope of raising oil prices to \$18 per barrel. In October 1999, the Omani oil minister recommended extending oil production cuts beyond the date originally proposed. Meanwhile, Oman has sought to diversify its economic base and ease its dependence on oil. A gas liquefaction plant at Sur was slated for completion in 2000.

As of 1999, Oman held to a middle-of-the-road stance of conciliation and compromise in Middle Eastern politics. In January 1999, Oman's foreign minister met with his counterparts from Egypt, Saudi Arabia, Syria, and Yemen at a closed meeting in Cairo to forge a position on the question of Iraq. Also in 1999, Oman's sultan, Qaboos bin Sa'id, signed an agreement with the president of the United Arab Emirates defining the borders between Oman and the emirate of Abu Dhabi. In October 2001, extensive Omani-British military exercises in the Omani desert coincided with the launch of strikes against the Taliban in Afghanistan.

During 2002 and into 2003, Oman, along with the other countries of the Persian Gulf, was confronted with the situation of a potential US-led war with Iraq. On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and WMD weapons capabilities, to allow the immediate return of International Atomic Energy Agency (IAEA) and UN weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. If Iraq was found to be in “material breach” of the resolution, “serious consequences” were to result. The United States and the United

Kingdom began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. As of 1 February, there were 3,600 US military personnel, 100 elite British special forces, and approximately 40 aircraft in Oman. As well, a new airbase was under construction, which would have a 14,000-ft. runway. However, Oman has said it would not act in a conflict with Iraq without UN approval.

Oman's borders with all its neighbors have been demarcated. A 2002 demarcation of the Oman-UAE border was ratified in 2003, including Oman's Musandam Peninsula and Al Madhah exclave, but details were not made public.

At an Arab League summit held at Sharm el-Sheik, Egypt, on 1 March 2003, sharp divisions between Arab leaders on the Iraq situation emerged, particularly between Libya and Saudi Arabia. However, the leaders issued a declaration expressing “complete rejection of any aggression on Iraq,” and called for continuing UN weapons inspections. It also called upon Iraq to disarm itself of WMD and the missiles needed to deliver them. At the summit, some leaders argued war was inevitable and that the countries of the region should prepare for its aftermath; some argued that war could be avoided if Iraq were to comply with weapons inspections; and a third group argued that the summit should issue an unequivocal antiwar declaration.

Since 2000 the Omani government promoted an “Omanisation” campaign to ensure jobs for citizens, to promote self-reliance in human resources, and also to reduce dependence on expatriates. Expatriates with valid work permits in the private sector were replaced or left jobs, over 130,000 between January 2003 and July 2005. This policy also resulted in the massive repatriation of guest workers whose employment visas had expired.

In May 2005 two cargo ferries carrying 1,018 Pakistanis were deported from Oman, some 40,000 Pakistanis having been deported from Oman between 2003 and 2005. In August 2005 undocumented or overstaying Filipinos in Oman were urged to return to the Philippines because of the sultanate's impending crackdown on undesirable foreigners. In October 2005 special arrangements were made for 5,700 Indian overstayers to exit Oman.

In March 2004 the Sultan appointed Oman's first female minister with portfolio and added two more women to the cabinet by year's end. These appointments were a clear indication that the government was leading by example and that the participation of women in national life was a priority. In addition, the most capable people available filled government positions.

In January 2005, nearly 100 suspected Islamists were arrested. Thirty-one Omanis were subsequently convicted of trying to overthrow the government, but were pardoned in June. This group was neither Sunni followers of Osama bin Laden nor Shiites loyal to Iran or Iraq, but preachers, Islamic scholars, university professors and government figures from the Ibadi faith. It is the sect to which Sultan Qaboos and the majority of Omani belong. The dissidents wanted a return to a strict Islamic state, the imamate, contesting the pro-Western policies of the Sultan.

In October 2005, a free trade agreement with the United States was finalized.

### **13 GOVERNMENT**

Oman's sultan is an absolute monarch. The sultanate has no constitution, legislature, or suffrage, until of late. In 1970, Sultan Qa-

boos appointed a cabinet of ministers responsible for various government departments and functions.

A state Consultative Council, established in 1981, consisted of 55 appointed representatives of government, the private sector, and regional interests. This body was replaced in 1991 by a Majlis Al-Shura, a 59-seat Consultative Council, which was seen as a first step toward popular participation in government. The Sultan expanded the membership to 80 seats after the country's first national census in 1993. The Council has no formal legislative powers but may question government ministers, and recommend changes to new laws on economic and social policy. These recommendations have led to amendments to proposed decrees.

On 6 November 1996 the Sultan decreed the country's first "basic law" which provides for citizens' basic rights in writing and a body known as the Majlis Oman (Council of Oman) that includes a new Council of State, Majlis Al-Dawla (upper chamber), and the Consultative Council, Majlis al-Shura (lower chamber). In 2000, the Consultative Council was expanded to 83 seats, and members were chosen by the vote of 175,000 government-selected electors. In January 2001, the sultan appointed 53 members of the Majlis Al-Dawla, including 5 women.

In November 2002, the sultan extended voting rights to all citizens over the age of 21, except for members of the military and security forces. Voters in Oman were previously chosen from among tribal leaders, intellectuals, and businessmen. The first elections to the Majlis al-Shura in which all citizens over the age of 21 (except for members of the military and security forces) were entitled to vote were held in October 2003. Members are elected for four-year term; the body has some limited power to propose legislation, but otherwise has only advisory powers. Little change in the political make-up of the lower house resulted from this election. The next Majlis al-Shura elections are scheduled for 2007.

## 14 POLITICAL PARTIES

There are no legal political parties nor, at present, any active opposition movement. As more and more young Omanis return from education abroad, it seems likely that the traditional, tribal-based political system will have to be adjusted.

## 15 LOCAL GOVERNMENT

The nation is divided into five regions, three governates (Muscat, Musandam, Dhofar) and 59 wilayats (districts), governed by walis. Most wilayats are small in area, but can vary greatly in population. The walis is appointed by the Minister of Interior and answerable to them. The walis is responsible for local disputes, collecting taxes, and maintaining peace. The governors of Muscat, Musandam, Dhofar are appointed directly by the Sultan and hold Minister of State rank.

## 16 JUDICIAL SYSTEM

Shariah courts based on Islamic law administer justice, with the Central Magistrate Court at Muscat. There are four additional magistrate courts in Suhār, Šūr, Salalah, and Nizwa. Qadis, or religious judges, appointed by the sultan, function within each wilayat. Appeals from the Central Magistrate Court are made to the sultan, who exercises powers of clemency. The Shariah courts, adhering to Islamic law, equate the testimony of one man with that of two women. There is also a security court, rarely used, which

handles internal security cases. A commercial dispute may be resolved at the Authority for Settlement of Commercial Disputes.

In 1996, the sultan promulgated a basic law providing for citizens' basic rights. The basic law affirms the independence of the judiciary. There are no jury trials.

## 17 ARMED FORCES

Oman's armed forces, including the Royal Household troops, had 41,700 foreign and domestic active personnel in 2005. The Army had 25,000 personnel equipped with 117 main battle tanks, 37 *Scorpion* light tanks, 145 reconnaissance vehicles, 191 armored personnel carriers, and 233 artillery pieces. The Air Force had 4,100 personnel, and was equipped with 48 combat capable aircraft, including 36 fighter ground attack aircraft, of which 12 were used in a training capacity. The Navy numbered 4,200 active members. Major naval units included two corvettes and eight patrol/coastal combatants. Paramilitary forces consisted of the 4,000-man Tribal Home Guard (Firqats) and a police coast guard of 400, which included a small police air wing. The elite Royal Household brigade, naval unit, and air unit numbered 6,400, including 2 special forces regiments. An estimated 2,000 foreigners also served in Oman's armed forces. In 2005 Oman's defense budget totaled \$3.02 billion.

## 18 INTERNATIONAL COOPERATION

On 7 October 1971, Oman gained membership in the United Nations; it belongs to ESCWA and several nonregional specialized agencies, such as the FAO, ILO, UNESCO, UNIDO, the World Bank, and the WHO. Oman also participates in the WTO, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the Organization of the Islamic Conference (OIC), G-77, the Gulf Cooperation Council, and the Arab League. Oman is a member of the Nonaligned Movement.

In environmental cooperation, is part of the Basel Convention, the Convention on Biological Diversity, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Oman's location at the entrance to the Persian Gulf for centuries made it an *entrepôt* for trade, including a substantial traffic in arms and slaves. Its prosperity declined in the 19th century, when, as a result of Western dominance in Asia, traditional trade patterns and communications routes were radically changed. Oman's economy then became predominantly dependent on agriculture and fishing.

The situation changed with the discovery of oil in 1964. Production began in August 1967, and by the mid-1970s most of the economy revolved around oil. The hydrocarbons sector accounted for 77% of export earnings and government revenues in 2000. Despite diversification efforts, petroleum's share of GDP rose from 37% in 1994 to 38.2% in 1995 to 40% in 1999. In 2000, petroleum's share jumped to 49% of GDP as oil prices rose sharply from near-record lows in early 1999. As of January 2001, Oman's proven oil reserves were 5.5 billion barrels. At the estimated high production level of 959,816 barrels per day in 2001, the reserves would last

another 15.7 years. The government's Oman 2020 program looks to a fundamental transformation of the economy by that time. The production of natural gas has become a significant factor of the economy. Gas reserves increased from 9.8 trillion cubic feet in 1990 to 29.3 trillion cubic feet 2001, and government predictions are that this will eventually expanded to some 40 trillion cubic feet in 1999 and are further increasing. Two major extensions of Oman's pipeline connections from gas deposits in the center of the country were completed in August 2002: a pipeline to the north coast at Sohar and a pipeline to the south coast at Salalah. With the recovery of gas prices from in the latter half of 1999, GDP grew at extraordinarily high rates of 15.6% in 1999 and 19.6% in 2000. Inflation was negligible at 0.4% in 1999 and 1.4% in 2000.

In 2004, the GDP growth rate was 0.7%, down from 2.3% in 2003, and 1.9% in 2002; in 2005, the economy expanded by an estimated 1.6%. The inflation rate has been fairly stable, and at 0.3% in 2004 it did not pose any problems to the economy, although it was not ideal for the export sector. The unemployment rate was tagged at 15%, but only a certain layer of society is affected by it. To respond to this problem, the government is trying to replace foreign expatriate workers with local workers. In 2005 work on a new liquefied gas facility progressed, but plans are made to diversify the economy for the days when Oman's natural resources will be exhausted.

## 2<sup>0</sup> INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Oman's gross domestic product (GDP) was estimated at \$40.1 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$13,400. The annual growth rate of GDP was estimated at 1.9%. The average inflation rate in 2005 was 0.4%. It was estimated that agriculture accounted for 2.8% of GDP, industry 40%, and services 57.1%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$39 million or about \$15 per capita and accounted for approximately 0.2% of GDP. Foreign aid receipts amounted to \$45 million or about \$17 per capita.

The World Bank reports that in 2003 household consumption in Oman totaled \$8.75 billion or about \$3,368 per capita based on a GDP of \$21.7 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

In 2001 it was estimated that approximately 22% of household consumption was spent on food, 25% on fuel, 13% on health care, and 21% on education.

## 2<sup>1</sup> LABOR

The estimated workforce of Oman was 920,000 in 2002. As of 2000, the services sector accounted for 82.1% of the labor force, with industry accounting for 11.2%, agriculture 6.4%, and the remaining 0.4% in undefined occupations. As of 2004, the country's unemployment rate was estimated at 15%.

Omani law does not provide the right of union formation. The law forbids a strike for any reason. Collective bargaining is not

permitted, however there exist labor-management committees in firms with more than 50 workers. These committees are not authorized to discuss conditions of employment, including hours and wages. The Labor Welfare Board provides a venue for grievances.

The minimum working age is 13, but this provision is not enforced against the employment of children in family businesses or on family farms. The minimum wage for nonprofessional workers was \$260 per month in 2002. However, many classes of workers (domestic servants, farmers, government employees) are not required to receive the minimum wage and the government is not consistent in its enforcement of the minimum wage law. The private sector workweek is 40 to 45 hours long, while government officials have a 35-hour workweek.

## 2<sup>2</sup> AGRICULTURE

Agriculture contributes only about 3% to GDP, but engages 37% of the economically active population, mostly at a subsistence level. The potential for expanding agriculture in Oman is good. Land use is determined primarily by the availability of water. There is extensive cultivation along the Batinah and Shumailiyah coasts; in the interior, however, cultivation is confined to areas near wadis, where water is taken off by a system of water channels (fallaj). The total area under cultivation is estimated to be about 80,000 hectares (198,000 acres).

The principal agricultural product is the date, at 238,000 tons in 2004. On the Baunah coast, groves containing some 10 million date palm trees form a strip 240-km (150-mi) long and 40-km (25-mi) wide. Fruits grown in Dhofar include bananas, mangoes, and coconuts. Citrus fruits (notably limes), nuts, melons, bananas, coconuts, alfalfa, and tobacco are also grown. Tomatoes, cabbages, eggplant, okra, and cucumbers are important winter crops. Frankincense is traditionally produced from about 8,000 trees growing wild in Dhofar. Along the Batinah coast, a wide variety of produce is grown, including fruits, wheat, rice, and durra. Agricultural exports were valued at \$402 million in 2004, while agricultural imports amounted to \$1.17 billion that year.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Goats, sheep, donkeys, and camels are widely raised. In 2005 there were 1,070,000 goats, 375,000 sheep, 335,000 head of cattle, 123,000 camels, and 28,500 donkeys. There is a relatively large-scale cattle-raising industry in Dhofar. Total meat production in 2005 was 43,400 tons. Oman estimates that it is 53% self-sufficient in milk production, 46% in beef, 44% in eggs, and 23% in milk. The camels of Oman are famous for their fine riding qualities.

## 2<sup>4</sup> FISHING

The waters of the Gulf of Oman are rich in sardines, mackerel, shrimp, lobsters, crayfish, tuna, barracudas, groupers, and sharks. The annual catch in 2003 was 138,833 tons, mainly sardines. Fishing employs about 26,000 persons. Investment in onshore processing and refrigeration plants, harbors, and repair yards has facilitated commercial fishing development. Exports of fish products amounted to \$79.9 million in 2003. The government subsidizes the cost of boats and engines to promote employment in fishing. Fish stocks and breeding patterns are studied at a research center south of Muscat. In 1996, three new fishing harbors were opened

(at Bukha in Musandam, Quriyat, and Shinas), at a combined cost of RO10.3 million and with a capacity for about 1,000 small boats.

## 25 FORESTRY

Forest coverage is less than 1%. The use of wood as the sole fuel and overgrazing by goats have depleted the forests of Oman, but the interior of the country is fairly well wooded. Oman imported \$74.1 million in forest products during 2004.

## 26 MINING

Petroleum and natural gas dominated Oman's economy. Although large deposits of copper have been discovered northwest of Muscat, with other deposits also discovered at Hajl al-Safi and at Rakah, in Ibri, there was no recorded production of mined copper in 2004. However, an estimated 224,000 metric tons of smelted copper was produced from copper ore imports. In 2003, only 4 kg of gold was produced, down from an estimated 188 kg in 2002 and 603 kg in 2001. There was no recorded gold production in 2004. Nor was there any recorded silver production in 2003 or 2004. In 2000, National Mining Co. of Oman explored for copper, gold, and silver near Sohar, and the Metal Mining Agency of Japan completed exploration for copper and gold in the South Batinaha area. Output of chromium (gross weight) in 2004 was 18,575 metric tons, up from 13,000 metric tons in 2003. Sand and gravel production in 2004 was estimated at 22 million metric tons, unchanged from 2003, while marble output in 2004 totaled an estimated 140,000 metric tons. Oman in 2004 also produced, gypsum, salt, sulfur and hydraulic cement.

## 27 ENERGY AND POWER

Oman's reserves of oil and natural gas are modest in size when compared to other countries in the Middle East. However, the country's importance to the world's oil markets lies in its geographic location overlooking the Strait of Hormuz. Oman is not a member of the Organization of the Petroleum Exporting Countries (OPEC), but is a leader in IPEC, the main independent petroleum exporter's organization.

As of 1 January 2005, Oman's proven oil reserves were estimated at 5.5 billion barrels, most of which are located in its central and northern regions. In 2003, oil production averaged an estimated 784,000 barrels per day, with crude oil accounting for 781,000 barrels per day. In that same year, domestic oil consumption was estimated at 59,000 barrels per day, allowing for net exports of 725,000 barrels per day. Oman's primary customers in 2003 were China, Japan, South Korea, India, Thailand, and Singapore. Oman's crude oil refining capacity, as of 1 January 2005, was estimated at 85,000 barrels per day.

Oman, as of 1 January 2005, had proven natural gas reserves estimated at 29.3 trillion cu ft. In 2002, natural gas production and domestic consumption were estimated at 530 billion cu ft and 231 billion cu ft, respectively.

Although more than 22 million tons of coal deposits have been found in Oman's Wadi Fisaw and Wadi Muswa areas, near the city of Sur, these deposits have yet to be developed commercially.

As of 1 January 2002, Oman's electric power capacity was estimated at 2.4 GW, which in 2002 was entirely dedicated to conventional thermal sources. Electric power output in 2002 was es-

timated at 9.8 billion kWh. Demand for power in 2002 came to 9.031 billion kWh.

## 28 INDUSTRY

Besides oil, industry in Oman still consists largely of small-scale food-processing enterprises. Many new industries were set up in the 1980s, including a cement plant with an annual capacity of 609,000 tons. In 1995, Oman's cement production totaled 1.4 million tons. The majority of these manufacture nonmetallic mineral products followed by wood and wood products, and fabricated metal products. The Rusail industrial estate had 81 working factories by 1996, with 15 more under construction. The \$250 million Salalah Container Port opened in 1998 as a magnet for value-added manufacturing enterprises. Another \$250 industrial port in the Sohar on which construction began in 1999 was expected to be operational in 2003. By the latest available estimate, industry comprised 40% of the GDP in 1999.

Industry accounted for 40% of economic output in 2005 (with oil and gas production carrying the lion share), and was bested by services with a 57.1% share. Agriculture continues to be the weakest economic sector, with just a 2.8% share in the GDP. The industrial production growth rate was only 0.9%, indicating that the sector is going through a recession period.

## 29 SCIENCE AND TECHNOLOGY

Most research conducted in Oman has been done at the behest of the government; agriculture, minerals, water resources, and marine sciences have drawn the most attention. Sultan Qaboos University, founded in 1985, has colleges of science, medicine, engineering, and agriculture. In 1987-97, science and engineering students accounted for 13% of college and university enrollments. The Institute of Health Sciences, under the Ministry of Health, was founded in 1982. Muscat Technical Industrial College, founded in 1984, has departments of computing and mathematics, laboratory science, and electrical, construction, and mechanical engineering. The Oman Natural History Museum, founded in 1983, includes the national herbarium and the national shell collection. All of these organizations are located in Muscat.

Oman's high technology exports in 2002 totaled \$36 million, or 2% of the country's manufactured exports. For the period 1990 to 2001, Oman had four researchers for every one million people.

## 30 DOMESTIC TRADE

Though oil is the strongest basis for the Omani economy, agriculture and fishing are still very much a part of the traditional lifestyle. Most of the government's development plans are aimed at industry to support greater foreign trade, rather than to provide consumer products for the domestic market. Muscat and Ma'trah are the primary commercial centers. Much of the business is carried on by long-established and settled Khoja and Hindu merchants, but supermarkets and other larger retail establishments are beginning to take root.

Normal business hours are 8:30 AM to 1:30 PM and 4 to 7 PM, Saturday-Wednesday; banking hours are generally 8 AM to noon, though some banks reopen from 4 to 6 PM. Banks and businesses close at 11:30 AM on Thursday and remain closed Friday. Business hours are reduced during the Ramadan fast.

### Principal Trading Partners – Oman (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	10,115.4	6,572.2	3,543.2
Areas nes	8,448.6	...	8,448.6
United Arab Emirates	468.6	1,417.9	-949.3
Iran	415.5	45.7	369.8
Saudi Arabia	134.1	224.4	-90.3
United States	83.4	409.6	-326.2
United Kingdom	78.0	371.5	-293.5
Jordan	56.6	...	56.6
Kuwait	41.3	34.8	6.5
Yemen	34.8	...	34.8
Singapore	30.9	75.6	-44.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

### <sup>31</sup> FOREIGN TRADE

Oman runs a considerable trade surplus. Since 1967, oil has been the chief export. In 2000 Oman's major export commodities were crude petroleum (80%) and motor vehicles and parts (3.4%). Other exports included tobacco (1.2%) and apparel (1.1%). In 2000 Oman's imports were distributed among the following categories: consumer goods, 18.2%; food, 13.2%; fuels, 1.7%; industrial supplies, 20.2%; machinery, 18.4%; transportation, 25.7%; and other, 2.6%.

In 2005, exports reached \$19 billion (FOB—Free on Board), while imports grew to \$9 billion (FOB). The bulk of exports went to China (29.5%), South Korea (17.5%), Japan (11.5%), Thailand (10.6%), and the UAE (7.2%). Imports included machinery and transport equipment, manufactured goods, food and live animals, and mainly came from the UAE (21.2%), Japan (16.6%), the United Kingdom (8.4%), Italy (6%), Germany (5.1%), and the United States (4.7%).

### <sup>32</sup> BALANCE OF PAYMENTS

Oman's balance of payments account is dominated by crude oil export earnings, consumer and capital goods and services, imports payments, and by large outgoing remittances by foreign workers.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Oman's exports was \$10.9 billion while imports totaled \$5.4 billion resulting in a trade surplus of \$5.5 billion.

The International Monetary Fund (IMF) reported that in 2001 Oman had exports of goods totaling \$11.1 billion and imports totaling \$5.31 billion. The services credit totaled \$349 million and debit \$1.68 billion.

Exports of goods totaled \$13 billion in 2004, up from \$12 billion in 2003. Imports grew from \$6 billion in 2003, to \$8 billion in 2004. The resource balance was consequently positive, but on a downward spiral—\$6 billion in 2003, and \$5 billion in 2004. A similar trend was registered for the current account balance, which deteriorated slightly from \$880 million in 2003, to \$443 million in 2004. Foreign exchange reserves (excluding gold) grew to almost \$3.6 billion in 2004, covering more than five months of imports.

### <sup>33</sup> BANKING AND SECURITIES

The Central Bank of Oman, set up in April 1975, has powers to regulate credit and is authorized to make temporary advances to the government.

Banks in Oman are generally in good financial shape because of close regulation by the Central Bank of Oman. All commercial banks in the sultanate instructed to raise their paid-up capital to RO10 million for local banks and RO3 million for foreign banks. The Central Bank of Oman advised all banks which were unable to comply with these new requirements to merge with other commercial banks. The Central Bank has been encouraging banks to merge in order to cut down on the oversupply of banking services. Banks are required to maintain a 12% level of capital adequacy and restrict consumer lending to 30% of the loan portfolio. In 2002, there were 15 local and foreign commercial banks and four specialized banks. The largest local bank is Bank Muscat, created through a merger of the former Bank Muscat and the Commercial Bank of Oman. In 2002, it had assets of \$3.4 billion, deposits of \$2.4 billion, and was followed in size by the National Bank of Oman, Oman International Bank, Oman Arab Bank, and Bank Dhofar Al Omani Al Fransi.

The British Bank of the Middle East (BBME) was the first foreign bank to establish itself in Oman in 1948. Today, foreign banks, in descending order of local branch asset size, include British Bank, Standard Chartered Bank, The British Bank, Bank of Baroda, Bank Saderate Iran, Bank Melli Iran, Banque Banorabe, National Bank of Abu Dhabi, and Citibank. The banking sector has been under pressure to increase its proportion of Omani staff to 90%, but the deadline for such a move has been progressively delayed. Because of the proliferation of branches concentrated in coastal areas, commercial banks now have to open two branches in the interior for every branch opened along the coast. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.8 billion.

An Omani stock market, the Muscat Securities Market (MSM), was officially established in 1988, but trading did not begin until the following year. By 2001 there were 91 companies listed on the exchange with a combined capitalization of \$2.6 billion. The MSM has now established a link with the Bahrain Stock Exchange (BSE) where shares can be cross-listed. A similar agreement with Kuwait is expected. The MSM Index showed a 25.4% loss in 2001 a mere four years after posting a spectacular 141% gain in 1997. The drop-off has been attributed to speculation, over-valued offerings, the impact of the Asian financial crises, and the drop in oil prices. As of 2004, a total of 96 companies were listed on the MSM, which had a market capitalization of \$6.325 billion. In 2004, the MSM 30 Index rose 23.8% from the previous year to 3,375.1.

### <sup>34</sup> INSURANCE

By 1997, one national insurance firm, the Oman National Insurance Co. (SAOG), and around 17 foreign-owned firms were operating in Oman. In 2003, the value of all direct written insurance premiums totaled \$257 million, of which nonlife premiums accounted for \$221 million. In 1999 (the latest date for which data

was available) Oman's top life insurer was Oman National Insurance Co., which had gross written life insurance premiums totaling \$18.3 million. Data was not available for individual nonlife insurers.

### **3<sup>5</sup>PUBLIC FINANCE**

Although Oman is a relatively small oil producer, oil revenues support 69% of government expenditures. The government owns 60% of Petroleum Development (Oman) Ltd. (PDO), the main oil company. Higher oil prices in 1997 and a 5% cut in capital spending produced a budget deficit of only \$47 million, a substantial improvement over 1996. With the fall in global oil prices in 1998, however, the government's budget fell deeply into deficit, and had to be financed by loans and by drawing down the State General Reserve Fund. In anticipation of still further drops in the price of oil, the government increased a number of taxes and imposed spending cuts of between 5 and 10% on most government ministries.

The US Central Intelligence Agency (CIA) estimated that in 2005 Oman's central government took in revenues of approximately \$14.3 billion and had expenditures of \$10.6 billion. Revenues minus expenditures totaled approximately \$3.7 billion. Public debt in 2005 amounted to 7.5% of GDP. Total external debt was \$4.586 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, budgetary central government revenues were RO2,073,500 and expenditures were RO2,295,100. The value of revenues was US\$5,393,000 and expenditures US\$5,969,000, based on an official exchange rate for 2001 of US\$1 = RO0.3845, as reported by the IMF. Government outlays by function were as follows: general public services, 13.3%; defense, 35.3%; public order and safety, 5.9%; economic affairs, 9.2%; housing and community amenities, 6.4%; health, 6.6%; recreation, culture, and religion, 1.8%; education, 15.9%; and social protection, 5.6%.

### **3<sup>6</sup>TAXATION**

Introduced in 1971, a corporate income tax on commercial enterprises other than individual traders remains the only tax in the country. Resident companies and those resident in countries that are members of the Gulf Cooperation Council (GCC) are subject to a 0% tax rate on their initial RO30,000 of income, and a 12% rate on income over that amount. Foreign company branches are taxed at a rate starting at 0% up to 30% for each of seven income levels. Companies engaged in agriculture, fishing and any other essential activity deemed by the government are exempt from income taxes. Oman has a comprehensive double taxation treaty with France.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

General import duties are 5% ad valorem on the CIF (cost, insurance, and freight) value of the good. Some luxury items have a 20% duty, while alcohol, tobacco, limes and pork products have a 100% duty placed on them. There are a number of exempt goods, including many imports from GCC member states. Protective tariffs are levied seasonably on a number of fruits and vegetables.

### **3<sup>8</sup>FOREIGN INVESTMENT**

The principal foreign investment is in the oil sector. Foreign private investment is officially encouraged in certain areas—such as

industry, agriculture, and fishing—through an initial five-year tax exemption, which may be renewed for another five years. Foreign participation in a local company cannot exceed 65% (this also applies to the sharing of profits). Companies holding commercial agencies must also have at least 51% Omani participation. In 2002, the largest foreign investor was Royal Dutch Shell Oil, which holds a 34% of the shares of the state oil company, Petroleum Development Oman, and 30% of Oman Liquid Natural Gas. Other investors in the oil industry include Occidental Petroleum, Hapex, Amoco, and Elf Aquitaine. The Sultanate does not publish estimates of inbound and out-bound investment. Foreign investment in the Muscat Securities Market (MSM) has averaged 15–16%, but has dropped in absolute terms. In December 1999, foreign investment in the MSM was \$867.8 million. A year later this had fallen to \$730.5 million, and at the end of May 2001, foreign investment in the SMS was \$708.9 million.

No systematic information is available on foreign direct investment (FDI). However, it is known that Oman seeks to diversify its economic base, so it is actively seeking private foreign investors in information technology, tourism, and higher educational fields. In September 2004, total investment in listed Omani companies with foreign participation was estimated at \$2.4 billion (with 9% of it being foreign investment).

### **3<sup>9</sup>ECONOMIC DEVELOPMENT**

Oman's economic policy operates under five-year development plans. Oman's second five-year plan (1981–85) suffered to some extent from the impact of declining oil prices in the early 1980s. The objectives of the third development plan (1986–90) were to encourage the private sector to play a larger role in the economy and to expand such areas as agriculture, fishing, manufacturing, and mining. The fourth five-year development plan (1991–95), aimed to achieve average annual GDP growth rates of just over 6% and the diversification of the sources of national income in order to reduce the dependence on the oil sector. The declared aim of the fifth five-year plan (1996–2000) was to achieve a balanced budget. The fall in oil prices to near-record lows in 1998 subverted the goal of a zero budget deficit in 2000, but rising oil prices in 2000 allowed the government to cut the deficit to only 1.5% of GDP (\$301 million) in 2000. Oman's sixth five-year development plan (2001–05) aims at lessening dependence on government spending and employment, and at making the private the engine of growth for the economy.

The government's long-run development strategy is the Sultan's "Oman Vision 2020," which is designed to see the economy through the depletion of oil reserves. The emphases are on processes of "Omanization," industrialization, and privatization. One of the most successful diversification projects has been the Salalah Container Port opened in November 1998. In 2000, it handled over 500,000 FEUs (40-foot equivalency unit) and ranked among the top 10 container ports in efficiency. A new industrial port is also being built at Sohar, to be operational in 2003. In terms of developing its natural gas potential, the government took a major step in October 2000 with the inauguration of the \$2.64 billion liquefied natural gas project in Sur. Other gas development projects include plans for urea fertilizer plant in Sur, an aluminum smelter in Sohar, and petrochemical plant at Salalah. An emphasis on in-

come diversification has opened the country to foreign participation in the form of joint ventures.

The economy has recovered slightly in 2005, as a result of strong domestic demand growth. However, economic expansion rates are expected to be sluggish as long as oil production will not pick up. As soon as oil prices will increase, and imports will decrease, the economy will likely experience a healthy boom.

#### 40 SOCIAL DEVELOPMENT

Oman maintains a social security system that provides old-age pensions, disability and survivorship benefits to employed citizens ages 15–59 who are under a permanent work contract. This program is funded by 5% contributions from employees, 2% by the government, and 8% contribution by employers. Retirement is set at age 60 for men and age 55 for women. Work injury legislation provides disability and medical benefits for injured workers. Hospitalization and medical care are provided to workers.

Islamic precepts result in de facto discrimination against women in a number of areas, such as inheritance. Traditional views on the subordinate role of women in society lead most women to work exclusively inside the home. Land grants and housing loans are rarely given to females. Some progress is being made, however, and women have begun to enter professional areas such as medicine and communications in greater numbers. The government has made efforts to increase educational opportunities for women. Women comprise roughly half of the 5,000 students at Sultan Qaboos University, and 50% of the total student body in the public school system. Women are required to get permission from a male relative to leave the country. Domestic abuse remains within the confines of the family, and sexual abuse of domestic employees remains a problem. As of 2004, there were no governmental programs for abused women. The welfare of children is funded adequately by the government.

Human rights abuses include arbitrary arrest, prolonged detention and the mistreatment of prisoners. Human rights organizations are prohibited by law from operating in Oman, and international monitors are unable to inspect prisons.

#### 41 HEALTH

As of 2004, there were an estimated 126 physicians, 297 nurses, 11 dentists, and 22 pharmacists per 100,000 people. It was estimated that 89% of the population had access to health care services, 39% of the population had access to safe drinking water and 92% had adequate sanitation.

Average life expectancy in 2005 was 73.13 years. Infant mortality that year was 19.51 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 37.8 and 4 per 1,000 people. About 24% of married women (ages 15 to 49) were using contraception. The fertility rate was 4.3 children per woman living through her childbearing years.

Children up to one year old were vaccinated against tuberculosis, 96%; diphtheria, pertussis, and tetanus, 99%; polio, 99%; measles, 98%; and hepatitis B, 99%. The rates for DPT and measles were, respectively, 86% and 99%. About 12% of children under five were malnourished and goiter was prevalent in 10% of school-age children.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,300 people living with HIV/

AIDS in the country. There were an estimated 110 deaths from AIDS in 2003.

#### 42 HOUSING

In May 1973, Sultan Qabus approved the Law of People's Housing to make housing loans to needy Omanis. By 1985, 5,300 low-income units had been built. At the 1993 census, there was a total of 344,846 housing units nationwide. At the 2003 census, the total was at 430,996 housing units. About 39.7% of all housing units were traditional Arabic houses, 23.6% were villas, 17.3% were apartments, and 4.8% were rural homes. About 13.6% of all housing units were improvised housing. The average household has eight members.

An Arabic house is a one-story, single-family detached structure consisting of several rooms with some type of central courtyard; there is generally a boundary wall surrounding the home. A villa is similar to an Arabic house in structure but contains two floors. Rural houses are also similar in shape to an Arabic house, but often without a specific courtyard or complete boundary wall and generally made of a mixture of local materials such as mud and wood. Improvised housing consists of structures made of wood, hay, palm leaves, or other such materials.

In 2003, about 98.1% of all traditional housing units had access to a public electricity network, 96.8% used gas for cooking, and 43.1% had piped drinking water. About 78.6% of all housing units were occupied. About 85.4% of all traditional units had an equipped kitchen, 91.3% had an equipped bath/shower room, and 88.5% had flush toilets. An equipped room was defined as one that is linked to piped water and a piped sewage system.

#### 43 EDUCATION

Elementary school (primary) covers a six-year course of study, which is followed by three years of preparatory school and three years of general secondary school. Academic results of the preparatory exams determine the type of secondary education the student will receive, either focusing on arts or sciences. Islamic schools offer the same courses as preparatory schools, as well as religious and Arabic studies. At the secondary level, boys may choose to attend a technical school. The academic year runs from September to June.

In 2001, about 5% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 72% of age-eligible students. The same year, secondary school enrollment was about 69% of age-eligible students. It is estimated that about 73% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 21:1 in 2003; the ratio for secondary school was about 17:1.

In 1993, there were 252 literacy centers and 176 adult education centers. Three teachers' colleges were functioning as of 1986. The Institute of Agriculture at Nazwa became a full college by 1985. Sultan Qaboos University opened in 1986. In 2001, about 8% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 74.4%, with 82% for men and 65.4% for women.

As of 2003, public expenditure on education was estimated at 4.6% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The library at Sultan Qaboos University has 145,000 volumes, and the Muscat Technical and Industrial College has 10,000 volumes. A British Council Library of almost 8,000 volumes was founded in 1973 in Matrah. The Library of Manuscripts and Documents (1976) contains the Sultanate's most extensive collection of rare manuscripts. The Ministry of National Heritage and Culture administers the National Museum, the Oman Museum, the Qurm Museum, and the Natural History Museum, which includes the National Herbarium of Oman (a botanical garden) and the National Shell Collection. An Oil and Gas Museum opened in 1995 to chronicle the history of the industry in the nation. There is also a Children's Museum.

#### 45 MEDIA

Postal, telephone, and telex systems are supervised by the Ministry of Posts, Telegraphs, and Telephones. By the end of 1991, the entire country was connected to a 79,000-line telephone network. In 2003, there were an estimated 84 mainline telephones for every 1,000 people; about 2,100 people were on a waiting list for telephone service installation. The same year, there were approximately 229 mobile phones in use for every 1,000 people.

Radio and television facilities are government owned; color television was introduced in 1974. Satellite dish owners may receive programming from Saudi Arabia, the United Arab Emirates, and Yemen. As of 1999 there were 3 AM and 9 FM radio stations and 13 television broadcast stations, all controlled by the government. In 2003, there were an estimated 621 radios and 553 television sets for every 1,000 people. The same year, there were 35 personal computers for every 1,000 people and 71 of every 1,000 people had access to the Internet. There were six secure Internet servers in the country in 2004.

Newspapers and journals in Arabic include the daily *Al-Wattani* (2002 circulation, 32,500) and *Oman Daily Newspaper* (15,560) and weekly periodicals such as *Al-Aqida* and *Al-Usra*. There are two English-language newspapers: *Oman Daily Observer* (22,000) and *Times of Oman* (15,000).

A 1984 Press and Publication Law authorizes the state to censor domestic and imported foreign publications. Journalists are said to practice self-censorship to avoid harassment. Criticism of the sultan is explicitly illegal.

#### 46 ORGANIZATIONS

There is a Chamber of Commerce and Industry in Muscat. There are some professional associations in the country, including the Oman Medical Association (est. 2001). Among the social and cultural organizations are the Oman Women's Association, the Oman Cultural Club (for university graduates), the Omani National Organization for Scouts and Guides, the National Union of Oman Students, and the Omani Historical Association (open to non-

Omanis). There are sports associations representing such pastimes as squash, tennis, rugby, football (soccer), and track and field.

#### 47 TOURISM, TRAVEL, AND RECREATION

Oman is cautiously developing tourism, which was discouraged by previous rulers. The visa is valid for one month after entry. Most large hotels have clubs that offer various recreational activities; water sports are popular, but spear fishing has been prohibited as a conservation measure.

In 2003, about 630,000 foreign visitors arrived in Oman, of whom 26% came from Europe. There were 6,473 hotel rooms with 9,809 beds and an occupancy rate of 39%. Tourism expenditure receipts totaled \$372 million that year. All travelers must have a valid passport and a visa. Visas are issued upon arrival at all entry points and can be used at anytime within six months of the issue date.

The US Department of State estimated the daily cost of staying in Muscat at \$240 in 2004.

#### 48 FAMOUS OMANIS

Oman's great Islamic religious leader, whose followers are called Ibadhis, was 'Abdallah bin Ibad (fl.8th century); many of his teachings are still followed in Oman. Ahmad ibn Sa'id (r.1741–83), founder of the present dynasty, freed Muscat from Persian rule. Sultan Qabus bin Sa'id (b.1940) has ruled Oman since his removal of Sa'id bin Taymur (1910–72), his father, in 1970.

#### 49 DEPENDENCIES

Oman has no territories or colonies.

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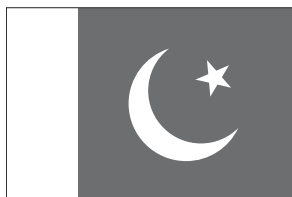
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# PAKISTAN

Islamic Republic of Pakistan

*Islami Jamhooria Pakistan*



**CAPITAL:** Islāmābād

**FLAG:** The national flag is dark green, with a white vertical stripe at the hoist and a white crescent and five-pointed star in the center.

**ANTHEM:** The opening lines of the national anthem, sung in Urdu, are “Blessed be the sacred land, Happy be the bounteous realm, Symbol of high resolve, land of Pakistan, Blessed be thou citadel of faith.”

**MONETARY UNIT:** The rupee (₨) is a paper currency of 100 paisa. There are coins of 1, 2, 5, 10, 25, and 50 paisa and of 1 rupee, and notes of 1, 2, 5, 10, 50, 100, 500, and 1,000 rupees. ₨1 = \$0.01678 (or \$1 = ₨59.6) as of 2005.

**WEIGHTS AND MEASURES:** The metric system was introduced in 1966 and made mandatory as of 1 January 1979.

**HOLIDAYS:** Pakistan Day, 23 March; May Day, 1 May; Independence Day, 14 August; Defense of Pakistan Day, 6 September; Anniversary of Death of the Quaid-e-Azam, Mohammad Ali Jinnah, 11 September; Christmas and Birthday of the Quaid-e-Azam, 25 December. Religious holidays include ‘Id al-Fitr, Id al-‘Adha, 1st of Muharram, and Milad an-Nabi.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southern Asia, Pakistan has an area of 803,940 sq km (310,403 sq mi), extending 1,875 km (1,165 mi) NE–SW from the ranges of the Hindu Kush and the Himalaya to the Arabian Sea and 1,006 km (625 mi) SE–NW. Comparatively, the area occupied by Pakistan is slightly less than twice the size of the state of California. The enclave of Junagadh, claimed by Pakistan, and Jammu and Kashmir, divided between Pakistan and India by the 1971 “line of control,” are not included in the area. Pakistan is bordered on the NE by China, on the E by Jammu and Kashmir to the Karakoram Pass, on the E and SE by India, on the S by the Arabian Sea, on the SW by Iran, and on the W and NW by Afghanistan. The total land boundary length is 6,774 km (4,209 mi). The coastline is 1,046 km (650 mi). Pakistan’s capital city, Islāmābād, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

More than two-thirds of Pakistan is arid or semiarid. The west is dominated by the Baluchistan plateau, consisting of arid plains and ridges. Rivers, streams, and lakes exist only seasonally. The arid south ends at the rugged Makran coast and rises to the east into a series of rock-strewn ranges, the Kirthar, and to the north, the Sulaiman, which extends to the Indus plains. A semiwatered plateau surrounds Rāwalpindi, bounded to the south by the salt range. Southward, the extensive Punjab plains support about 60% of the country’s population.

In the northern areas of Pakistan, the forest-clad hills give way to lofty ranges, including 60 peaks over 6,700 m (22,000 ft) high.

K-2 (Godwin Austen), at 8,611 m (28,250 ft), is the second-highest mountain in the world.

The principal ranges, trending NW–SE, include several Himalayan ranges—notably the Pir Panjal and Zaskar—leading into the Karakoram Mountains. The Indus is the principal river of Pakistan. Its major tributaries are the Jhelum, Chenab, Ravi, and Sutlej.

On 8 October 2005, an earthquake measuring 7.6 on the Richter scale struck the Kashmir region. There were more than 140 aftershocks recorded; many measured 5.0 in magnitude. Landslides damaged homes, killed livestock, and blocked rivers, causing severe flooding. More than 69,000 were injured and there were more than 73,000 deaths. It was estimated that about 3 million people were displaced or left homeless.

## <sup>3</sup>CLIMATE

Pakistan’s climate is dry and hot near the coast, becoming progressively cooler toward the northeastern uplands. The winter season is generally cold and dry. The hot season begins in March, and by the end of June the temperature may reach 49°C (120°F). Between June and September, the monsoon provides an average rainfall of about 38 cm (15 in) in the river basins and up to about 150 cm (60 in) in the northern areas. Rainfall can vary radically from year to year, and successive patterns of flooding and drought are not uncommon.

## <sup>4</sup>FLORA AND FAUNA

The mangrove forests of the coastal region give way to the mulberry, acacia, and date palms of the sparsely vegetated south; the foothills support phulai, kao, chinara, and wild olive, and the northern forests have stands of oak, chestnut, walnut, pine, ash, spruce, yew,

and fir. Above 3,000 m (10,000 ft), birch, dwarf willow, and juniper are also found.

Pakistan's wide range of animal life includes the Siberian ibex, wild sheep, buffalo, bear, wolf, jackal, fox, wildcat, musk cat, hyena, porcupine, gazelle, peacock, python, and boar. As of 2002, there were at least 188 species of mammals, 237 species of birds, and over 4,950 species of plants throughout the country.

## 5 ENVIRONMENT

Relatively high population growth contributed to the depletion of forestland from 9.8% of Pakistan's total area in 1947 to 4.5% by 1986, despite the forest conservation measures mandated by the Forest Act of 1927. Pakistan lost 14.5% of its remaining forest and woodland between 1983 and 1993. In 2000, only about 3.1% of the total land area was forested. Deforestation has also contributed to increased soil erosion, declining soil fertility, and severe flooding.

Primary responsibility for environmental matters belongs to the Environmental and Urban Affairs Division of the Ministry for Housing and Works. Laws to set air and water quality standards and regulate coastal zones to prevent pollution were under consideration in the 1980s. In the mid-1990s, Pakistan was among the 50 nations with the world's highest levels of industrial carbon dioxide emissions, which totaled 71.9 million metric tons per year, a per capita level of 0.59 metric tons per year. In 2000, the total of carbon dioxide emissions was at 104.8 million metric tons. The nation's water supply is at risk due to untreated sewage along with agricultural and industrial pollutants. It is estimated that about 80% of the nation's diseases are related to impure water.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 17 types of mammals, 30 species of birds, 9 types of reptiles, 14 species of fish, and 2 species of plants. Endangered species included the Indus dolphin, Baluchistan bear, tiger, Pakistan sand cat, snow leopard, Indian wild ass, green sea turtle, olive ridley turtle, gaviel, Central Asian cobra, Kabul markhor, chi pheasant, western tragopan, great Indian bustard, and Siberian white crane. Hunting or capturing wild animals was banned in 1981. In 2003, about 4.9% of the total land area was protected.

## 6 POPULATION

The population of Pakistan in 2005 was estimated by the United Nations (UN) at 162,420,000, which placed it at number 6 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 106 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.4%, a rate the government viewed as too high. In 2002, the government initiated the Population Policy of Pakistan, which aimed to stabilize population growth by 2020 by lowering both the fertility rates and mortality rates. The projected population for the year 2025 was 228,822,000. The population density was 204 per sq km (528 per sq mi).

The UN estimated that 34% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.60%. The capital city, Islāmābād, had a population of 698,000 in that year. Karāchi, the largest city, had a population in excess of 12 million. Other cities with populations in excess of one million

include Lahore, Faisalābad, and Rāwalpindi, Gujranwāla, Mutlān, Hyderābād, and Peshāwar.

## 7 MIGRATION

Some 6,000,000 Muslims migrated to Pakistan from India at the time of independence in 1947, and Muslims have continued to arrive from India in much fewer numbers since then. The Soviet military intervention in Afghanistan in December 1979 led to an influx of Afghan refugees.

After the Taliban captured Kabul on 27 September 1996, there was a new outflow of Afghan refugees to Pakistan. By March 1997, around 50,000 new Afghan refugees entered the country. As of 1999, there were still around 1.2 million Afghan refugees living in refugee villages in Pakistan. An unknown number of unregistered Afghans were living in the main Pakistani cities of Rāwalpindi, Lahore, and Karāchi. Pakistan also hosts non-Afghan refugees, including Iraqis, Iranians, and Somalis. The total number of migrants living in Pakistan was 4,243,000 in 2000. In 2004, the total persons of concern to the United Nations High Commissioner for Refugees (UNHCR) was 968,774. Refugees numbered 960,617; of these 960,041 were from Afghanistan. In that same year, 9,662 Pakistanis sought refuge in Canada, and 8,656 in Germany. In 2004, there were 8,157 asylum seekers in Pakistan, mainly from Afghanistan (7,164), and Nigeria. In that same year, Pakistanis sought asylum in 18 countries, mainly in Canada, the United Kingdom, France, Germany, and the United States. In 2004, Pakistan dropped from being the main country of asylum at the beginning of the year to the rank of second by the end of the year.

In 2003 worker remittances were \$3.9 billion. In 2005, the net migration rate was -1.67 migrants per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The majority of the population is Punjabi (an estimated two-thirds). Other major ethnic groups include the Sindhi, Pathan, Baloch, and Muhajirs (immigrants from India and their descendants). The Rajputs and the Jats are the most numerous of the Punjabi castes. In the area of the delta and the lower course of the Indus River are Sindhi peasant tribesmen. In the north and northwest are the hardy, warlike nomadic and seminomadic Pathans. The Balochi live in the vast western section of Pakistan and are divided into 12 major tribes, some of them purportedly of Dravidian origin. Native speakers of Urdu, the Muhajirs are refugees, or descendants of refugees, from pre-partition India. They are well represented in the cities.

## 9 LANGUAGES

Punjabi is spoken by about 48% of the population; Sindhi by 12%; Siraiki (a Punjabi variant) by 10%; Pashtu by 8%; Urdu by 8%; Balochi by 3%; Hindko by 2%; Brahui by 1%; English, Burushaski, and other by 8%. During the Mughal (or Mogul) period, a fusion of local dialects and Persian produced Urdu, a "language of the camp" (*zaban-i-urdu*). Although regional languages and dialects persist, Urdu is the official language of Pakistan; while it is spoken by only a minority, it is understood everywhere except in the rural or mountainous areas on the western frontier. English also claims official status and is the lingua franca of Pakistani elite and most government ministries.



LOCATION: 23°41' to 37°5' N; 60°52' to 77°49' E. BOUNDARY LENGTHS: China, 523 kilometers (325 miles), including boundary of Jammu and Kashmir to the Karakoram Pass; India, 2,912 kilometers (1,812 miles); Arabian Sea coastline, 1,046 kilometers (655 miles); Iran, 909 kilometers (568 miles); Afghanistan, 2,430 kilometers (1,510 miles). TERRITORIAL SEA LIMIT: 12 miles.

## 10 RELIGIONS

The country of Pakistan was essentially created as a Muslim homeland. According to a 1998 census, some 96% of the population was Muslim, giving Pakistan one of the largest Islamic communities in the world. While most Muslims are of the Sunni and Shia sects, there are a few members of the Ismaili sect concentrated at Karāchi. Ahmadis consider themselves Muslims but they do not accept Muhammad as the last prophet; as such, they are not accepted as orthodox by other Muslim groups and were officially declared non-Muslims by the government in 1974. Zikris form another branch of people who consider themselves Muslim but are

rejected by Sunni leaders because they practice ceremonies that are not common to all of Islam.

In the 1998 census, about 2% of the population were Christians with the largest group belonging to the Church of Pakistan, an umbrella Protestant organization. Roman Catholics were the next largest group of Christians. About 2% of the population were Hindus with about 2,000 temples and shrines, mostly in Sindh and Baluchistan. Buddhists, Parsis, Sikhs, and Baha'is were also represented.

Though the constitution provides for religious freedom, the government has placed restrictions on a number of religious groups.

Islam is the state religion and actions or speech contrary or derogatory to Islam are illegal. There have been many cases of trials, imprisonment, and even death sentences based on the violation of these “blasphemy laws.” Religious minorities face a great deal of harassment and discrimination and have been the object of physical violence. The Ahmadis, as an unrecognized offshoot of Islam, face a particular level of discrimination. They are prohibited by law from referring to themselves as Muslims or posing as Muslims in anyway. They are also not allowed to hold public assemblies or conferences. The constitution states that the president and the prime minister must be Muslim and all other government officials swear an oath to uphold the Islamic ideology of the state.

## **1<sup>1</sup>TRANSPORTATION**

Railways are a major carrier of passenger and freight traffic. In 2004, Pakistan Railways operated 8,163 km (5,072 mi) of broad and narrow gauge track. Of that total, broad gauge lines predominate, with 7,718 km (4,801 mi), of which 293 km (182 mi) are electrified.

In 2002, Pakistan’s road system totaled 247,811 km (153,989 mi) of roads, of which 141,252 km (87,858 mi) were paved, including 339 km (211 mi) of expressways. Road traffic drives on the left. The 800 km (500 mi) Karakoram highway, built jointly by Pakistan and China to connect Islāmābād with western China, was opened in 1979. In November, 1997, the Lahore-Islāmābād motorway was opened for traffic. There were 390,480 passenger cars and 396,225 commercial vehicles in use in 2003. The road network carries 85% of all goods and passengers moving within the country. The harbor of Karāchi, which provides Pakistan with its major port, covers an area of 6.5 sq km (2.5 sq mi) and handles over 10.5 million tons annually. Port Qasim, 22 km (14 mi) south of Karāchi, was developed during the 1970s to help handle the increased shipping traffic. As of 2005, Pakistan’s merchant marine operated 13 oceangoing vessels of 1,000 GRT or more, totaling 329,486 GRT.

Pakistan had an estimated 131 airports in 2004. As of 2005, a total of 91 had paved runways, and there were also 18 heliports. Karāchi Airport is the main international terminus. As of July 2001, along with the government-run Pakistan International Airlines (PIA), two private carriers, Aero Asia and Shehann Air International (SAI), were operating on domestic as well as flights to Europe, the United States, and the Far East. In 2003, about 4.477 million passengers were carried in scheduled domestic and international flights.

## **1<sup>2</sup>HISTORY**

The ruins of ancient civilizations at Mohenjodaro and at Harappa in the southern Indus Valley testify to the existence of an advanced urban civilization that flourished in what is now Pakistan in the second half of the third millennium BC during the same period as the major riverain civilizations in Mesopotamia and Persia. Although overwhelmed from 1500 BC onward by large migrations of nomadic Indo-European-speaking Aryans from the Caucasus region, vestiges of this civilization continue to exist not only in present-day Pakistan but also in the Indic culture that evolved from interaction of the Aryans and others in the years following. Among the latter were Persians in 500 BC, Greeks under Alexander the Great in 326 BC, and—after AD 800—Arabs, Afghans,

Turks, Persians, Mongols (Mughals), and Europeans, the last of whom first arrived by sea beginning in AD 1601.

Islam, now the dominant cultural influence in Pakistan, arrived with Arab traders in the 8th century AD. Successive overland waves of Muslims followed, culminating in the ascendancy of the Mughals in most of the subcontinent. Led initially by Babur, a grandson of Genghis Khan, the Mughal empire flourished in the 16th and 17th centuries and remained in nominal control until well after the British East India Company came to dominate the region in the early 18th century. Effective British governance of the areas that now make up Pakistan was not consolidated until well into the second half of the 19th century.

### **Nationalism and the Rise of the Muslim League**

In 1909 and 1919, while the British began to take steps to expand local self-rule, mass movements challenging colonial authority began to rise. The largest of these movements was spearheaded by the Indian National Congress, founded in 1885 as an Anglophile society. Congress began to attract wide support after 1920 with one of its key leaders, Mohandas K. Gandhi, nonviolent struggle. Its leadership included Muslims but was in many ways Hindu dominant. As a result, Muslims worried that their needs would be forgotten and formed an All-India Muslim League to look after their interests. National and provincial elections held under the Government of India Act of 1935 confirmed many Muslims in this view by showing the power the majority Hindu population could wield at the ballot box.

Sentiment among Muslims began to coalesce around the “two-nation” theory propounded by the poet Iqbal, which declared that Muslims and Hindus were separate nations and that Muslims required creation of an independent Islamic state for their protection and fulfillment. A Bombay (now Mumbai) attorney, Muhammad Ali Jinnah, who came to be known “Quaid-i-Azam” (Great Leader), led the fight for a separate Muslim state to be known as Pakistan. The Muslim League endorsed the project at Lahore in 1940.

Jinnah’s quest succeeded on 14 August 1947 when British India was divided into the two self-governing dominions of India and Pakistan, the latter created by combining contiguous, Muslim-majority districts in British India, the former consisting of the remainder. Partition occasioned a mass movement of Hindus, Muslims, and Sikhs who found themselves on the “wrong” side of new international boundaries; more than 20 million people moved, and up to three million of these were killed.

The new Pakistan was a state divided into two wings, East Pakistan (with 42 million people crowded mainly into what had been the eastern half of Bengal province) and West Pakistan (with 34 million in a much larger territory that included the provinces of Baluchistan, Sind, the Northwest Frontier, and western Punjab). In between, the wings were separated by 1600 km (1000 miles) of an independent, mainly Hindu, India professing secularism for its large Muslim, Christian, and Sikh minorities.

From the capital in Karāchi, in West Pakistan, the leaders of the new state labored mightily to overcome the economic dislocations of Partition, which cut across all previous former economic linkages, while attempting to establish a viable parliamentary government with broad acceptance in both wings. Jinnah’s death in 1948 and the assassination in 1951 of Liaquat Ali Khan, its first prime

minister, were major setbacks, and political stability proved elusive, with frequent recourse to proclamations of martial law and states of emergency in the years following 1954.

Complicating their task were the security concerns that Pakistan's new leaders had regarding India in the aftermath of the bitterness of partition and a still-unresolved dispute over the former princely state of Jammu and Kashmir. In the early 1950s, Pakistan sought security in relationships external to the subcontinent, with the Islamic world and with the United States. It joined such American-sponsored alliances as the Baghdad Pact (later—without Baghdad—the Central Treaty Organization or CENTO) and the Southeast Asia Treaty Organization (SEATO).

### East–West Divide

Pakistan also faced the daunting challenging of trying to bridge a profound political and ethnic gap that existed between its west and east wings. The Bengali east wing was economically more important, but political power rested in the Sindhi and Punjabi factions of the west wing. The eastern areas chafed under national policies laid down in the west, and seeking greater autonomy, voted the Muslim League (ML) out of office as early as 1954, resulting in a period of direct rule from Karāchi.

In 1958, the Army chief, Gen. Muhammad Ayub Khan, seized control of Pakistan, imposing martial law and banning all political activity for several years. Ayub later dissolved provincial boundaries in the west wing, converting it to “one unit,” to balance East Pakistan. Each “unit” had a single provincial government and equal strength in an indirectly elected national legislature; the effect was to deny East Pakistan its population advantage, as well as its ability, as the largest province, to play provincial politics in the west wing.

Ayub's efforts failed to establish stability or satisfy the demands for restoration of parliamentary democracy. Weakened by his abortive military adventure against India in September 1965 and amid rising political strife in both wings in 1968, Ayub was eventually forced from office. General Muhammad Yahya Khan, also opposed to greater autonomy for the east wing, assumed the presidency in 1969. Again martial law was imposed and political activity suspended.

Yahya's attempt to restore popular government in the general elections of 1970 failed when the popular verdict supported those calling for greater autonomy for East Pakistan. Civil unrest in the east wing flared into civil war. India, with more than a million refugees pouring into its West Bengal state, joined the conflict in November 1971, supporting East Pakistan. When the brutal war ended in early 1972, the eastern wing was formally severed from Pakistan and became the nation of Bangladesh (land of Bengalis).

### Authoritarian Politics

The loss of east Pakistan led to the resignation on 20 December 1971 of Yahya Khan and brought to the presidency Zulfikar Ali Bhutto, whose populist Pakistan Peoples Party (PPP) had won a majority of seats in the west wing. A longtime minister under Ayub Khan, Bhutto quickly charted an independent course for West Pakistan, which became the Islamic Republic of Pakistan. He distanced Pakistan from former close ties with the United States and the west, seeking security from India by a much more active role in the Third World and especially in the growing international Islamic movement fueled by petrodollars. Bhutto launched

limited land reform, nationalized banks and industries, and obtained support among all parties for a new constitution promulgated in 1973, restoring a strong prime ministership, which position he then stepped down to fill. In the years following, Bhutto grew more powerful, more capricious, and autocratic. His regime became increasingly dependent on harassment and imprisonment of foes and his popular support seriously eroded by the time he called for elections in March 1977. His PPP had lost many of its supporters, and he came to rely increasingly on discredited former PML members for support.

At the polls, the PPP was opposed by the Pakistan National Alliance (PNA), a nine-party coalition of all other major parties including the Jamaat-i-Islami (JI) on the Islamic right, the National Democratic Party on the secular left, the Pakistan Muslim League (PML/Pagaro) in the center, Asghar Khan's Tehrik Istiqlal (TI) on the secular right, and others. Although the results gave the PPP a two-thirds majority in parliament, allegations of widespread fraud and rigging undercut its credibility. PNA leaders demanded new elections, and Bhutto's exercise of emergency powers to arrest them led to widespread civil strife. On 5 July 1977, the army intervened and ousted Bhutto. Army chief General Muhammad Zia-ul-Haq partially suspended the 1973 constitution, imposed martial law, and assumed the post of Chief Martial Law Administrator (CMLA). As calm returned to Pakistan, Zia promised elections for October 1977, but for the first of many times to come, he reversed himself before the event, arguing that he needed more time to set matters aright. And as the months passed, he began to assume more of the trappings of power, creating a cabinet-like Council of Advisers of made up of serving military officers and senior civil servants, chief among whom was longtime Defense Secretary, Ghulam Ishaq Khan, who became Finance Advisor and Zia's strong right arm.

In mid-1978, Zia brought Bhutto to trial for conspiracy to murder a political rival in which the rival's father was killed. He also expanded his “cabinet” with the addition of several PNA leaders as advisors, and, when the incumbent resigned, he assumed the added responsibilities (and title) of president. He allowed a return of limited political activity but put off elections scheduled for fall when he was unable to get agreement among the PNA parties on ground rules that would keep the PPP from returning to power.

Bhutto's conspiracy conviction was upheld by the Supreme Court in March 1979, and he was hanged on 4 April. In the fall, and with the PNA now in disarray, Zia again scheduled, then postponed elections and restricted political activity. But he did hold “nonparty” polling for district and municipal councils, only to find at year's end confirmation of his concerns about PPP strength when PPP members, identifying themselves as “Friends of the People,” showed continuing appeal among the electorate.

Opposition to martial law began slowly to coalesce in 1980 when most of the PNA leadership joined with PPP leaders Ghulam Mustafa Jatoi and Nusrat Bhutto, Zulfikar's widow, to form the Movement for the Restoration of Democracy (MRD) and to demand Zia's resignation and the restoration of the 1973 constitution. But Zia proceeded to expand the role of Islamic values and institutions in society.

Meanwhile, neighboring Afghanistan experienced a communist coup in 1978 and Soviet invasion in 1979. Zia jumped into the political arena, taking a strong anticommunist leadership

role that drew support from the Islamic world, the UN and the United States. In the 1980s, the United States and Pakistan signed economic and security assistance agreements worth US\$3.2 and US\$4.02 billion. Zia also sought improved relations with India but anxiety about the much more powerful India remained high, at least partially because the status of Jammu and Kashmir remained unresolved.

In Pakistan in 1984, President Zia held a referendum on his Islamization policies in December and promised that he would serve a specified term of five years as president if the voters endorsed his policies. The MRD opposed him but did not prevent what Zia claimed was a 63% turnout, with 90% in his favor. On the strength of this disputed showing, Zia announced national and provincial elections, on a nonparty basis, for February 1985. The MRD again boycotted, but the JI and part of the Pakistan Muslim League (PML) supported Zia. Deemed reasonably fair by most observers, the elections gave him a majority in the reconstituted National Assembly and left the opposition in further disarray.

Ten months later, on 30 December 1985, Zia ended martial law, as well as the state of emergency he had inherited from Zulfikar Bhutto, turning over day-to-day administration to the PML's Mohammad Khan Junejo, whom he had appointed prime minister in March. He also restored the 1973 constitution but not before amending it to strengthen presidential powers vis-a-vis the prime minister. As the Eighth Amendment to the constitution, these changes were approved by the National Assembly in October 1985. They remain a contentious issue today, having subsequently played a key role in institutional tension between incumbents of the presidency and the prime ministership. In the first such instance, frictions developed slowly through 1987, but on 29 May 1988, Zia suddenly fired Junejo, alleging corruption and a lack of support for his policies on Islamization and on Afghanistan. He called for new elections in November, and in June he proclaimed the Shariah (Islamic law) supreme in Pakistan.

However, Zia was among 18 officials (including the American Ambassador) killed in the crash of a Pakistan Air Force plane. Two months later, Chairman of the Senate, Ghulam Ishaq Khan, set elections for November. Benazir Bhutto, Zulfikar Bhutto's daughter, won a thin majority, and with her support Pakistan's electoral college chose Ghulam Ishaq President of Pakistan in his own right on 12 December 1988.

But the alliance was brief. Ghulam Ishaq on 20 August 1990 used his powers as president to remove Bhutto from leadership. He declared yet another a state of emergency, dissolved the National Assembly, named Ghulam Mustafa Jatoi (then leader of the opposition) prime minister, and called for new elections on 24 October. The Punjab high court upheld the constitutionality of his actions, and on 24 October, the voters gave a near-majority to the Islamic Jamhoori Ittehad (IJI), a multiparty coalition resting mainly on a partnership of the PML and the JI. Mian Muhammad Nawaz Sharif, PML leader and former chief minister of Punjab, became prime minister on 6 November and quickly ended the state of emergency.

During late 1992 and early 1993, the president and the new prime minister moved toward a new confrontation over the exercise of their respective powers. Challenged by Nawaz Sharif on the president's choice of a new army chief, Ghulam Ishaq again used his eighth amendment powers to dismiss the government and dis-

solve the assembly on 18 April, alleging mismanagement and corruption. But public reaction to the president's actions was strong, and on 26 May, a supreme court ruling restored Nawaz Sharif to power, creating a period of constitutional gridlock until 18 July when the army chief brokered a deal in which both Ghulam Ishaq and Nawaz Sharif left office. Sharif resigned and was replaced by Ishaq Khan as interim prime minister by Moeen Qureshi, a former World Bank vice president; the president was then replaced by Wasim Sajjad, chairman of the senate.

Under Qureshi, Pakistan entered a period of fast-paced non-partisan rule and reform in which widespread corruption was exposed, corrupt officials dismissed, and political reforms undertaken. In his actions, Qureshi was strengthened by public support and his disavowal of interest in remaining in power. He held elections as promised on 19 October, and the PPP, leading a coalition called the People's Democratic Alliance (PDA), was returned to power, with Benazir Bhutto again prime minister. On 13 November, with her support, longtime PPP stalwart Farooq Leghari was elected president. Three years later in 1996, Leghari dismissed Bhutto and her cabinet and dissolved the National Assembly. Bhutto challenged her dismissal and the dissolution of the National Assembly in the Supreme Court. In a 6–1 ruling, the Court upheld the president's actions and found her ousted government corrupt.

Nawaz Sharif won the general election held in February 1997 with one of the largest democratic mandates in Pakistan's history. He immediately set about consolidating his hold on power by repealing major elements of the 1985 Eighth Constitutional Amendment. This transferred sweeping executive powers from the president to the prime minister. Within the next few months Nawaz Sharif dismissed his Chief of Naval Staff, arrested and imprisoned Benazir Bhutto's husband for ordering the killing of a political opponent, and froze the Bhutto family's assets. In March 1998, a warrant was issued for the arrest of Benazir Bhutto on charges of misuse of power during her tenure as prime minister.

Nawaz Sharif gained a popularity boost when Pakistan successfully tested five nuclear devices on 28 May and 30 May 1998. This was in response to India's nuclear tests earlier in the month and raised international concerns over a potential nuclear confrontation between Pakistan and India. Tensions eased when Nawaz Sharif and India's prime minister, Atal Behari Vajpayee, signed the historic "Lahore Declaration" on 21 February 1999, committing their countries to a peaceful solution of their problems.

In May 1999, however, several hundred Pakistani troops and Islamic militants infiltrated the Indian-held Kargil region of Kashmir. Two months of intense fighting brought Pakistan and India to the brink of all-out war. Under intense diplomatic pressure from the United States, but against the wishes of Pakistan's military, Nawaz Sharif ordered a withdrawal from Kargil in July 1999. This unpopular decision contributed to the prime minister's eventual downfall.

### The Musharraf Years

Distrustful of his army chief of staff, General Pervez Musharraf, Nawaz Sharif dismissed Musharraf on 12 October 1999 while he was in the air returning from a visit to Sri Lanka. However, when the general's plane was denied permission to land at Karachi Airport, army troops loyal to Musharraf seized the airport, arrested

Sharif, and returned Pakistan to military rule for the fourth time in the country's history.

General Musharraf declared yet another state of emergency, suspended the constitution and assumed power as chief executive. Many Pakistanis welcomed the military takeover as a change from the corruption and abuses of Nawaz Sharif's rule. Musharraf introduced modest economic reforms (mostly in the area of revenue collection), restricted the activities of Islamic extremists, and instituted policies to curb lawlessness and sectarian violence. On 23 March 2000, Musharraf announced local elections to be held over a period of seven months between December 2000–July 2001. Significantly, however, no mention was made of national elections or a return to civilian rule. Moreover, the independence of the judiciary was seriously compromised in January 2000, when Musharraf required all judges to take an oath of loyalty to his regime. Nawaz Sharif was tried and found guilty of hijacking and terrorism for trying to prevent Musharraf's plane, a commercial flight with civilians on board, from landing at Karāchi in October 1999. Sharif was sentenced on 16 April 2000 to life in prison. In December he went into exile in Saudi Arabia after being pardoned by military authorities.

On 20 June 2001 General Musharraf named himself president of Pakistan while remaining head of the army.

After 11 September 2001, Musharraf supported the US-led bombing campaign in Afghanistan and ties between the two countries were greatly strengthened. The United States removed some sanctions imposed on Pakistan after its 1998 nuclear tests and after the Taliban were removed from power in Afghanistan in late 2001, the United States moved to strengthen counterterrorism operations in Pakistan.

On 13 December 2001, the Indian Parliament was attacked by five suicide fighters, and India blamed the attack on two Pakistan-based Islamic organizations, Lashkar-e-Taiba and Jaish-e-Muhammad, accusing Pakistan of supporting the groups and giving their leaders sanctuary. Tensions between the two countries flared, and they began to amass hundreds of thousands of troops along their shared border. Pakistan banned Jaish-e-Muhammad and Lashkar-e-Taiba, although it claimed India had not provided evidence of the groups' involvement in the attack. The standoff between India and Pakistan continued for 10 months, and through 2003, the two countries continued to test-fire ballistic missiles capable of carrying nuclear weapons.

Pakistan's ties to the United States and proximity to Afghanistan made it home in 2002 and 2003 to series of violent acts against Westerners or Christians. Nevertheless, in April 2002, Pakistan's military regime held a referendum on General Musharraf's presidency; 98% of the votes cast were in favor of Musharraf, giving him another 5-year term as president. In August, he unilaterally implemented 29 amendments to the constitution to grant himself the power to dissolve parliament and to remove the prime minister. He also gave the military a formal role in governing the country for the first time by setting up a National Security Council that would oversee the performance of parliament, the prime minister, and his or her government. Parliamentary elections were held on 10 October, with Quaid-e-Azam, a political faction of the Muslim League supportive of Musharraf, taking the most seats.

India and Pakistan declared a formal cease-fire in Kashmir in November 2003, and relations between the two countries were

slowly improving. A bus link between the India- and Pakistan-controlled portions was established in April 2005, and both countries cooperated to some degree with the distribution of humanitarian aid following a deadly earthquake that struck the region on 8 October 2005.

### 13 GOVERNMENT

Pakistan came into being as a self-governing dominion in the British Commonwealth in 1947 and declared itself a republic in 1956. Under a constitution framed by Zulfikar Bhutto and effective as of 14 August 1973, it is federal in nature, and Westminster-style cabinet systems operate at the federal and provincial levels. All powers not otherwise specified are reserved for the federal government, which is armed also with extensive emergency powers in the event of a breakdown in constitutional government.

Pakistan is governed under the constitution of 12 August 1973 (as amended) which declared Islam the state religion and provided for a president as a nominal head of state and a prime minister as executive head of government. The president and prime minister were chosen by members of parliament, and the prime minister was responsible to that body, which was elected under universal suffrage at 18 years of age (the voting age was subsequently raised to 21, but then lowered once again to 18 in the October 2002 elections). In 1973, the parliament consisted of a national assembly of 200 elected members plus 10 seats reserved (until 1982) for women and 6 for tribal areas, these reserved seats filled by vote of the elected members. A senate of 63 members included 14 legislators from each of the four provincial legislatures, plus 5 seats reserved for tribal areas and 2 for the federal capital area.

Despite the presence of a constitution, much of Pakistan's governance has been under military rule. The constitution was suspended 5 July 1977, and restored with amendments on 30 December 1981. It was suspended again on 15 October 1999 by General Pervez Musharraf and restored 31 December 2002. Musharraf imposed a series on amendments on 31 December 2003.

The first suspension and subsequent restoration of the constitution is tied to the rule of army chief. General Zia-ul-Haq. Zia revived much of the 1973 constitution, although its Fundamental Principles and its electoral provisions remained suspended until martial law was lifted in 1985. The CMLA was initially assisted by an appointive council of advisors, then by an advisory Federal Council of 277 appointed members that was formed in 1982 to assist and advise the martial law government.

Amendments that, following the lifting of martial law in December 1985, redressed the balance of powers between the positions of prime minister and president, who also remained commander-in-chief of the armed forces. It established term limits of five years for the incumbents, and provided that their successors in 1990 would be elected, the president by an electoral college composed of members of the national assembly, the senate, and the provincial assemblies, and the prime minister, by the national assembly.

After a 12 October 1999 military coup staged by the army chief, General Pervez Musharraf, the constitution was suspended again. On 21 August 2002, Musharraf announced 29 amendments that established a National Security Council and granted new powers to the president, including the right to dissolve the national assembly at his or her discretion, to appoint governors and to dissolve

provincial assemblies in consultation with them, and to appoint the joint chiefs of staff and the three service chiefs in consultation with the prime minister.

Under the constitution, the president is to be elected by Parliament every five years. Musharraf's term was extended in 2002 and the next election was scheduled for 2007. One of the branches of Parliament—the National Assembly—is responsible for choosing the prime minister. Shaukut Aziz was chosen in 2004 for a five-year term.

The parliament, also known as Majlis-i-Shura, has two chambers. The first chamber, the Senate, as of January 2006 consisted of 100 members who were elected indirectly by provincial assemblies to serve four-year terms. The second chamber, the National Assembly, consists of 342 members who are elected by popular vote to four-year terms. New elections were to take place in October 2006. Of the 342 National Assembly seats, 60 are reserved for women and 10 for minorities.

## **14 POLITICAL PARTIES**

Political parties have existed in Pakistan during all of its turbulent political history, but the dominant force in Pakistani politics remains the military. Parties have been frequently banned or restricted by the government, which in many cases has rendered them ineffectual. Islamic *ulema* (or clergy) and traditional landowners also command much authority in Pakistan.

Parties operate at both the national and regional level. A total of 14 parties held seats in Pakistan's Parliament in 2006.

## **15 LOCAL GOVERNMENT**

Pakistan is divided into four provinces, each with deep historic roots and both linguistic and cultural associations. Outside the provinces, there are Federally Administered Tribal Areas (FATA) along the border with Afghanistan and the federal capital of Islāmābād. In addition, provincial governments directly administer tribal areas within their territories.

The provinces, in order of population size, are Punjab (with its capital at Lahore), Sindh (Karāchi), Northwest Frontier Province (Peshāwar), and Baluchistan (Quetta), the largest in area. Under the 1973 constitution, provinces have popularly elected provincial assemblies, a governor appointed by the president, and a chief minister in whom executive power is vested. The governor acts on the advice of a chief minister who is elected from the party commanding the support of the assembly.

The senior administrative officer of each province is the chief secretary. Each province is divided administratively into divisions headed by commissioners who, like the chief secretary and the secretaries of provincial ministries, are senior members of the Pakistan Civil Service (CSP). Divisions are further subdivided into districts headed (depending on local usage) by deputy commissioners, district officers, or collectors, also members of the CSP, who manage development funds, collect the revenues, supervise the police, adjudicate disputes, administer justice, and interface with the elected councils at the local level which have limited taxing authority, decide on priorities for local development programs, and try certain local legal cases.

The Pakistan-controlled third of the original state of Jammu and Kashmir is divided into two areas. The southern portion, referred to as Azad Kashmir, is administered from Muzaffarabad by an ap-

pointed president and council of ministers. The larger portion to the north is known as the Northern Areas and is administered by a Commissioner and an elected council.

The number of seats in the provincial assemblies was increased in October 2002, and seats were reserved for women and non-Muslims. In the provincial assembly elections held on 10 October, the MMA won a landslide victory in the Northwest Frontier Province. In Punjab, the Quaid-e-Azam faction of the PML took the most seats, with Bhutto's Pakistan People's Party coming in second. The PPP came in first in Sindh, and the MMA came in first in Baluchistan.

## **16 JUDICIAL SYSTEM**

Pakistan's judicial system stems directly from the system that was used in British India. The Supreme Court has original, appellate, and advisory jurisdictions. The president of Pakistan appoints the justices. Each province has a high court, the judges of which are also named by the president. Below the high courts are district and session courts, and below these are subordinate courts and village courts on the civil side and magistrates on the criminal side. There are no jury trials in Pakistan.

The British tradition of an independent judiciary has been undermined in Pakistan by developments over the last 50 years. In May 1991, for example, the National Assembly adopted legislation which incorporated the Islamic legal code, the Shariah into Pakistan's legal system. A Federal Shariah Court has the power to nullify any law it finds repugnant to Islam.

The position of the judiciary in Pakistan has also been affected by periods of military rule in the country. When General Zia al-Huq imposed martial law in 1977, military courts were given jurisdiction over trial and punishment of civilians found guilty of violating martial law regulations. The verdicts could not be appealed to a higher civilian court. Moreover, a provision of the 1973 constitution that judges could be removed only by the supreme judicial council, consisting of the chief justice and two ranking judges from the Supreme Court and the high courts, was revoked by the military government in June 1979. Under the 1981 interim constitution, a new oath was imposed on all Supreme Court, high court, and Shariah court judges, and all laws promulgated by the martial law regime were exempted from judicial review. The Supreme Court chief justice and several other judges were replaced after refusing to take the oath. Although the military courts were abolished in December 1985, their decisions still cannot be appealed to civilian courts.

Similarly, in January 2000, Musharraf required all judges to take an oath of loyalty to his regime. The Supreme Court chief justice, Saiduzzaman Siddiqui, and five colleagues refused and were dismissed. This was just a week before the court was due to hear the first of several cases challenging the legality of the new government. Legal experts argue this action did irreparable harm to Pakistan's judiciary; with all sitting judges having accepted the military regime, there is no independent judiciary to protect the constitution.

## **17 ARMED FORCES**

In 2005, Pakistan's armed forces totaled 619,000 active personnel. The Army comprised the largest portion, accounting for 550,000 active members, followed by the Air Force at 45,000 and the Navy

at 24,000 personnel (including an estimated 1,400 Marines). The Army's major weapons systems included more than 2,461 main battle tanks, 1,266 armored personnel carriers, over 4,291 artillery pieces, and 22 attack helicopters. Major naval units included 8 tactical submarines, 7 frigates, 10 patrol/coastal vessels, and 3 mine warfare ships. The Navy's air arm included 9 maritime patrol aircraft and 12 antisubmarine warfare helicopters. The Air Force's primary striking force was made up of 331 combat capable aircraft, which included 143 fighters and over 51 fighter ground attack aircraft. Pakistan's paramilitary forces had an active strength of 302,000 personnel that included the Pakistan Rangers (up to 40,000), the Frontier Corps (up to 65,000), a maritime security agency (estimated at 2,000), a National Guard (185,000) and the Northern Light Infantry (estimated at 12,000). It is suspected that Pakistan's nuclear arsenal consisted of between 24 and 48 weapons, with the capability to produce more. Pakistan was a participant in UN and peacekeeping operations in 10 countries or regions. The defense budget in 2005 was \$3.74 billion.

## 18 INTERNATIONAL COOPERATION

Pakistan became a member of the United Nations on 30 September 1947 and is a member of several specialized agencies, such as ESCAP, the FAO, UNESCO, UNHCR, the World Bank, ILO, UNIDO, and the WHO. As an Islamic state, Pakistan is an active member of the Organization of the Islamic Conference (OIC). Pakistan also belongs to the Asian Development Bank, the Colombo Plan, the Commonwealth of Nations, G-24, G-77, and the WTO. In 1960, Pakistan and India signed an Indus water basin treaty opening the way to the peaceful use and development of water resources. Pakistan, Turkey, and Iran established a tripartite arrangement, called Regional Cooperation for Development (RCD), in 1964. In 1985, Pakistan and six other South Asian countries, including India and Bangladesh, formed the South Asian Association for Regional Cooperation (SAARC). The country holds observer status in the OAS.

Pakistan is part of the Nonaligned Movement. The government has offered support for UN missions and operations in Kosovo (est. 1999), Western Sahara (est. 1991), Liberia (est. 2003), Sierra Leone (est. 1999), East Timor (est. 2002), Georgia (est. 1993), Burundi (est. 2004), and the DROC (est. 1999), among others. The UN Military Observer Group in India and Pakistan (UNMOGIP) was established in 1949 to observe the cease-fire between the two countries. Nine countries participate in this peacekeeping effort, yet strained relations between Pakistan and India have often lead to acts of violence.

In environmental cooperation, Pakistan is part of the South Asia Cooperative Environment Program (SACEP), the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Despite steady expansion of the industrial sector during the 1990s, Pakistan's economy remains dominated by agriculture. Agriculture and industry made roughly similar contributions to GDP—21.6% and 25.1%, respectively—in 2005, although 42% of the labor force was in agriculture and only 20% in industry. About 70% of export

revenues are generated by agriculture or agriculture-based manufactures, with cotton alone accounting for about 60% of the total. Exports of primary agricultural products are concentrated in cotton and rice. One-fourth of the land is farmed or used for grazing, and much of this is planted to food crops for domestic consumption. Pakistan is generally poor in natural resources, although extensive reserves of natural gas and petroleum are being exploited. Iron ore, chromite, and low-quality coal are mined.

This strong performance notwithstanding, a growing debt-servicing burden, large government expenditures on public enterprises, low tax revenues, high levels of defense spending, and a rapid rise in imports with burgeoning domestic demand contributed to serious fiscal and current account deficits during the late 1980s. In response, in 1988 the government initiated a major structural reform program with World Bank and IMF support. When the country was created in 1947, there were no industries, and few banks or mercantile firms. Since that time, industrial production has risen significantly. In 1998, industry accounted for about 26% of the GDP, compared with only 7% in 1950. Thanks in part to significant expansion of power facilities, largely in the Indus basin, the pace of economic development was particularly rapid during the 1980s. For most of the decade, the annual GDP growth rate averaged 6.5%, reflecting an expansion of over 4% annually in the agricultural sector and over 7% in value added in the industrial sector.

The government pursued policies aimed at private sector-led development, macro economic stability, and structural reforms. Overall growth indicators remained promising with the reform measures, as GDP increased by 5.5% in 1990/91 and 7.8% in 1991/92, and export growth averaged a robust 14% between 1989 and 1992. These improvements notwithstanding, reform efforts secured less than expected reductions in the country's balance of payment deficits, due in part to deteriorating terms of trade in the wake of rising oil prices during the 1991 Gulf War. Severe floods in the Sindh and Punjab provinces in late 1992 and a contraction in international commodity markets weakened Pakistan's export sector during 1992/93, further exacerbating the country's trade and current account deficits and helping to reduce GDP growth to only 3% in 1993. In March of 1994 the government received IMF approval of a three-year Enhanced Structural Adjustment Facility (ESAF) to support reforms. The IMF wanted austerity measures aimed at reducing the government deficit to 4% of GDP, a reduction in the maximum tariff rate from 70% to 45%, increased privatization of large state-owned enterprises, and a tax on agricultural income. However, the government's failure to follow the IMF recommendations and liberalize the economy caused the IMF to suspend the \$1.5 billion loan in mid-1995. The suspension of the loan worried investors and damaged Pakistan's debt ratings. The trade deficit grew, foreign exchange reserves dwindled, and inflation remained high.

After the government recommitted itself to reform, the IMF approved a new \$600 million standby arrangement in September 1995. Still, by 1996 the economy was in its worst recession in 25 years. Tax receipts were falling well below their targets and export earnings had declined, leaving the government with a deepening foreign-exchange crisis as reserves fell to only \$500 million by the end of the year. By mid-1997, the government owed \$1.6 billion in interest on \$30 billion owed to foreign creditors, putting the

country perilously close to default. Growth in GDP was only 1.2% in 1997, down from 6.1% in 1996. Growth rebounded to 4.2% in 1998/99 as per capita income reached \$434, up from \$400 in 1990. However, Pakistan came under international economic sanctions following its six nuclear bomb tests in May 1998, and then again after the elected government was overthrown in a military coup in 1999. The growth rate declined to 3.9% in 1999/00 and then to 2.5% in 2000/01, as per capita income fell to \$397. Net public debt in 2000/01 rose to 103.8% of GDP. In November 2000, the government entered into a 10-month stand-by agreement with the IMF preliminary to the rescheduling of \$1.8 billion of sovereign debt with the Paris Club countries in January 2001. After the 11 September 2001 terrorist attacks on the United States, more concessional finance was made available. In December 2001, Pakistan entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF), and under a new Paris Club agreement, over \$12 billion of national debt was rescheduled. Net public debt in 2001/02 decreased marginally to 96.2% of GDP. GDP growth rose slightly to 3.6% and inflation eased to 2.7%, down from 4.4% the year before. The most improved economic indicator was foreign reserves, which rose from about \$900 million in 1999 to over \$10 billion in March 2003.

In October 2005, a devastating earthquake in northern Pakistan and Kashmir killed some 80,000 people and left more than 3 million homeless, mostly in Pakistan, to survive the winter. Foreign donors in November 2005 pledged over \$6 billion to support reconstruction in the wake of the earthquake. Despite the earthquake, however, the economy was expected to perform strongly in 2006: real GDP growth was projected to reach 6.6% in 2005/06 and 6% in 2006/07. The annual inflation rate was forecast to average 8.6% in 2006 and 6.7% in 2007. Although substantial progress had been made on macroeconomic reforms, by 2006 progress on more politically-sensitive reforms had slowed. For example, in the 2006 fiscal year budget, the government did not impose taxes on the agriculture or real estate sectors, despite Pakistan's severely-low tax-to-GDP ratio. Despite Pakistan's low level of development, prospects for job creation and poverty reduction were good in the medium term. GDP growth, prodded by double-digit gains in industrial production over 2005, has become less dependent on agriculture, and stood at 8.4% in 2005. Foreign exchange reserves continued to reach new levels in 2005, spurred on by steady workers' remittances. Real GDP growth averaged 5% over the 2001–05 period, and inflation averaged 5.2% over the same period.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Pakistan's gross domestic product (GDP) was estimated at \$385.2 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,400. The annual growth rate of GDP was estimated at 8.4%. The average inflation rate in 2005 was 9.2%. It was estimated that agriculture accounted for 21.6% of GDP, industry 25.1%, and services 53.3%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$3.964 billion or about \$27 per capita and accounted for approximately 4.8% of GDP. Foreign aid receipts

amounted to \$1,068 million or about \$7 per capita and accounted for approximately 1.3% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Pakistan totaled \$60.57 billion or about \$409 per capita based on a GDP of \$82.3 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 4.0%. In 2001 it was estimated that approximately 45% of household consumption was spent on food, 19% on fuel, 6% on health care, and 5% on education. It was estimated that in 2001 about 32% of the population had incomes below the poverty line.

## **21 LABOR**

In 2005, Pakistan's labor force was estimated at 46.84 million. As of 2004, it was estimated that agriculture accounted for 42% of the total workforce, with services at 38%, and industry at 20%. Unemployment and underemployment are major problems. Although in 2005, unemployment was estimated at 6.6%, underemployment is known to be substantial. In addition, Pakistan's workforce is marked by the widespread export of labor, most of which is to the Middle East, and the use of child labor.

There are sizable numbers of Pakistani workers in the Middle East and European countries, most of them from the poor regions of Pakistan's NWFP. There are also several million refugees from Afghanistan who have become part of the Pakistan labor force in those regions and in Karachi.

The trade union movement is of recent origin. The principal federations include the National Labor Federation and the All Pakistan National Federation of Trade Unions. Labor-management differences are handled by the central conciliation machinery, established under the provisions of the Industrial Disputes Act of 1947. Benefits such as bonuses, paid holidays, and job security regulations are set forth in the basic West Pakistan Industrial and Commercial Employment Ordinance of 1968. In 2002, approximately 10% of the industrial labor force was unionized, and 3% of the total workforce. The government curtails union activity. Although collective bargaining is protected by law, government restrictions preclude bargaining by large segments of the labor force.

The practice of child labor is widespread. According to a government survey, three or four million children between the ages of five and 14 worked as of 2002. However, informal estimates have placed this figure as high as 8 to 10 million. There may also be some 20 million bonded laborers in Pakistan. Bonded labor is particularly common among the persecuted Christian minority. Children are often kidnapped to serve as forced labor. The minimum wage for unskilled workers was \$30 per month in 2002. There is a maximum workweek of 48 hours, but most employees are unaware of these work restrictions.

## **22 AGRICULTURE**

Agriculture engaged 47% of the economically active population in 2000. Agricultural production increased by an annual average of 4.4% during 1990–2000, accounting for 23% of GDP in 2003. The development of a huge irrigation network covering two-thirds of

the total cultivated area—together with massive land reclamation projects—has made possible the farming of vast tracts of previously barren and unusable land. The Indus Valley of Punjab is Pakistan's agricultural heartland. There are two principal growing seasons: the kharif season starts between April and June and ends between October and December, while the rabi season starts between October and December and ends during April or May. Grains constitute the most important food crops, with wheat, rice, corn, and citrus the major products. Cotton, the most important cash crop, generates more foreign trade income than any other export item. Cotton production suffered in the late 1990s from leaf curl virus. In 2004/05, production totaled 11.3 million bales. Rice, sugarcane, tobacco, rapeseed, and mustard are also large export earners. Rice covers 12% of all cropland—production in 2004/05 totaled 5.02 million tons.

Improved government policies over the past decade have made Pakistan a net exporter of guar products, tobacco, cotton, and rice. Other major agricultural exports include molasses, fruits and vegetables, guar and guar products, and tobacco. Principal crops with 2004 output (in thousands of tons) were wheat, 19,767; sugarcane, 53,419; and corn, 2,775. Production of sunflower seed amounted to 404,000 tons in 2004. Other crops include millet, barley, sesame, flax, groundnuts, mangoes, citrus fruits, and vegetables. Opium poppies are grown in the North-West Frontier Province (on an estimated 2,500–3,000 hectares/6,200–7,400 acres in 2003), government efforts to stamp out the opium and heroin trade have helped reduce production by over 95% since the mid-1980s.

Farming production remains limited by primitive methods, and mechanization is uncommon. The introduction of improved wheat and rice varieties has met with some success, although the greatest impact on agriculture has derived from the Indus basin irrigation schemes, which by the 1970s had provided Pakistan with the largest irrigated network in the world. The availability of water has made possible increased use of chemical fertilizers, with the most intensive consumption occurring in cotton production. The government has instituted soil conservation, farm mechanization, land reclamation, and plant protection programs.

To increase smallholders' equity and provide further incentives for agricultural improvement, the government decreed in 1959 that the maximum holding for any person should be 200 hectares (500 acres) of irrigated land or 400 hectares (1,000 acres) unirrigated. Land in excess of these amounts was acquired by the government and paid for in interest-bearing 30-year bonds. In March 1972, the maximum permissible size of a holding, measured in terms of production index units, was reduced by two-thirds, with the government empowered to confiscate without payment all excess land for free redistribution to landless peasants and small tenants. To help the new landowners, the government provided loans for purchase of seed, feed, and bullocks. In accordance with a statement of national agricultural policy issued in 1980, the Agricultural Price Commission was established to provide incentives to Pakistani farmers through higher prices for farm products.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Some 30 to 35 million people are engaged in the livestock industry. Camels are used for transport throughout the more barren south and west, and bullocks and donkeys elsewhere. Sheep range widely over the grazing lands of middle and northern Pakistan; the

bulk of their wool is exported. Among local breeds of cattle, the Red Sindhi, the Tharparker, the Sahiwal are renowned for milk, and the Bhagnari and Dhanni for draft purposes. The production of powdered milk, cheese, butter, and ice cream is carried out by several large dairy plants. From 1984 to 1990, milk production increased by 41%, and meat production rose 48%. Even so, domestic milk production still falls short of demand. Poultry production has become prominent, especially through scientific research in breeding, feeding, and disease control. With the assistance of the Asian Development Bank, several livestock development projects were underway.

In 2005 there were 26.3 million buffaloes, 24.2 million head of cattle, 56.7 million goats, and 24.9 million sheep. Commercial poultry numbered 166 million in 2004. There were also an additional 3.5 million ducks. Modern poultry production in Pakistan is constrained by high mortality and incidence of disease in chicks and an inefficient marketing system. Production estimates for 2005 included (in tons): beef, 469,000; goat meat, 370,000; mutton, 166,000; poultry, 420,600; wool, 40,000; and milk, 29,474,000 (67% from buffalo). In an effort to increase domestic milk production, the government has initiated a comprehensive livestock development program with \$55 million in assistance from the Asian Development Bank. The government has also broadened extension and artificial breeding services, taken measures to improve slaughterhouses, and introduced high-yield fodder varieties. Cattle dung is an important cooking fuel and fertilizer.

## 2<sup>4</sup> FISHING

With a coastline of 814 km (506 mi), Pakistan is rich in fishery resources that remain to be fully developed. Almost the entire population of the coastal areas of Sindh and Balochistan depends on fisheries for its livelihood. The fish catch in 2003 was 576,804 tons, 70% of it landed off coastal waters. Species include salmon, mullet, pomfret, mackerel, shrimp, and local varieties. About 10% of the annual catch is exported. Export earnings from fish products amounted to \$136.9 million in 2003.

To exploit potential fishery resources, the government has undertaken such projects as construction of a modern harbor for fishing vessels at Karachi, procurement of diesel-powered vessels, establishment of cold storage and marketing facilities, export of frozen shrimp, and encouragement of cooperative fish-marketing societies. An aquaculture project financed by the Asian Development Bank and the EU aimed to increase the annual fish catch and to promote prawn farming.

## 2<sup>5</sup> FORESTRY

Of Pakistan's depleted forest resources, amounting to about 3.1% of the total area, only about 1,748,000 hectares (4,319,500 acres) are classified as commercial or productive forests. Privately-owned forests cover some 3,783,000 hectares (9,348,000 acres), located primarily in the North Western Frontier Province (NWFP) and Punjab. Hill forests predominate in the north and northwest temperate and subtropical regions. Fir, spruce, deodar, bluepine, chirpine, Chalgoha, and juniper, as well as broadleaved species like oak, maple, walnut, poplar, and chestnut are found in the hill forests. These forests are the main source for constructional timber and supply great quantities of fuelwood, while providing groundcover to the fragile mountain ecosystems (thereby less-

ening floods and droughts in the plains). Forests in the foothills consist of broadleaved evergreens, with main species of olive and phulai. Irrigated plantation forests grow such species as sheesham, mulberry, bakain, and semal, mostly for timber, furniture, and sporting goods production.

About 500,000 cu m (17.6 million cu ft) of timber is produced annually by state forests, which are under the authority of the Pakistan Forest Institute. During 1990–2000, the annual average rate of deforestation was 1.5%. Pakistan has a 25-year forestry master plan outlining the development of the industry through 2018. The total timber cut in 2004 was 28.28 million cu m (998.2 million cu ft), with 91% consumed as fuelwood. Since forest resources are limited, Pakistan must import wood and wood products in increasing volumes to satisfy rising demand. In 2004, forest product imports totaled \$137 million.

## 26 MINING

Except for petroleum and natural gas, mineral reserves in Pakistan were meager and of poor quality. Chromite was one of the few valuable minerals available. Production of chromium (by metal content) rose to an estimated 13,000 metric tons in 2003 from an estimated 12,500 metric tons in 2002. Construction materials were a leading industry in the country. In 2003, small quantities were produced of aragonite and marble, barite, bauxite, bentonite, chalk, dolomite, natural emery, feldspar, fire clay, fluorspar, fuller's earth, crude gypsum, kaolin (china clay), limestone and other stone, crude magnesite, nitrogen, ammonia, phosphate rock, natural mineral pigments, rock and marine salt, bajir and common sand, glass sand, caustic soda, soapstone, strontium minerals (celestite), native sulfur, soapstone talc and related materials.

Pakistan's inadequate infrastructure, poorly educated workforce, and pervasive violence have been major obstacles to attracting foreign investment. The Minister for Petroleum and Natural Resources invited the Iranian government in 2000 to invest in copper exploration and development, and to manage the mothballed Saindak copper-gold-molybdenum-silver mining and metallurgical complex, in Baluchistan's Chagai Hills. Also interested in acquiring the Saindak project were China, China Metallurgical Construction Corp. built the mine and plant, and BHP of Australia. Mining stopped at Saindak in 1996. BHP and Australia's Mincor Resources formed an alliance to explore and develop large porphyry-style copper deposits in the Chagai Hills. The joint venture initially was to focus on the Reko Diq Complex, possibly one of the world's largest copper deposits with more than 7 million tons of copper and 342,000 kg of gold. The Geological Survey of Pakistan reportedly discovered a total of 400 million tons of commercially viable iron ore in Baluchistan and the North West Frontier (NWF), to be mined by open-cut methods. The NWF government was considering reviving the Swat emerald mine, at Mingora. The discovery of a large low-ash, low-sulfur lignite deposit in the Tharparkar desert may increase the importance of Pakistan's coal.

## 27 ENERGY AND POWER

Pakistan is a net importer of petroleum, but is self-sufficient in natural gas. It has relatively small coal deposits. Its electric power sector relies heavily upon fossil fuels to produce power.

As of 1 January 2004, Pakistan's proven oil reserves were estimated at 288 million barrels. In 2003, oil production averaged an

estimated 61,769 barrels per day, of which crude oil production accounted for 60,000 barrels per day. However, Pakistan's demand for oil in 2003 came to an estimated 360,000 barrels per day, making the country a net importer. Imports that year were estimated to average 298,231 barrels per day. As of 1 January 2004, Pakistan's crude oil refining capacity was estimated to average 268,975 barrels per day.

Pakistan's proven natural gas reserves are more robust. As of 1 January 2004, the country's proven natural gas reserves were estimated at 26.8 trillion cu ft. Natural gas output and domestic consumption were each estimated at 0.81 trillion cu ft.

Although coal plays a relatively minor part in Pakistan's overall energy picture, the country does have recoverable coal reserves estimated at 2.5 billion short tons, as of 1 January 2004. In 2002, Pakistan produced an estimated 3.7 million short tons of coal. However, demand outstripped output that year, coming in at 4.7 million short tons, and necessitating the importation of 1.1 million short tons of coal.

Pakistan's electric power generating capacity in 2002 totaled 18.038 million kW, of which 12.537 million kW of capacity was dedicated to conventional thermal generation. Hydroelectric dedicated capacity amounted to 5.039 million kW, while nuclear power accounted for 0.462 million kW of capacity. Electric power output in 2002 totaled 72.443 billion kWh, of which 48.516 billion kWh came from conventional thermal sources and 22.127 billion kWh came from hydroelectric sources. Nuclear power generation provided 1.800 billion kWh. Despite increases in installed generating capacity, Pakistan faces electricity shortages due to rapid demand growth, transmission losses due to outdated infrastructure, power theft, and seasonal reductions in the availability of hydropower. Rotating power outages still needed in some areas and many villages are not yet electrified. As of 2002, less than half of Pakistan's population was connected to the nation's power grid.

## 28 INDUSTRY

During the 1960s and 1970s, light industry expanded rapidly—especially textiles, sugar refining, fertilizers, and other manufactures derived from local raw materials. Large government investments in the 1970s established the country's first large-scale ship-building and steel milling operations; the production of chemical fertilizers was also given special government support. The Pakistan Industrial Development Corp., established in the early 1980s with IDA credit, developed industrial estates for small- and medium-scale industries, assisting their occupants in obtaining credit, raw materials, technical and managerial assistance, access to production facilities, as well as marketing support. Despite steady overall industrial growth during the 1980s, the sector remains concentrated in cotton processing, textiles, food processing and petroleum refining.

The 1973 nationalization program, which placed 10 basic industries wholly within the public sector, was reversed in 1991 with the enactment of an ambitious privatization program. In 1992, the government began auctioning off majority control in nearly all public sector industrial enterprises, including those manufacturing chemicals, fertilizers, engineering products, petroleum products, cement, automobiles, and other industrial products requiring a high level of capital investment, to private investors. In 1995, however, the speed of privatization began to slow as the

sale of some large state-owned units were stalled and postponed. In 2002, the public industrial sector, under the Production Wing of the Ministry of Industries and Production consisted of eight public holding companies—Pakistan Steel, the State Cement Corporation (PACO), Federal Chemical and Ceramics Corporation (FCCC), State Petroleum Refining and Petrochemical Corporation (PERAC), State Engineering Corporation (SEC), the Pakistan Industrial Development Corporation (PIDC), the state fertilizer corporation, and Pakistan Automobile Corporation. The majority of the 74 production enterprises controlled by these holding companies have been privatized, and most of those remaining are scheduled to be sold. The public sector continues to dominate in steel, heavy engineering, automobiles, petroleum and defense-related production.

Cotton textile production is the most important of Pakistan's industries, accounting for about 19% of large-scale industrial employment, and 60% of total exports in 2000/01. Pakistan has become self-sufficient in cotton fabrics and exports substantial quantities. Some long and extra-long staple cotton is imported to meet demand for finer cottons. About 80% of the textile industry is based on cotton, but factories also produce synthetic fabrics, worsted yarn, and jute textiles. Jute textile output amounted to 70,100 tons in 1999/00. The textile industry as a whole employs about 38% of the industrial work force, accounts for 8.5% of GDP, 31% of total investment, and 27% of industrial value-added. In January 2005, the WTO lifted textile-import quotas in Europe and the United States, and Pakistan, having invested \$4 billion in the four years up to the lifting of the quotas, was well-placed for growth in the textile industry.

Other important industries include food processing, chemicals manufacture, and the iron and steel industries. Food processing is considered Pakistan's largest industry, accounting for slightly more than 27% of value-added production. Pakistan Steel, the country's only integrated steel mill, employs about 14,500 workers and has an annual production capacity of 1.1 million tons. The government plans to expand the mill's annual capacity to 3 million tons. Pakistan Steel produces coke, pig iron, billets, hot and cold rolled coils and sheets, and galvanized sheets. In June 1999, the first tin-plating plant began operation, a joint venture with Japan.

As of 2005, Pakistan had 10 fertilizer plants, 4 state-owned and 6 private, with a total annual production capacity of 5.75 million tons. There were 24 cement plants, four state-owned and 20 private, with an annual production capacity of 19.55 million tons. Pakistan's chemical industry produces an number of basic chemicals used in its other industries, including soda ash, caustic soda and sulfuric acid. Industrial output from other major industries also includes refined sugar, vegetable ghee, urea, rubber tubes, electric motors, electrical consumer products (light bulbs, air conditioners, fans, refrigerators, freezers, TV sets, radios, and sewing machines), and pharmaceuticals

## 29 SCIENCE AND TECHNOLOGY

Pakistan has made notable advances in nuclear technology since the 1980s, when its Atomic Energy Commission (AEC) developed a nuclear plant for electric power generation and research programs. The AEC's three nuclear centers for agricultural research have employed nuclear techniques to improve crop varieties. Six nuclear medical centers provide diagnosis and treatment of pa-

tients with radioisotopes produced from Pakistan's own uranium resources. In May 1998, Pakistan conducted nuclear weapons tests in the desert of the Chagai Hills in response to Indian testing earlier that month. Five nuclear bombs were fired on 28 May and a sixth on 30 May.

The Karāchi Export Processing Zone (EPZ), established in 1980, has attracted foreign capital investment in advanced technologies. Another EPZ has been proposed for Lahore. EPZ now include those for computer assembly and parts manufacture, television assembly, other electrical and electronic products, and engineering.

Scientific learned societies include the Pakistan Academy of Science (founded in 1953 at Islāmābād), the Pakistan Association for the Advancement of Science (founded in 1947 at Lahore), and the Scientific Society of Pakistan (founded in 1954 at Karāchi). The Pakistan Council for Science and Technology is the chief government advisory body. The Pakistan Council of Scientific and Industrial Research and the Pakistan Medical Research Council (both in Karāchi), and the Pakistan Agricultural Research Council (in Islāmābād) promote research in their respective fields. In 1996, Pakistan had 28 universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 32% of college and university enrollments.

In 2002, research and development (R&D) expenditures totaled \$758.491 million, or 1.67% of GDP. In that same year, there were 88 scientists and engineers per million people that were engaged in R&D. High technology exports in 2002 totaled \$36 million or 1% of Pakistan's manufactured exports. In 1996, Pakistan had 28 universities and colleges offering courses in basic and applied sciences.

## 30 DOMESTIC TRADE

The government supervises the supply and pricing of essential commodities, including fruits, vegetables, livestock, and dairy products, and has established several cooperative marketing and distribution organizations. Foreign goods are brought in by large importing concerns, centered at Karāchi, and distributed to retailers through many intermediaries.

There are several produce exchanges at Karāchi, and the trade organizations are represented by the Federation of Chambers of Commerce and Industry. Large supermarkets and department stores have not yet developed in the nation. Chain stores for clothing have become popular in major cities, with shops carrying locally produced goods. Most retail establishments are small or medium-sized, owned by a family or an individual. Government-owned "Utility Stores" carry food and household items at controlled prices. There are about 200,000 retail outlets throughout the country. Steps have been taken to improve marketing and distribution facilities throughout the country. Advertising remains small in scope, in part because of the high rate of illiteracy. Outlets include television, newspapers, posters, handbills, and color slides shown in the motion-picture houses.

Banks are customarily open from 9 AM to 1 PM, Mondays through Thursdays and Saturdays, and from 9 AM to 12 PM on Fridays. Private businesses usually operate from 9 AM to 5 PM, Mondays through Thursdays and Saturdays, and from 9 AM to 12 PM on Fridays. Most businesses are closed on Sunday. During Ramadan, shorter hours are observed. Many international firms are also closed on Saturdays.

**Principal Trading Partners – Pakistan (2003)**

(In millions of US dollars)

Country	Exports	Imports	Balance
World	12,695.1	15,549.4	-2,854.3
United States	2,941.1	1,325.1	1,616.0
United Arab Emirates	991.0	1,704.2	-713.2
United Kingdom	957.9	433.1	524.8
Germany	615.3	610.1	5.2
China, Hong Kong SAR	581.0	145.8	435.2
Afghanistan	491.7	...	491.7
Italy-San Marino-Holy See	456.7	311.8	144.9
Netherlands	366.3	219.7	146.6
Saudi Arabia	356.2	1,774.1	-1,417.9
France-Monaco	352.8	164.4	188.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.**Balance of Payments – Pakistan (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>3,597.0</b>
Balance on goods	-100.0	
Imports	-11,969.0	
Exports	11,869.0	
Balance on services	-311.0	
Balance on income	-2,217.0	
Current transfers	6,225.0	
<b>Capital Account</b>		<b>1,131.0</b>
<b>Financial Account</b>		<b>-1,626.0</b>
Direct investment abroad	-19.0	
Direct investment in Pakistan	534.0	
Portfolio investment assets	-2.0	
Portfolio investment liabilities	-119.0	
Financial derivatives	...	
Other investment assets	-395.0	
Other investment liabilities	-1,625.0	
<b>Net Errors and Omissions</b>		<b>-108.0</b>
<b>Reserves and Related Items</b>		<b>-2,994.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.**3<sup>1</sup> FOREIGN TRADE**

Pakistan has suffered a weak trade position since the early 1970s, as the cost of oil imports have risen while prices for the country's main exports have declined on the international market. Exports fell 2.5% and imports dropped 20% in 1998, but by 2000 they were back on the upswing, growing at 8.3% and 19%, respectively. Pakistan's commerce ministry estimates that up to \$1.5 billion of unregistered trade occurs annually, mostly from smuggled imports. Smuggled goods (tea, soap, domestic appliances, batteries, tires, bicycles, and televisions) enter the country primarily from Afghanistan.

The important commodity exports for Pakistan are cotton, textiles, and clothes. Other major exports include rice and leather. In 2003, Pakistan's major exports were: cotton fabrics (10.8% of all exports); cotton yarn and thread (9.6%); and rice (5.3%). Primary imports were: machinery and transportation equipment (26.7% of all imports); mineral fuels and related (23.8%); and chemicals (16%).

During the 1980s, the United Kingdom, traditionally Pakistan's most important trading partner, slipped behind the United States, Japan, and Germany. In 2004, Pakistan's leading markets were: the United States (21% of all exports); the UAE (10.9%); the United Kingdom (7%); and Germany (5.1%). Leading suppliers were: China (12.2% of all imports); the United States (11.1%); the UAE (10.7%); and Saudi Arabia (10.4%).

**3<sup>2</sup> BALANCE OF PAYMENTS**

Pakistan's payments problems have been chronic since the 1970s, with the cost of oil imports primarily responsible for the trade imbalance. The growth of exports and of remittances from Pakistan is working abroad (mostly in the Middle East) helped Pakistan to keep the payments deficit in check. Remittances from overseas workers peaked at \$2.9 billion in 1982/83, then dropped to \$1.4 billion by 1997/98 and \$1 billion from 1999 to 2001. This trend especially accelerated during the 1991 Gulf War, when nearly 80,000 Pakistanis in Kuwait and Iraq lost their jobs. Only about 25% of these jobs had been regained a year after the end of the conflict. Increased imports and softer demand for Pakistan's textiles and

apparel in major markets also caused the current account deficit to further increase. The balance of payments position weakened in 1995/96 as imports grew by 16% and exports by only 6%. The rupee was devalued by 11% during 1995 and 1996 to encourage exports. Nevertheless, foreign reserves fell to around \$800 million by mid-1997. By 2000, foreign debt equaled 100% of GDP.

The government took steps in the early 2000s to liberalize and deregulate the exchange and payments regime. Pakistan moved to a dual exchange rate system in 2000. An increase in liquid foreign exchange reserves in 2001 was due in part to outright purchases from the kurb market and inflows from international financial institutions. Export growth in 2000/01 was primarily due to higher exports of primary commodities such as rice, raw cotton, and fish, and other manufactures such as leather, carpets, sporting goods, and surgical instruments. Imports increased in 2000/01 primarily due to higher imports of petroleum and petroleum products, and machinery.

In 2004, merchandise exports stood at \$13.4 billion and imports at \$16.7 billion, resulting in a trade deficit of \$3.4 billion. The current-account balance averaged 1.6% of GDP over the 2001–05 period. The current-account balance was estimated at -\$1.43 billion in 2005. The current-account deficit was expected to widen to 3.8% of GDP in 2006 and to 4.3% of GDP in 2007, in line with the rising merchandise trade deficit.

**3<sup>3</sup> BANKING AND SECURITIES**

The central banking institution is the State Bank of Pakistan (SBP), established in 1948 at Karachi and with branches in the larger cities. The government holds 51% of the bank's paid-up capital; 49% is held by corporations, societies, and individuals. The State Bank has exclusive responsibility for the issuance of currency; it is the financial agent of the central and provincial governments, and is responsible for the flotation and management of the public debt. As of 2002, there were 44 commercial banks and 36 nonbank-

ing financial institutions (NBFIs) in Pakistan. Of the commercial banks, 25 were domestic (with over 7,000 branches) and 19 were foreign (with 78 branches). Citibank is the largest foreign bank operating in Pakistan. NBFIs included 10 development financial institutions, 16 investment banks, four housing finance companies, two venture capital companies, and four discount houses. Consumer banking in Pakistan is largely undeveloped; commercial banks lend predominantly to corporations. There is a minimum capital level of 8% on all risk assets. The total volume of default loans from all financial institutions in 1998 was \$2.8 billion.

The nation's largest commercial banks were nationalized in 1974 and regrouped under five state banking institutions: the National Bank of Pakistan, Habib Bank, United Bank, Muslim Commercial Bank, and Allied Bank of Pakistan. The government-controlled banking system thus comprised all but a few of the nation's banks and accounted for a large share of total bank deposits and outstanding domestic credit. In 1981, in accordance with the Islamic condemnation of usury, virtually all banks opened special accounts for depositors who preferred, in lieu of interest, to share in the profits or losses from investments made with their money. In 1985, all savings accounts stopped yielding interest and converted to sharing in profit and loss. Pakistan instituted banking reforms in 1991. The Muslim Commercial Bank and the Allied Bank of Pakistan Ltd. reverted to private ownership shortly thereafter. In 1991 banking licenses were granted to private commercial banks that wanted to establish foreign bank branches in the country. Major weaknesses persist and are particularly marked in the case of the four remaining government-run commercial banks, which account for the bulk of deposits and advances. The government announced plans to privatize Habib Bank in 1998.

The portfolios of the state-owned development finance institutions, which provide the bulk of long-term lending to industry and agriculture, likewise tend to be of poor quality. Their lending is less diversified and more risky than that of commercial banks, while their costs are higher and margins lower. The state provides credit through the Agricultural Development Bank of Pakistan and the House Building Finance Corp. Industrial loans are made available through the Pakistan Industrial Credit and Investment Corp. (established in 1957), the Industrial Development Bank of Pakistan (1961), and the National Development Finance Corp. (1973). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$15.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$26.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 8.49%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10%.

There are stock exchanges at Lahore, Karāchi, and Islāmābād, with Karāchi accounting for a major share of the business. In 2001, there were 747 listings on the Karāchi Stock Exchange, the largest of the country's three bourses, down from a peak of 782 in 1996. Total market capitalization was \$4.9 billion, down 25% from the previous year and well below the peak of \$12.2 billion in 1994. The KSE 100 Index was also lower than the previous year, by 15.6% at 1,273. As of 2004, a total of 661 companies were listed on the Karāchi Stock Exchange, which had a market capitalization of

\$29.002 billion, that year. In 2004, the KSE 100 Index rose 39.1% from the previous year to 6,218.4.

### 34 INSURANCE

Pakistan's life insurance sector, nationalized in 1972, operated under the aegis of the State Life Insurance Corp. and Postal Life Insurance until 1992, when the government opened it to private sector participation. Foreign companies are no longer barred from the life insurance business, but they are restricted to minority ownership. Private companies function in nonlife insurance areas, but the government insurance business is controlled by the National Insurance Corp. One of the state's first steps was to standardize and reduce premium rates and to encourage coverage among a wider segment of the population. In 2003, the value of all direct insurance premiums written totaled \$434 million, of which nonlife premiums accounted for \$269 million. In 2002 Pakistan's top nonlife insurer was Adamjee, which had gross domestic written nonlife premiums of \$75.4 million, while the country's leading life insurer was State Life, which had gross written life insurance premiums of \$140.4 million.

### 35 PUBLIC FINANCE

The fiscal year extends from 1 July to 30 June. The federal government frames two separate budgets: revenue (current account) and capital. Deficits have appeared since 1971/72, a combined result of the loss of revenues from East Pakistan, stepped-up defense expenditures, lax spending controls, and a low and inelastic tax base. Expenditures (debt service, defense, administration) consume over 70% of the budget, while development needs (education, health, energy, and rural development) receive the remainder. Tax revenues have not kept pace with expenditure growth due to widespread evasion, corruption among tax officials, overreliance on foreign trade taxes, and a tax exemption for agricultural income, which comprises 24% of GDP. The budget deficit was hovering at about 6.2% of GDP in 1995 and 1996 and was projected to

#### Public Finance – Pakistan (2004)

(In millions of rupees, central government figures)

<b>Revenue and Grants</b>	<b>795,466</b>	<b>100.0%</b>
Tax revenue	580,108	72.9%
Social contributions	...	...
Grants	34,483	4.3%
Other revenue	180,875	22.7%
<b>Expenditures</b>	<b>905,549</b>	<b>100.0%</b>
General public services	601,832	66.5%
Defense	180,541	19.9%
Public order and safety	15,391	1.7%
Economic affairs	76,730	8.5%
Environmental protection	137	<1.0%
Housing and community amenities	2,976	0.3%
Health	7,119	0.8%
Recreational, culture, and religion	2,297	0.3%
Education	17,002	1.9%
Social protection	1,524	0.2%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

reach almost 7% in 1997. Interest payments on the accumulated debt threatened to bankrupt the government by mid-1997. As a condition for a \$1.6 billion loan from the IMF and World Bank, the government agreed to reduce the deficit to 4% of GDP. To do so, the government attempted to raise revenues by expanding the tax base beyond the 1% of Pakistanis who then paid income tax. Other proposals included a reduction in government payrolls, improved tax administration, and an end to the tax exemption for agricultural income. The IMF approved an Enhanced Structural Adjustment Facility in January 1999, when Pakistan was almost halfway through the three-year Structural Adjustment Program worth \$1.6 billion. In April 2000, the IMF discovered that the former Prime Minister Nawaz Sharif had purposely minimized reports of the government's budget deficit, by about 1%, in order to keep the extra \$2 billion in funds.

The US Central Intelligence Agency (CIA) estimated that in 2005 Pakistan's central government took in revenues of approximately \$15.4 billion and had expenditures of \$18.4 billion. Revenues minus expenditures totaled approximately -\$2.9 billion. Public debt in 2005 amounted to 54.3% of GDP. Total external debt was \$39.94 billion.

The International Monetary Fund (IMF) reported that in 2004, the most recent year for which it had data, central government revenues were ₨795,466,000 and expenditures were ₨905,549,000. The value of revenues was US\$13,654,000 and expenditures US\$15,541, based on a market exchange rate for 2004 of US\$1 = ₨58.258, as reported by the IMF. Government outlays by function were as follows: general public services, 66.5%; defense, 19.9%; public order and safety, 1.7%; economic affairs, 8.5%; housing and community amenities, 0.3%; health, 0.8%; recreation, culture, and religion, 0.3%; education, 1.9%; and social protection, 0.2%.

### 3<sup>6</sup>TAXATION

Pakistan lives predominantly by foreign trade, and its import tariffs and export tariffs are essentially revenue-producing. The national government does not levy income tax on agricultural income; only about 1% of the population pays income taxes. Rates are progressive, rising from 5% in the lowest category to 35% in the highest, with a net wealth tax of up to 2.5%.

As of 2005, Pakistan effectively had three corporate tax rates: a 35% rate for public companies; a 39% rate for private companies; and a 41% rate for banking companies. There also a 0.5% tax on turnover. However, the rates for banks and private firms are scheduled for reduction in 2006 and 2007. In 2006, the rate for banks and private firms will be cut to 38% and 37%, respectively, and to 35% for both in 2007. The rate for public companies will not be changed. Generally, capital gains for companies and individuals are taxed as part of income. Capital gains resulting from assets held 12 months or less are taxed at the full corporate rate. Gains resulting from the sale of assets held longer than 12 months are taxed only at 75% of the total capital gains amount. Dividends are subject to a withholding tax of 5% (for those paid to public firms or insurance companies); 7.5% (dividends paid by power companies, certain privatized power projects, and by those firms solely engaged in mining operations, except petroleum); and 10% (for all other dividends). Generally, interest income is subject to a 30% tax rate, while royalties and technical services fees are each subject to a 15% rate.

A sales tax of 15% is levied on the value of goods. However there are exemptions for certain items and for certain classes of people. Exports are zero-rated.

Established proportions of the various taxes levied by the federal government are distributed to the provincial governments. In addition, the provinces collect, for their exclusive use, taxes on land revenue, immovable property, vehicles, professions and services, and mineral rights, as well as excise taxes. Municipalities and other local governments also levy taxes.

### 3<sup>7</sup>CUSTOMS AND DUTIES

Pakistan's customs tariffs bring in the largest single share of national revenue. Most dutiable items are subject to ad valorem duties that range from 0–30%. There is, in many cases, a 15% sales tax on imported goods (food, raw materials, and capital goods are exempt from this tax). Alcohol is levied at a rate up to 65%, but can be as high as 225%. However, maximum rates average at around 35%.

Tariffs are levied on major items of export, but these rates are subject to change as measures are taken to encourage or discourage the export of raw materials. Exports of certain foods, used copper and brass utensils, and some hides and skins are banned. Trade with Israel, South Africa, and Taiwan is prohibited.

### 3<sup>8</sup>FOREIGN INVESTMENT

Foreign aid and investment have played a critical role in Pakistan's economic development since the first years of independence. Since 1954, the government has tried to attract foreign investment to maintain economic development, provide specialized technical knowledge, and bring in much-needed foreign exchange. Incentives for private investment include guarantees for the repatriation of capital invested in approved industries, facilities for remittance of profits, and guarantees for equitable compensation in the event of nationalization of an industry. In addition, special tax concessions available to certain local industries are also available to foreign investors. Since the late 1980s, a series of regulatory reforms related to exchange controls, repatriation of profits, credit for foreign-owned firms, issuing of equity shares, foreign currency accounts, and transactions on the stock exchange have significantly reduced the restrictions on general foreign investor activity in the wider Pakistani economy.

Foreign direct investment (FDI) peaked in 1995/96 at \$1.1 billion, then dropped to \$548 million in 1996/97 in response to a foreign-exchange crisis. Investors were also deterred by Pakistan's listing as the second-most-corrupt nation in the world, after Nigeria. In the tension leading up to the nuclear bomb tests in May 1998, FDI fell to \$432.7 million in 1998/99, and then decreased further after the military coup in 1999, to \$420 million, in 1999/00. In 2000/01, FDI fell to an annual rate of less than \$275 million. After the 11 September 2001 terrorist attacks on the United States, Pakistan received a windfall in foreign assistance, raising foreign reserves from \$908 million in 1999/00 to \$4.3 billion in 2001/02. In March 2003, on the eve of the US-led invasion of Iraq, foreign reserves stood at more than \$10 billion. However, the overall investment climate in terms of security was worsened by Pakistan's role in the US-led war on terrorism.

The United States has traditionally been the largest source of FDI in Pakistan, with total investment of \$1.2 billion as of mid-

2002. Over the three years 1998/99 to 2000/01, the US-based investment totaled \$250 million. The United Kingdom was the second-largest source, with \$241 million. The total for 1998/99 was \$327 million, including \$135 million from US sources, \$77 million from the United Kingdom, and \$51 million from Japan.

In 2004/05, total FDI inflows amounted to \$1.524 billion, with the UAE investing \$367.5 million in the country, the United States \$326 million, and the United Kingdom \$181.5 million. From July to November 2005, Saudi Arabia invested \$265.6 million in Pakistan, the United States \$170.8 million, the United Kingdom \$56.2 million, while the UAE's FDI total was in the negative figures, at -\$31.5 million. Such shifts in investment were due in part to foreign countries' reactions to Pakistan's privatization efforts: certain Gulf states, flush with capital, have placed bids on Pakistani contracts only to pull out. This happened in the case of the Pakistan Telecommunications Co. Ltd. (PTCL). In June 2005, the UAE's company Etisalat (Emirates Telecommunications) offered the highest bid of \$2.6 billion to acquire 26% shares and management control of PTCL. This bid price offered by Etisalat was 100% higher than market price and reserve price fixed by the government. The second-highest bidder was China Mobile of China, offering a bid of \$1.4 billion, followed by Sing Tel of Singapore, with a bid of \$1.17 billion for 26% shares. In October 2005, the PTCL privatization transaction failed to materialize when Etisalat failed to make payment of the balance bid amount by the agreed-upon timeline. This was the second major privatization deal that had failed within a year: earlier in 2005, Kanooz-al-Watan of Saudi Arabia, the highest bidder of Karachi Electric Supply Corp. (KESC), backed out of its offer. However, in January 2006, Etisalat and the Pakistani government came to an agreement over payments for PTCL, so the deal went through.

FDI inflows to Pakistan averaged 0.8% of GDP over the 2001–05 period.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

After the founding of the Pakistani state in 1947, the government's economic policy concentrated attention on developing an economic infrastructure, achieving self-sufficiency in food, and developing export industries. A major new land reform program introduced in March 1972 had resulted by March 1975 in the confiscation (for eventual redistribution) of 45.3% of all privately cultivated farmland. By November 1973, the government had nationalized industries in 10 major categories of production. In a third major step, most of the commercial banks were nationalized on 1 January 1974, resulting in control of more than 90% of all banking business by the State Bank and the five newly created units.

By the late 1970s, however, Pakistan's martial law government, claiming the nationalization program had stifled production and discouraged private investment, moved to restore private sector confidence by fostering economic stability and by redressing the balance-of-payments deficit, which was causing large overseas debt obligations. A new five-year plan (1978–83), Pakistan's fifth, reserved 48% of industrial investment for the private sector and set goals for an annual economic growth rate of 7.2%, a 4.2% rise in per capita income, and increases of 6% in agricultural output and 10% in industrial production. The plan was allocated a budget of \$21 billion, of which 25% was to come from external sources. Indications were that the agricultural sector would meet its target,

but that rising oil costs and the burden of providing for the Afghan refugees had impeded progress in other sectors.

The sixth five-year plan (1983–88), with a proposed outlay of ₹210 billion, envisioned further investments in water and power development, deregulation to increase private sector activity, and a new emphasis on provision of social services and infrastructural improvements for rural areas. Prime Minister Junejo announced a program for 1986–90, with an outlay of ₹70 billion, focusing on rural development, particularly in the areas of education, village electrification, potable water supply, roads, health care, and employment.

By the late 1980s, a number of structural factors resulted in increasingly critical fiscal and balance of payment deficits. With less than 30% of the budget devoted to infrastructural development and other needs in health and education, the prognosis for long-term social and economic development remained poor. In response, a medium-term structural reform program was developed under the government of Prime Minister Benazir Bhutto for implementation in 1989–91. Aimed at correcting fiscal and external imbalances, the program targeted a reform of the tax collection system, tighter government spending controls and monetary management, the privatization of state-owned industrial enterprises, banks and utilities, the phasing out of state monopolies in the transportation, insurance, telecommunications and energy sectors, and liberalization of investment and foreign exchange regulations. Implementation of the ambitious program proceeded under the government of Nawaz Sharif who assumed the prime minister's office in 1991. Results were somewhat uneven, with little effective improvements scored in the country's tax system or its fiscal and balance of payments deficits. While the rapid change of government in 1993 and ongoing political tensions dampened private investment, officials assured that structural reform and privatization would continue.

Fiscal indecision and post-nuclear test economic sanctions dried up foreign investments while budget and trade deficits soared in 1999. The United States lifted some sanctions, clearing the way for the IMF to negotiate a bailout package of \$1.5 billion with Pakistan. Key demands included cuts in government budget deficits, further privatization, and improved tax collections. After suspension of payments under a previous arrangement, Pakistan entered into a 10-month stand-by arrangement as a prerequisite to rescheduling. In December 2001, the government entered into a three-year program under the Poverty Reduction and Growth Facility (PRGF) in preparation for a second rescheduling of debt by Paris Club members, in this case for over \$12 billion.

Since the early 1950s through 1993, Pakistan was estimated to have received about \$37 billion in aid disbursements, including both long-term and medium-term loans and grants, making it one of the largest recipients in the developing world. For the Indus Valley project, Pakistan received funding of more than \$1.3 billion from the IBRD, IDA, ADB, United States, United Kingdom, and other countries. In addition to US aid, Pakistan has also received aid from Iran and the Arab states. New economic aid from the United States was halted in 1990, under the terms of a Congressional amendment requiring certification of Pakistan's status as a nuclear weapons-free country. These sanctions were alleviated in 1996 by the Brown Amendment, but the nuclear tests of 1998 caused further economic sanctions that were only partially

lifted by 2000. Since the 11 September 2001 terrorist attacks on the United States, Pakistan has substantial international financial resources and concessions have been mobilized in exchange for the government's support of the US-led war on terrorism.

By 2006, the government was continuing with economic and institutional reforms initiated by the pre-October 2002 military government, but progress had slowed. The civilian government appeared to be less committed than the military establishment to improving accountability and attacking corruption. The government announced it would pursue a five-year plan to revive the economy and increase foreign investment inflows. In order for the economy to improve, the privatization program must follow an accelerated course, as must the expansion of exports, and the maintenance of inflows of remittances through official channels. Inflation remains a significant threat to the economy: annual inflation was forecast to average 8.6% in 2006 and 6.7% in 2007. The current-account deficit was predicted to widen to 3.8% of GDP in 2006 and 4.3% in 2007, in line with the rising merchandise trade deficit.

#### 40 SOCIAL DEVELOPMENT

The social security plan covers employees of firms with 10 or more workers. Family and self-employed labor is excluded, and there are separate systems for the armed forces, police, and other public employees. Social security coverage includes old age, disability, and survivor benefits, as well as sickness and maternity payments, workers' compensation, and unemployment benefits. This program is funded by contributions from employers and employees and subsidies from the government. The Worker's Compensation Act is supplemented by a Social Insurance Law and provides disability and worker's injury benefits to workers earning 3,000 rupees or less a month. The labor code requires employers with more than 20 employees to pay a severance gratuity in the amount of 30 days wages for each year of employment.

An Islamization program to promote social welfare in accordance with Islamic precepts was introduced in 1977 under martial law. Islamic welfare taxes, the zakat and ushr, were levied to redistribute wealth. The ushr tax on landowners took effect in 1983. Islamic beliefs are inculcated in the public schools and disseminated widely by the mass media. Laws against drinking alcoholic beverages, adultery, and bearing false witness have been strictly enforced.

Women face serious social and legal discrimination. In a court of law, the testimony of women is not permitted in serious cases which may result in harsh corporal punishment (lashing, stoning, amputation). In cases dealing with financial matters, the testimony of two women must be introduced as evidence. Islamic precepts are ingrained into the Penal Code. Women who have been raped are subject to charges of adultery and fornication under these provisions. The incidence of rape is high in Pakistan, and most women are afraid to file charges. Honor killings are on the rise, and domestic violence is prevalent. Between 70 and 90% of women are victims of family violence; women are killed by their husbands for trivial matters. Most women are unaware of their legal rights concerning inheritance, and in following with Muslim custom, widows give up their share of the joint assets. The Supreme Court has ruled that men may divorce their wives without

any legal or written notification. In 2004, the practice of buying and selling brides persists.

The use of child labor in Pakistan is widespread. Children not only work in the agricultural sector, but are also engaged in low-paying work in carpet weaving centers. Bonded child labor, in which the employer makes a payment to the child's parent and keeps the child to work off the long-term debt, has been made illegal but still may affect hundreds of thousands, if not millions, of children.

Human rights violations include arbitrary arrest, prolonged detention, and torture. Pakistan's human rights situation is dismal.

#### 41 HEALTH

Health facilities in Pakistan are inadequate, mainly due to a lack of resources and a high population growth rate. In 1993, 85% of the population had access to health care. Public health care expenditures equaled 1% of GDP, and total health care expenditure was estimated at 4% of GDP.

The country needs food, a proper water supply, and adequate sanitation. However, Pakistan is the first country to nearly completely eradicate dracunculiasis. Pakistan is also working toward universal immunization, disease prevention, health promotion, and curative and rehabilitative services. In the 1990s there were several programs under way to improve health care coverage and control tuberculosis, leprosy, and cancer. One such program was a Child Survival/Primary Health Care program to reduce mortality, malnutrition, and deaths due to diarrheal diseases. Approximately 36% of children under five years old were considered malnourished. The goiter rate was high in 1996; 40 of every 100 school children were affected by goiter. Around 90% of children up to one year of age were immunized against tuberculosis; 74% against diphtheria, pertussis, and tetanus; 74% against polio; and 74% against measles.

In 2004, there were an estimated 66 physicians, 47 nurses, and 3 dentists per 100,000 people. Many medical students have been sent abroad under an advanced medical training program. Special attention has been given to the training of nurses, and several training centers are in operation. However, medical personnel ratios, though much improved, remain inadequate. There were 302 health centers with 2,462 beds serving the rural population. Centers for the disabled included 11 physical therapy centers, 12 mental retardation centers, 11 centers for the visually impaired, and 12 centers for the hearing impaired.

Malaria, tuberculosis, intestinal diseases, venereal diseases, and skin diseases remain Pakistan's main public health problems. Common diseases were diarrheal diseases, leprosy, malaria, and tuberculosis. Drug addiction, especially among university students, is an increasing concern, and government detoxification centers have helped many addicts recover.

In 2005, the infant mortality rate was 72.44 per 1,000 live births. Major causes of infant mortality are immunizable diseases, diarrhea, malnutrition, and poor environmental sanitation. It was estimated that 88% of the population had access to safe drinking water and 61% had adequate sanitation. The estimated overall mortality rate was 9 per 1,000 people in 2002. The leading causes of death were diarrhea, pneumonia, tuberculosis, cardiovascular diseases, and cancer. Average life expectancy in 2005 was estimated at 63 years.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 74,000 people living with HIV/AIDS in the country. There were an estimated 4,900 deaths from AIDS in 2003.

## 42 HOUSING

The rapid increase in urbanization, coupled with the rising population, has added to the housing shortage in urban areas. About 25% of the people in large cities live in *katchi abadis* (shantytowns). The Public Works Department has built more than 8,000 units in Islāmābād, Lahore, Peshāwar, and Quetta at a cost of ₨1,588 million. Under the 1986–90 program, the residents in the *katchi abadis* were to be given proprietary rights. In 1987, the National Housing Authority was created to coordinate the upgrading of the existing *katchi abadis* and prevent the growth of new ones.

As of 1991, 171 *abadis* had been renovated at a cost of ₨454 million, and 522 more were under development. In 1998, there were 19,211,738 housing units nationwide with an average of 6.8 occupants per unit. About 54.97% of all units had two to four rooms; 38.11% had one room. About 81% of all dwellings were owner occupied. The most common building materials for residential dwellings were baked bricks, blocks or stones for walls (58% of all units) and wood or bamboo for the roofs (57%). Only 32% of all housing units are linked to piped drinking water. About 70% are linked to an electrical network for lighting. Only 32.7% of all housing units had a separate kitchen and 33.29% had a separate bathroom.

## 43 EDUCATION

The education system is poor, notwithstanding a massive educational reform announced in 1972 and aimed at providing free and universal education through the 10th year of formal schooling for both boys (by 1983) and girls (by 1987). As an initial step, private educational institutions at all levels were nationalized. Additional steps included a reform of the curriculum away from general education and in favor of agricultural and technical subjects, equality of access to formal schooling for low-income groups and females, financial aid programs for poor students, and broad expansion and improvement of higher-level facilities. Curriculum bureaus were set up at federal and provincial levels, and the National Council of Education was established to formulate and evaluate educational development policy.

As of 2004, education is compulsory for five years, which are covered through primary school. This is followed by three years of middle school and two years of basic secondary school. Students may then choose to continue in a two-year higher secondary program or a two-year technical school. Girls attend separate schools at both primary and secondary levels.

In 2001, about 54% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 59% of age-eligible students; 68% for boys and 50% for girls. The student-to-teacher ratio for primary school was at about 40:1 in 2003.

Arts and sciences colleges are affiliated with the universities of the Punjab (at Lahore, established 1882), Sind (at Hyderābād, 1947; at Karāchi, 1951), Peshāwar (1950), Baluchistan (1970), and Multan (1975). An agricultural university was established in 1961 at Lyallpur (now Faisalābad). Two engineering and technological

universities have been founded at Lahore (1961) and Islāmābād (1966). Research institutions include the Institute of Islamic Studies at Lahore, the Iqbal Academy at Lahore, and the Pakistan Institute of International Affairs at Karāchi. In 1995, there were a total of 29 universities, seven of which are privately operated. Urdu and English are the languages of instruction. Many adult literacy centers, including women's literacy centers, have been established, the majority in Sind. In addition, the People's Open University was established at Islāmābād (1974) to provide mass adult education via correspondence and the communications media. In 2003, about 3% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 64.5%, with 74.8% for men and 53.9% for women.

As of 2003, public expenditure on education was estimated at 1.8% of GDP, or 7.8% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The National Library of Pakistan in Islāmābād holds 130,000 volumes. The largest university library in Pakistan is that of the Punjab University at Lahore, with a collection of about 398,000 volumes, including some 20,000 manuscripts. Sizable collections are also found at the University of Karāchi (105,000 volumes) and the University of Sindh (244,000 volumes). Other important libraries are the Punjab Public Library in Lahore (259,000 volumes), the Li-aquat Memorial Library (147,000 volumes), the Central Secretariat Library (110,000 volumes), and the National Archives (35,000 volumes), all in Karāchi. The International Islamic University in Islāmābād holds 100,000 volumes. There are about 300 public libraries in the country, but only about 30 libraries have a collection of 10,000 or more volumes. The Punjab Public Library in Lahore is the largest with a collection of about 256,000 volumes.

The National Museum of Pakistan (Karāchi) contains prehistoric material from the Indus Valley civilization, Buddhist statues and carvings, and material from the Islamic centuries, including the renowned Mughal period. The Peshāwar Museum has a splendid collection of Buddhist sculpture of the Gandhara style. The Lahore Museum has an outstanding collection of Greco-Buddhist sculpture. Fine mosques, shrines, and mausoleums of the Islamic centuries are scattered throughout the country. Among the best of the surviving gardens of the Mughal period are those at Lahore, including the Shalimar gardens. There is a museum dedicated to the work of Shakir Ali in Lahore and the Pakistan Army Museum is in Rāwalpindi. There are archaeological museums in Harappa, Banbhore, Moenjodaro, and at the universities of Karāchi and Peshāwar.

## 45 MEDIA

Postal, telegraph, and telephone services are owned and operated by the state. Automatic telephone service has been installed in most cities and large towns. Radiotelephone and radiotelegraph services are available within the country and to foreign countries. Pakistan's Indian Ocean INTELSAT communications stations began service in 1971 near Karāchi. In 2003, there were an estimated 27 mainline telephones for every 1,000 people; about 190,300 people were on a waiting list for telephone service installation. The

same year, there were approximately 18 mobile phones in use for every 1,000 people.

Through Azad Kashmir Radio and the Pakistan Broadcasting Corporation, the government operates 18 shortwave radio stations. Karāchi is the broadcasting center, and there are important transmitters at Hyderābād, Quetta, Lahore, Rāwalpindi, Peshāwar, Multan, Bahawalpur, and Islāmābād. Government-run Pakistan-TV broadcasts at least 10 hours a day through 28 transmitters. In total, as of 1999, there were 26 AM, 3 FM, and 22 television stations in use. In 2003, there were an estimated 105 radios and 150 television sets for every 1,000 people. About 26.7 of every 1,000 people were cable subscribers. Also in 2003, there were 4.2 personal computers for every 1,000 people and 10 of every 1,000 people had access to the Internet. There were 37 secure Internet servers in the country in 2004.

Daily newspapers—most of them with very small circulations—are published in Urdu, English, and a few other languages. English-language newspapers are read by less than 1% of the population but are very influential, especially *Dawn* (2002 estimated circulation, 80,000), published in Karāchi, and *Pakistan Times* (50,000), published in Lahore and Rāwalpindi. Leading Urdu-language dailies (with 2002 circulations) are *Jang* (750,000) and *Hurriyet* (600,000), both in Karāchi, and *Jang Lahore* (1,200,000) and *Nawa-e-Waqt* (560,000), in Lahore.

While freedom of the press has always been provided for constitutionally, censorship was imposed on the press by the martial law governments. Between 1979 and 1982, local censors reviewed items prior to publication, and some books and periodicals were confiscated. Even after the lifting of censorship, the government continued to influence press coverage by controlling the availability of newsprint, which must be imported, and the placement of government advertising, which is a source of newspapers' revenue. There are no longer restrictions on the importation of newsprint. There is a constitutional prohibition on the ridicule of Islam, the armed forces, or the judiciary.

#### 46 ORGANIZATIONS

Most major cities contain chambers of commerce and there are numerous employers' associations, such as the All-Pakistan Textile Mills Association, the Pakistan Carpet Manufacturers' and Exporters' Association, and the Pakistan Shipowners' Association. There are also professional associations representing a variety of fields, particularly technical and scientific fields.

The Islamic community is represented by several flourishing organizations, and other religious communities, such as the Zoroastrians, have their own groups. The Pakistan Historical Society, the Scientific and Cultural Society of Pakistan, and the Research Society of Pakistan all serve to promote interest and study in national and Islamic culture.

National youth organizations include the Baloch Student Organization, the Pakistan Progressive Student Alliance, the Adventure Foundation of Pakistan, Junior Chamber, the Pakistan Boy Scouts Association, and the YMCA/YWCA. There are also a number of sports associations for all ages. National women's organizations include the All Pakistan Women's Association, the Pakistan Association for Women's Studies, the Pakistan Federation of University Women, the Women's Resource Center, and the Revolutionary Association of the Women of Afghanistan.

Ansar Burney Welfare Trust International is a national human rights association. International organizations with national chapters include Amnesty International, Caritas, Habitat for Humanity, the Society of St. Vincent de Paul, and the Red Crescent Society.

#### 47 TOURISM, TRAVEL, AND RECREATION

On 8 October 2005 an earthquake severely damaged Pakistan, which caused the tourism industry to suffer.

Pakistan Tours, a government subsidiary, provides daily tours of Karāchi, Rāwalpindi, and other main cities. Adventure tours are set in northern Pakistan, while the cultural tours showcasing the archaeology are in Taxila, Moenjodaro, and Harrappa. In Karāchi are the National Museum and the Mausoleum of the Quaid-e-Azam. In Lahore, the "city of gardens" and Pakistan's foremost cultural and educational center, remnants of the Mughal Empire are resplendently preserved.

Islāmābād, the wholly planned capital, offers notable examples of architecture in the modern style. Popular recreations include mountain climbing in the Himalayan foothills, sailing, and deep-sea fishing off the Arabian Sea coast. Hockey and cricket are the leading sports, but polo and golf are also popular, with courses in Lahore, Rāwalpindi, Islāmābād and other cities.

Most visitors to Pakistan are required to have a visa and a valid passport. Tourists planning to stay more than 30 days must register with the government. Road permits are available for land crossings into India at Wagah (between Lahore and Amritsar in India). There are no health restrictions on visitors entering Pakistan except in regard to cholera and yellow fever immunizations for those who have been in infected areas.

In 2005, the US Department of State estimated the daily cost of staying in Islāmābād at \$263, and in Karāchi, \$218.

#### 48 FAMOUS PAKISTANIS

Several figures of monumental stature are associated with the creation and establishment of Pakistan. The poet and philosopher of a revitalized Islam, Mohammad Iqbal (1873–1938), who wrote in Urdu, Farsi, and English, first called for the establishment of a Muslim state on the subcontinent in a statement made in 1930. Mohammad Ali Jinnah (1876–1948), the Quaid-e-Azam, or "Great Leader," rallied the Muslims to this cause and became the first governor-general of the Commonwealth of Pakistan. His "right hand," Liaquat Ali Khan (1896–1951), was the first prime minister of the nation until his assassination. Chaudhury Mohammad Ali (1905–80), a former prime minister, played a key role in the organization of the new government in 1947. Field Marshal Mohammad Ayub Khan (1908–74) served as commander-in-chief of the Pakistani army, as minister of defense in 1954–55, and as president of Pakistan from October 1958 to March 1969. Sir Mohammad Zafrulla Khan (1893–1985), a distinguished jurist, was several times minister of foreign affairs and later a member of the World Court at The Hague; in 1962, he served as president of the 17th UN General Assembly. Zulfikar Ali Bhutto (1928–79), who rose to prominence as founder and leader of the socialist-leaning Pakistan People's Party, was prime minister during 1973–77 and guided the country's political and economic transformation following the loss of East Pakistan. After Bhutto's execution in 1979, his elder daughter, Benazir (b.1953), became titular head of the Pakistan People's Party. She became the first woman to lead

a Muslim country when she assumed the post of prime minister in 1988; she was deposed 20 months later but was reelected in 1993 to serve for three years. Gen. Mohammad Zia-ul-Haq (1924–87) came to power in 1977 and assumed the presidency in 1978. Pervez Musharraf (b.1943) took power in 1999 after a coup d'état and assumed the title of president of Pakistan in 2001. The Pakistani-born scientist Abdus Salam (1926–96) shared the 1979 Nobel Prize for Physics for his work in electromagnetism and the interaction of elementary particles.

In literature, the paramount position is still held by the great Urdu writers who lived before the establishment of Pakistan. Ghalib (1796–1869) and Iqbal are recognized as the two greatest Urdu poets. Contemporary writers who have won fame include the Urdu poet Faiz Ahmad Faiz (1911–84), imbued with a strongly socialist spirit, and the Urdu short story writer Saadat Hasan Manto (1912–55). Foremost among Pakistan's artists is Abdur Rahman Chughtai (1899–1975).

#### **49 DEPENDENCIES**

Pakistan has no territories or colonies.

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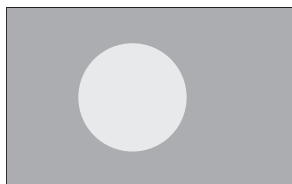
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# PALAU

Republic of Palau  
*Belau*



**CAPITAL:** Koror, Koror Island

**FLAG:** The flag, adopted 1 January 1981, is light blue, with a yellow disc set slightly off center toward the hoist.

**ANTHEM:** *Belau er Kid.*

**MONETARY UNIT:** The US dollar is the official medium of exchange.

**WEIGHTS AND MEASURES:** British units are used, as modified by US usage.

**HOLIDAYS:** New Year's Day, 1 January; Youth Day, 15 March; Senior Citizens Day, 5 May; Constitution Day, 9 July; Labor Day, 1st Monday in September; United Nations Day, 24 October; Thanksgiving Day, 4th Thursday in November; Christmas, 25 December.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Palau (also known as Belau) is located in the western extremities of the Pacific Ocean. It consists of the Palau group of islands, in the western Caroline Islands, and four remote islands to the sw. Palau is isolated from larger land masses, with Papua New Guinea/Irian Jaya (Indonesia) 660 km (410 mi) to the s, the Philippines 885 km (550 mi) to the w, and Japan 3,042 km (1,890 mi) to the n. Yap Island in the Federated States of Micronesia lies 579 km (360 mi) to the ne. The country consists of more than 200 islands, with a total land area of 458 sq km (177 sq mi). Babelthup is the largest island, with an area of 397 sq km (153.2 sq mi); Koror Island, containing the capital, has an area of 18 sq km (7.1 sq mi). The islands of Peleliu and Angaur are about 50 km (30 mi) s of Koror. Sonso-rol and Hatohebei, the two smallest island states, lie 560–640 km (350–400 mi) sw of Koror. Kayangel is a coral atoll 45 km (28 mi) n of Babelthup.

## <sup>2</sup>TOPOGRAPHY

The islands include four types of topographical formation: volcanic, high limestone, low platform, and coral atoll. The Palau barrier reef encircles the Palau group, except Angaur Island and the Kayangel atoll. The reef encloses a lagoon (1,267 sq km/489 sq mi) on the western side, containing a large number of small elevated limestone islets known as the Rock Islands. Babelthup and Koror, with peak elevations of 217 m (713 ft) and 628 m (2,061 ft), respectively, contain elevated limestone and volcanic formations. Arakabesan, Malakal, and several small northern islands are volcanic formations. Peleliu and Angaur are low-platform reef islands.

## <sup>3</sup>CLIMATE

Located near the equator, Palau's climate is maritime tropical, characterized by little seasonal and diurnal variation. The annual mean temperature is 28°C (82°F) in the coolest months. There is

high precipitation throughout the year and a relatively high humidity of 82%. Heavy rainfall occurs from May to November. The short torrential nature of the rainfall produces up to 380 cm (150 in) of precipitation annually. Typhoons and tropical storms occur from June through November.

## <sup>4</sup>FLORA AND FAUNA

Plant life, abundant throughout most of the islands, includes mangrove swamps, savanna land, and rain forest in upland areas. Food crops, such as taros, cassavas, sweet potatoes, coconuts, bananas, papayas, and citrus fruits, are mostly wild. Marine life is also abundant, with more than 1,500 species of tropical fish and 700 species of coral and anemones in the lagoons and reefs. Fauna includes the sea turtle, which is consumed as a delicacy, and the dugong, or sea cow, a marine mammal that is close to extinction.

## <sup>5</sup>ENVIRONMENT

While much of Palau's fragile natural environment remains free of environmental degradation, there are several areas of concern, including illegal fishing with the use of dynamite, inadequate facilities for disposal of solid waste in Koror, and extensive sand and coral dredging in the Palau lagoon. Like the other Pacific island nations, a major environmental problem is global warming and the related rising of sea level. Water coverage of low-lying areas is a threat to coastal vegetation, agriculture, and the purity of the nation's water supply. Palau also has a problem with inadequate water supply and limited agricultural areas to support the size of the population. The nation is also vulnerable to earthquakes, volcanic activity, and tropical storms. Sewage treatment is a problem, along with the handling of toxic waste from fertilizers and biocides.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 3 types of mammals, 2 species of birds, 2 types of reptiles, 6 species of fish, 5 types of mollusks, and 3 spe-

cies of plants. Threatened species included the hawksbill turtle, tiger sharks, grey dolphins, coconut crabs, and green turtles. The Palau flying fox has become extinct.

## **6<sup>POPULATION</sup>**

The population of Palau in 2005 was estimated by the United Nations (UN) at 21,000, which placed it at number 190 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 24% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.9%. The government's family planning programs succeeded in curbing the high birth rate, and the government viewed the population growth rate as satisfactory. The projected population for the year 2025 was 23,000. The population density was 46 per sq km (118 per sq mi).

The UN estimated that 70% of the population lived in and around the capital city, Koror on Koror Island, which had a population of 14,000 in 2005. The annual population growth rate in Koror that year was estimated at 1.80%.

## **7<sup>MIGRATION</sup>**

In 1999, persons not Palau-born accounted for nearly 30% of the total population. Most were born in the Philippines, China, and Bangladesh; there were also significant numbers from the Federated States of Micronesia, the United States, and Japan. Most were workers; in 1999, foreigners made up 46% of the total work force. The vast majority of these foreigners were located in Koror. About one-fifth of all Palauans live abroad, many on Guam. Remittance flows are poorly documented. Since 2001 the ratio of Palauans to foreign workers has remained 50:50. In 2005, the net migration rate was 2.36 migrants per 1,000 population. The government views the migration levels as too high.

## **8<sup>ETHNIC GROUPS</sup>**

Palauans are a composite of Polynesian, Malayan, and Melanesian races. At the 2000 census, Palauans accounted for about 69.9% of the total population. The largest non-Palauan ethnic groups included Filipinos (15.3%), Chinese (4.9%), other Asians (2.4%), Carolinians (1.4%), other Micronesians (1.1%), and people of European descent (1.9%).

## **9<sup>LANGUAGES</sup>**

English is the official language in all of Palau's 16 states; however, it is only spoken by about 9.4% of the population. Palauan, a Malayo-Polynesian language related to Indonesian, is the most commonly spoken language, used by 64.7% of the population. Palauan is used, in addition to English, as an official language in 13 states. Sonsorolese is official in the state of Sonsoral; Anguar and Japanese in the state of Anguar; and Tobi in the state of Tobi. About 13.5% of the population speak Filipino. 5.7% speak Chinese, 1.5% speak Carolinian, 1.5% Japanese, and 2.3% other Asian languages.

## **10<sup>RELIGIONS</sup>**

Most Palauans are Christians. The Roman Catholic Church holds the largest number of members at about 65% of the population. Other significant denominations include the Evangelical Church,

the Seventh-Day Adventists, The Church of Jesus Christ of Latter-Day Saints, and Jehovah's Witnesses. Modekngai, which is indigenous to Palau and combines both pagan and Christian beliefs and customs, is practiced by about 800 people. There are a small number of Bangladeshi Muslims. Several foreign missionaries are active in the country.

Religious groups register as nonprofit organizations through the Office of the Attorney General. There is no state religion, but the government does offer some financial support to religious schools. Freedom of religion is provided for in the constitution.

## **11<sup>TRANSPORTATION</sup>**

The nation's roads at last estimate totaled 61 km (37.9 mi), of which 36 km (22 mi) were paved. Asphalt roads are found only in Koror, Airai, and Melekeok. A two-lane concrete bridge, constructed in 1976, links Koror with Airai. The Koror state government provides a public bus service. Palau's deepwater harbor at Malakal in Koror offers international port facilities. Heavy reliance is placed on small private watercraft throughout the country.

As of 2004, there were three airports, of which one (as of 2005), had a paved runway. The international airport is located in Airai, 10 km (6 mi) from Koror. Three airlines provide international service: Air Micronesia/Continental, Air Nauru, and South Pacific Island Airways. There are three domestic airlines: Palau Paradise Air, Aero Belau, and Freedom Air.

## **12<sup>HISTORY</sup>**

As part of the Carolinian archipelago, the islands were sighted by European navigators as early as the 16th century. In 1686, the Spanish explorer Francisco Lezcano named Yap Island (now in the Federated States of Micronesia) "La Carolina" after King Charles II of Spain. The name was later generalized to include all the islands. Spanish sovereignty was established in 1885. In 1899, after Spain's defeat in the Spanish-American War of 1898, Palau, with the rest of the Carolines, was sold to Germany. At the outbreak of World War I in 1914, the islands were taken by the Japanese. As a member of the League of Nations, Japan was given a mandate over Palau in 1920, and Koror was developed as an administrative center of Japanese possessions in the north Pacific.

In 1947, following occupation by US forces in World War II, Palau became part of the UN Trust Territory of the Pacific Islands, which was administered by the United States. After the adoption of a constitution in 1980, Palau became a self-governing republic in 1981. Beginning in 1982, the republic was involved in negotiating a Compact of Free Association (CPA) with the United States. Negotiations stalled because the United States wanted to use the islands as a military site, while Palau's 1980 constitution prohibited any placement of nuclear weapons.

In June 1985, President Haruo Remeliik was assassinated; Vice President Alfonso Oiterang served as acting president until August 1985, when he was defeated in an election by Lazarus E. Salii. President Salii committed suicide in August 1988. Kuniwo Nakamura was elected president in November 1992.

On 1 October 1994 Palau became an independent nation in free association with the United States; under the 1994 CPA, the United States is responsible for Palau's defense. In addition, CPA funds were allocated to finance the building of roads and infra-

structure on Babelthup, across from the capital Koror, in order to attract people and economic activity. As of 1999, despite President Nakamura's support, Paramount Chief Ibedul Yutaka Gibbons of Koror, the most powerful traditional leader in Palau, opposed the Compact and its channeling of resources away from Koror and to Babelthup, arguing the Compact would erode Palau's autonomy and threaten traditional values. Palau's CPA with the United States was scheduled for renegotiation in 2009.

In July 1999, Palau hosted the First Micronesian Traditional Leaders' Conference. In October 1999, Palau hosted the 30th South Pacific Forum with more than 300 foreign delegates, observers, and media members. The Forum considered issues on climate and sea level change, regional security and law enforcement, fisheries, and the United Nations Special Session on Small Island Developing States. Trade ministers of the South Pacific Forum endorsed the proposal for a Pacific Free Trade Area (FTA) that would create a regional market of six million people, allowing goods produced in the 14 island countries to be traded freely. Late in 2005, the FTA and the trade liberalization it could bring were still under discussion.

In 2003, Palau became a member of SOPAC, the South Pacific Applied Geoscience Commission, a group which has among its aims the sustainable development of mineral and other nonliving resources, and the reduction of poverty for the people of the Pacific.

In 2005, Palau supported Japan's attempts to expand commercial whaling, as well as its application for permanent membership on the United Nations Security Council.

In general elections held 2 November 2004, Tommy E. Remengesau, Jr. was elected to a second term as president, and Camsek Chin to a first term as vice president.

In 2004 President Remengesau favored a constitutional amendment to change the existing bicameral congress (House of Representatives and Senate) to a unicameral form of government to reduce the cost of government. This proposed change had been discussed in the congress as early as 1993. Other amendments Remengesau championed included having presidential and vice presidential candidates run on a single ticket, and allowing Palauans dual citizenship. When the Senate failed to act on these amendments, the president signed into law a Constitutional Convention to be held from 17 May 2005–15 June 2005. The 25 delegates to the Convention were charged with reviewing the constitution and proposing amendments.

Discussed during the Constitutional Convention were the above-mentioned move from a bicameral to a unicameral legislature, vesting increased powers in the cabinet, and changing the title of cabinet ministers to secretaries. Any proposed amendments coming out of the convention had to be approved in the 2008 elections by a popular majority and three quarters of the states.

### 13 GOVERNMENT

The government comprises three branches: the executive, the legislative, and the judicial. The executive branch is headed by the president, who is elected by popular vote for not more than two terms of four years each. The president is assisted by a cabinet of ministers, one of whom is the vice president and is also elected by popular vote. The president and vice president run on separate



LOCATION: 131° to 135° E; 3° to 8° N.

tickets. A council of chiefs, based on Palau's clan system, advises the president on traditional and customary matters.

The legislative branch, known as the Olbiil Era Kelulau, or National Congress, is a bicameral form of legislature, comprising 9 senators and 16 delegates. The senators, elected for four-year terms, are apportioned throughout Palau on the basis of population and traditional regional political groupings. The delegates are elected from each of the 16 states and have the same four-year term as the senators.

In November 1992 Kuniwo Nakamura and Tommy E. Remengesau, Jr. were elected Palau's new president and vice president, respectively. Both Nakamura and Remengesau were reelected in 1996. In the 2000 general elections, Remengesau was elected president, and Sandra Pierantozzi became Palau's first woman vice president. In November 2004, Remengesau was reelected, taking 64% of the popular vote, while Camsek Chin took 70% of the votes to become vice president.

## **<sup>14</sup>POLITICAL PARTIES**

No political parties exist in Palau.

## **<sup>15</sup>LOCAL GOVERNMENT**

Each of Palau's 16 states has a government headed by a governor, who is popularly elected, in most cases, for a four-year term. The members of the state legislatures are popularly elected for a four-year term, although in a few states, the term of office is limited to two years. The states are empowered to make their own laws, which must not be in conflict with the national constitution or any existing laws.

## **<sup>16</sup>JUDICIAL SYSTEM**

The Supreme Court is the highest court in the land. Other courts include the National Court and the lower court system, consisting of the Court of Common Pleas and the Land Court. Court appointments are for life. In October, 1990 US Interior Secretary Manuel Lujan issued an order granting the Interior Department in Washington the power to veto laws and reverse decisions by Palau's courts. This reassertion of legal authority by the United States was partially in response to the decade of unsuccessful negotiations concerning a plan for eventual self-government.

The constitution provides for an independent judiciary and the government respects this provision in practice. Palau has an independent prosecutor and an independent public defender system.

## **<sup>17</sup>ARMED FORCES**

The United States is responsible for defense. Palau has no armed forces and does not have US armed forces within its borders except for a small contingent of US Navy Seabees who undertake civil action projects.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

Palau became a member of the United Nations on 15 December 1994; it participates in ESCAP, the World Bank, the FAO, ICAO, IMF, IFC, UNCTAD, UNESCO and WHO. Palau is also a member of the ACP Group, the Asian Development Bank, G-77, the Pacific Island Forum, and the Alliance of Small Island States (AOSIS). The country is part of the Organization for the Prohibition of Chemical Weapons. Under the Compact of Free Association, the United States is responsible for the island nation's defense. In environmental cooperation, Palau is part of the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## **<sup>19</sup>ECONOMY**

The economy has a narrow production base as a result of limited natural resources and few skilled personnel. The services sector consists largely of government administration and trade. Large gaps exist between government revenues and expenditures and between imports and exports. These gaps are financed largely by grant assistance from the United States. Unemployment is a major problem. Expansion of air travel in the Pacific has fueled growth of the tourist sector. Tourist arrivals number 50,000 in 2000/01,

down a from a peak of 66,441 in 1996/97. Real GDP growth slid precipitously after booming postindependence rates of 24.3% in 1994/95 and 18.1% in 1995/96. In 1996/97 growth moderated to 5.5%, but in the wake of the Asian financial crisis, the economy contracted 5.4% in 1997/98. The economy remained flat in 1998/99, and 1999/00, with growth rates of 1.1% and 1%, respectively. The Compact Trust Fund balance, at \$70.8 billion at independence, reached \$161.8 billion by 1999/00, but had fallen to \$135 billion in 2000/01.

In 2004, the economy grew by 2.0%, following a period of economic slump in 2002, and 2003 (when the GDP actually shrunk by -4.7% and -0.1% respectively). The inflation rate has been fluctuating slightly but did not pose a major problem to the economy—in 2004, it dropped to 0.2%, from 1.3% in 2003.

## **<sup>20</sup>INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Palau's gross domestic product (GDP) was estimated at \$174.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$9,000. The annual growth rate of GDP was estimated at 1%. The average inflation rate in 2000 was 3.4%.

## **<sup>21</sup>LABOR**

The economically active population of Palau was 9,845 persons in 2000 (the latest year for which data was available). Recent data on the occupational breakdown of the workforce is not available. In 2000, the unemployment rate was estimated at 2.3%.

There are no specific provisions granting the right to strike or organize unions, but the issue has never come up and there were no organized trade unions.

There is no minimum age for employment, but children do not typically work, except to help out in small scale family enterprises such as fishing or agriculture. Education is compulsory until age 14, and this is enforced by the government.

Palau's first minimum wage law, passed in 1998, set a rate of \$2.50 per hour. This was still in effect in 2002, and generally provides for a decent standard of living for a family. There are many foreign workers in Palau, and these workers often receive housing and food in addition to wages. There are no legally proscribed work hours, but most businesses are closed on Saturday or Sunday.

## **<sup>22</sup>AGRICULTURE**

Agricultural production belongs almost entirely to the nonmonetary, or subsistence, sector. Most households outside Koror are fully or partially engaged in subsistence agriculture. Staple subsistence crops include taros, cassavas, sweet potatoes, bananas, and papayas. Commercial produce is marketed mainly in Koror, consisting mostly of copra and coconut oil, vegetables, and a wide variety of tropical fruits.

## **23 ANIMAL HUSBANDRY**

Livestock is limited to pigs, chickens, ducks, cattle, and goats. Pigs and chickens are raised by most households. Several small commercial egg-producing operations supply eggs to the Koror market. The Livestock Branch of the Division of Agriculture maintains breeding herds of pigs, cattle, and goats.

## **24 FISHING**

Palau's marine resources are rich and diverse. Subsistence fishing within the reef is a major activity and dominates market production. The total catch was 1,051 tons in 2003. Deep-sea fishing for pelagic species resulted in a tuna catch of 68 tons in 2003. Seasonal trochus harvesting for shell button manufacture is an important source of income for most fishermen. Other marine resources include pearls, shrimp, ornamental fish, seaweed (agar agar), and mollusks. Palau is known for having some of the best diving, snorkeling, and sport fishing areas in the world.

## **25 FORESTRY**

About 76% of Palau was forested in 2000. Forestry resources consist of coastal mangrove, coconut and pandanus palms, and rain forest species in upland areas. Palau is heavily dependent on imported forestry products, including furniture and lumber for house construction. The government's forestry station at Nekken on Babelthuap Island, of which more than half of the 1,257 hectares (3,105 acres) consists of natural forest, provides primarily mahogany seedlings to farmers. Palau imported \$1.1 million in forest products during 2004.

## **26 MINING**

Crystalline calcite from glistening limestone caves was first quarried as many as 1,500–2,000 years ago. The doughnut-shaped finished carved products would be transported by canoe some 400 km (250 mi) to Yap (now part of the Federated States of Micronesia), and used as currency.

The Koror state government engages in commercial production of dredged coral from the Palau lagoon, with a production capacity of 800 cu m per day. Other states are also involved in coral dredging. A private company supplies aggregates for concrete from crushed basalt rock and beach sand.

## **27 ENERGY AND POWER**

The economy is almost totally dependent on imported petroleum for energy. Electricity is supplied from the Malakal power plant, located in the state of Koror, with an installed capacity of approximately 8,000 kW. There are state-owned power plants with capacities ranging from 30 kW to 120 kW in Peleliu, Angur, Ngiwal, Ngeremlengui, Airai, Ngaraard, and Ngerchelong. Per capita consumption of electricity in 1995 was 11,704 kWh. Both production and consumption of electricity were 200 million kWh in 1996; of the power produced, 85% came from fossil fuels and 15% from hydropower.

## **28 INDUSTRY**

Manufacturing plays a limited role in the economy. A copra-processing plant is located in Malakal. Concrete blocks are manufactured, utilizing imported cement, and there is a small-scale sawmill industry. Other industries include the manufacturing of craft items (from shell, wood, pearls), construction, and garment making.

## **29 SCIENCE AND TECHNOLOGY**

Palau's Micronesian Mariculture Demonstration Center, established in 1973, promotes the cultivation of commercially valuable and ecologically threatened marine species. The center attracts visiting marine scientists. Its giant clam hatchery was the first and remains the largest of its kind.

## **30 DOMESTIC TRADE**

Domestic trade is centered in Koror. Private-sector activities in tourism, restaurants and hotels, small workshops, banking, wholesale and retail outlets, transportation, and freight handling are located in Koror and, to a limited extent, the adjacent state of Airai. Most of the work force is employed in services related to tourism. The country relies heavily on imports for basic goods.

## **31 FOREIGN TRADE**

Palau's economy sustains a large trade deficit. Food, beverages, and tobacco account for 19% of imports; manufactured goods, 20%; machinery and transportation equipment, 28%; mineral fuel and lubricants, 13%; and other imports, 20%. The country's low volume and limited range of exports include shellfish, tuna, copra, and garments. The United States, Japan, and Singapore are Palau's predominant trading partners.

In 2001, exports totaled \$18 million (FOB—Free on Board), while imports grew to \$99 million. In 2003, 86.7% of exports went to Japan, but by 2004 the United States was Palau's main export partner—an indicator of Palau's fragile economic base and its dependency on other countries. The United States, Guam, Japan, Singapore, and South Korea were the main import partners in 2004.

## **32 BALANCE OF PAYMENTS**

Standardized balance-of-payments accounts have not yet been prepared by the government. The chronic trade deficit is largely offset by US grant assistance.

The US Central Intelligence Agency (CIA) reported that in 1999 the purchasing power parity of Palau's exports was \$11 million while imports totaled \$126 million resulting in a trade deficit of \$115 million.

Exports of goods and services totaled \$75 million in 2004, up from \$70 million in 2003. Imports grew from \$102 million in 2003, to \$124 million in 2004. The resource balance was on a negative upsurge, growing from -\$33 million in 2003, to -\$50 million in 2004. A similar trend was registered for the current account balance,

which deteriorated from -\$5 million in 2003, to -\$23 million in 2004.

### **3<sup>3</sup> BANKING AND SECURITIES**

In 1993, there were five commercial banks. Two are branches of foreign banks, the Bank of Hawaii and the Bank of Guam; the other, a local bank which started in 1985, is the Bank of Palau.

### **3<sup>4</sup> INSURANCE**

Social security and pension fund contributions are made by the government on behalf of its employees.

### **3<sup>5</sup> PUBLIC FINANCE**

The US Central Intelligence Agency (CIA) estimated that in FY 1998/99, the most recent year for which statistics are available, Palau's central government took in revenues of approximately \$57.7 million and had expenditures of \$80.8 million. Revenues minus expenditures totaled approximately -\$23.1 million.

### **3<sup>6</sup> TAXATION**

Graduated income taxes are levied on wages and salaries. Business gross revenue tax is imposed at a flat rate minus employees' remuneration. There is also a profits tax on financial institutions.

### **3<sup>7</sup> CUSTOMS AND DUTIES**

There are no import duties on raw materials if they are processed for sale outside Palau. There is also an import duty rebate offered by Palau as an investment incentive.

### **3<sup>8</sup> FOREIGN INVESTMENT**

There is a Foreign Investment Board for processing applications from foreign investors; the Division of International Trade of the Bureau of Foreign Affairs is responsible for establishing contacts with foreign companies to promote Palau's trade interests.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

When Palau became independent in 1994 it entered into a Compact of Free Association with the United States. Under the Compact, Palau is to receive grants of totaling about \$600 million over a 15-year period to 2009. In the meantime, the government is to be engaged in developing ways to make the economy self-sufficient. A major part of the strategy was the building of a trust fund. The government's first five-year national development plan (1987-91) was the first phase of its 15-year development program. The plan focuses on the development of a private-sector production-based economy, efficient public-sector management, development of natural resources to earn foreign exchange, personnel development, regional development, and environmental preservation.

Long term prospects for the tourist sector have brightened because of the expansion of air travel in the Pacific and the rising prosperity of leading East Asian countries.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

A system of old age, disability, and survivor's pensions was first introduced in 1967. This program covers all gainfully employed persons, and provides old age pensions after the age of 60. It is financed by 6% of employee earnings, matched by an equal con-

tribution from employers. There is voluntary coverage for some self-employed persons. The government contributes only as an employer.

In the traditional social structure, rank and inheritance are matrilineal. Women are accorded considerable respect within the clan system. However, weakening extended family ties and the rise of drug and alcohol abuse are leading to an increase in domestic violence and abuse of women. In urban areas, women face minimal gender based discrimination in employment. The government adequately funds education and medical care for children.

Foreigners residing in Palau are barred from owning land or obtaining citizenship. Some foreigners complain of discrimination in access to housing, education and employment. Human rights are well respected in Palau, and nongovernmental organizations operate without government interference.

### **4<sup>1</sup> HEALTH**

Hospital services are provided by the MacDonald Memorial Hospital in Koror, which has 60 beds. Medical services in Koror are also provided by the Belau Medical Clinic and the Seventh-Day Adventist Eye Clinic. In 2004, there were 109 physicians, 141 nurses, and 11 dentists per 100,000 people.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 19.3 and 7.1 per 1,000 people. In 2005 life expectancy averaged an estimated 70.14 years and the infant mortality rate was 14.84 per 1,000 births. The fertility rate was 2.5 children per woman.

Immunization rates for children under one were as follows in 1995: diphtheria, pertussis and tetanus, 100%; polio, 100%; measles, 100%; and hepatitis B, 100%. No measles or polio cases were reported, and AIDS is not a significant concern.

### **4<sup>2</sup> HOUSING**

There were 2,501 occupied houses in 1986, of which 72% were located in Koror and the adjacent state of Airai. Most house walls are constructed from metal sheets, wood, or concrete blocks, and roofs are of corrugated material. About 80% of all houses have water and electricity. The majority of homeowners finance their house construction under the traditional *ocheraol* system, whereby clan members contribute to construction costs.

### **4<sup>3</sup> EDUCATION**

Elementary education is free and compulsory for all Palauan children ages 6-14. The gross enrollment ratio in primary school for 2000/02 (i.e. the number of pupils enrolled divided by the number of children of primary-school age) was 113, indicating some attendance by students not in the primary age group. The gross enrollment rate for secondary students that year was about 89%. It is estimated that about 96.5% of all students complete their primary education. The student-to-teacher ratio for primary school was about 16:1 in 2000; the ratio for secondary school was about 15:1. In 2000, private schools accounted for about 18.4% of primary school enrollment and 29.1% of secondary enrollment.

The Palau High School in Koror is the only public high school. Postsecondary education is provided by the College of Micronesia's Micronesian Occupational College (MOC) in Koror. The adult literacy rate is 98%. In 2001, about 39% of the tertiary age population were enrolled in some type of higher education pro-

gram; 26% for men and 54% for women. The adult literacy rate has been estimated at about 92%.

As of 2003, public expenditure on education was estimated at 11.1% of GDP, or 20% of total government expenditures.

#### **44 LIBRARIES AND MUSEUMS**

The Palau Community College Library is the largest in the country, with a collection of about 26,000 items. The PCC library also serves as a depository library for the Secretariat of the Pacific Community, the United Nations, and the World Health Organization. There is a small public library in Koror, with a collection comprising about 17,000 books. The Palau Congress Library, established in 1981, has about 5,000 volumes and offers reading rooms open to the public.

The Belau National Museum, established in 1973, is also located in Koror as is the Etpison Museum; both museums contain collections on art and history. The Palau International Coral Reef Center on Koror houses an aquarium, a nursery of giant clams, a crocodile farm, an old Japanese shrine, WWII relics and monuments, and a traditional Bai meeting house.

#### **45 MEDIA**

The Palau National Communications Corp., established in 1982, provides domestic and international telephone connections, radio broadcasting, telex and telegram communications, and navigational and weather services. In 2002, there were 6,700 mainline telephones and 1,000 cellular phones in use.

A radio station in Koror broadcasts to listeners in the outer islands. As of 2002, there were five radio stations, 1 AM and 4 FM. Television is limited to one channel in the Koror area, provided by a local private company. As of 1997, there were 478 radios and 85 television sets in use per 1,000 population. Internet access is available.

There are no daily papers. Two popular periodicals are *Palau Gazette* (monthly, 1995 circulation 3,000), and *Tia Belau* (weekly, 5,000). The constitution provides for free speech and a free press, and the government respects these rights in practice.

#### **46 ORGANIZATIONS**

The clan system forms the basic unit of social organization. Youth, women's, and community development organizations provide

economic self-help, community involvement and leadership training, skills training, and sports and recreation. There are also a few sports associations affiliated with international organizations. The Lion's Club has programs in the country. There is a national chapter of the Red Cross Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Palau's scenic areas include the Rock Islands, a large number of small, mushroom-shaped islands that are unique in the region, and the Floating Garden Islands. The marine environment is rich in live coral formations and tropical fish, making the country a prime destination for snorkeling and scuba diving. Many tourists visit the World War II battlefields, war memorials, and shrines.

In 2005, the television show "Survivor: Palau" was aired on CBS. The US Department of State found this heightened the level international awareness of the small nation. A new luxury hotel affiliated with Japan Airlines opened on Palau that same year.

Palau's main industry, tourism, brought in about 68,300 visitors in 2003, a 16% increase from 2002. The US Department of State estimated the daily cost of staying in Palau in 2005 at us\$246.

#### **48 FAMOUS PALAUANS**

Tommy Remengesau (b.1956) was elected president in 2000 and reelected in 2004.

#### **49 DEPENDENCIES**

Palau has no territories or colonies.

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# PAPUA NEW GUINEA

Independent State of Papua New Guinea



**CAPITAL:** Port Moresby

**FLAG:** The flag is a rectangle, divided diagonally. The upper segment is scarlet with a yellow bird of paradise; the lower segment is black with five white stars representing the Southern Cross.

**ANTHEM:** *O, Arise All You Sons.*

**MONETARY UNIT:** The kina (κ) of 100 toea is linked with the Australian dollar. There are coins of 1, 2, 5, 10, 20, and 50 toea and 1 kina, and notes of 2, 5, 10, 20, and 50 kina. κ1=us\$0.32468 (or us\$1=κ3.08) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Queen's Birthday, 1st Monday in June; Remembrance Day, 23 July; Independence Day, 16 September; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** 10 PM=noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated to the north of Australia, Papua New Guinea has a total land area of 462,840 sq km (178,704 sq mi), including the large islands of New Britain, New Ireland, and Bougainville and hundreds of smaller islands. Comparatively, the area occupied by PNG is slightly larger than the state of California. The country extends 2,082 km (1,294 mi) NNE–SSW and 1,156 km (718 mi) ESE–WNW. Mainland Papua New Guinea shares the island of New Guinea, the second-largest island in the world, with Irian Jaya, a province of Indonesia. To the N is the US Trust Territory of the Pacific Islands; to the E, the Solomon Islands; to the W, Irian Jaya; and about 160 km (100 mi) to the S, the nearest neighbor, Australia. Papua New Guinea has a total boundary length of 5,972 km (3,711 mi), of which 5,152 km (3,201 mi) is coastline.

Papua New Guinea's capital city, Port Moresby, is located on the country's southern coast.

## <sup>2</sup>TOPOGRAPHY

Papua New Guinea is situated between the stable continental mass of Australia and the deep ocean basin of the Pacific. The largest section is the eastern half of the island of New Guinea, which is dominated by a massive central cordillera, or system of mountain ranges, extending from Indonesia's Irian Jaya to East Cape in Papua New Guinea at the termination of the Owen Stanley Range, and including the nation's highest peak, Mt. Wilhelm (4,509 m/14,793 ft). A second mountain chain fringes the north coast and runs parallel to the central cordillera. In the lowlands are many swamps and floodplains. Important rivers are the Sepik, flowing about 1,130 km (700 mi) to the north coast, and the Fly, which is navigable for 800 km (500 mi) in the southwest. The Bougainville–New

Ireland area comprises Bougainville and Buka islands, the Gazelle Peninsula of New Britain, New Ireland, New Hanover, the St. Matthias group, and the Admiralty Islands.

The smaller islands of Papua New Guinea are also areas of extreme topographic contrast and generally feature mountain ranges rising directly from the sea or from narrow coastal plains. Volcanic landforms dominate the northern part of New Britain and Bougainville, and some of the smaller islands are extremely volcanic. An eruption in September 1994 of two volcanoes caused the destruction of half of the town of Rabaul on New Britain Island. The country also experiences periodic high-magnitude earthquakes. On 16 November 2000, the New Ireland region experienced a quake that hit 8.0 on the Richter scale. It was recorded as the largest earthquake of the year worldwide, but fatalities were limited to two people. On 11 March 2003, a 6.8 magnitude earthquake hit the same region, and on 9 September 2005, a 7.7 magnitude quake occurred; both quakes caused some damage but no reported deaths.

## <sup>3</sup>CLIMATE

The climate of Papua New Guinea is chiefly influenced by altitude and by the monsoons. The northwest or wet monsoon prevails from December to March, and the southeast or dry trade winds from May to October. Annual rainfall varies widely with the monsoon pattern, ranging from as little as 127 cm (50 in) at Port Moresby to an average of 584 cm (230 in) in the western river basin. Most of the lowland and island areas have daily mean temperatures of about 27°C (81°F), while in the highlands temperatures may fall to 4°C (39°F) at night and rise to 32°C (90°F) in the day-

time. Relative humidity is uniformly high in the lowlands at about 80% and averages between 65 and 80% in the highlands.

## 4 FLORA AND FAUNA

The flora of Papua New Guinea is rich and varied, with habitats ranging from tidal swamps at sea level to alpine conditions. In low-lying coastal areas, various species of mangroves form the main vegetation, together with the beautiful casuarina, sago, and palm. Most of the country is covered by tropical and savanna rain forest, in which valuable trees such as kwila and cedar are found. Orchids, lilies, ferns, and creepers abound in the rain forests. There are large stands of pine at elevations of 910–1,220 m (3,000–4,000 ft). At the highest altitudes, mosses, lichens, and other alpine flora prevail. There are over 11,500 species of plant throughout the country.

Papua New Guinea supports a great diversity of bird life. About 400 species have been recognized. Papua New Guinea is the major center for a number of bird families, particularly the bird of paradise, bower bird, cassowary, kingfisher, and parrot. There are about 214 species of mammals, many nocturnal, of which rodent and marsupial orders predominate. Butterflies of Papua New Guinea are world famous for their size and vivid coloring.

## 5 ENVIRONMENT

Papua New Guinea's environmental concern includes pollution, global warming, and the loss of the nation's forests. Coastal waters are polluted with sewage and residue from oil spills. The nation has 801 cu km of renewable water resources, of which 49% of the annual withdrawal is used to support farming and 22% for industrial activity. Only 88% of the nation's city dwellers and 32% of the rural population have access to improved water sources. Another significant source of pollution is open-pit mining. The country's cities have produced an average of 0.1 million tons of solid waste per year. Global warming and the resulting rise in sea level are a threat to Papua New Guinea's coastal vegetation and water supply.

The Department of Physical Planning and Environment is responsible for integrating environmental planning and conserving natural resources. In 2003, only about 2.3% of the total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 58 types of mammals, 33 species of birds, 9 types of reptiles, 10 species of amphibians, 31 species of fish, 2 types of mollusks, 10 species of other invertebrates, and 142 species of plants. Threatened species in Papua New Guinea included four species of turtle (green sea, hawksbill, olive ridley, and leatherback) and Queen Alexandra's birdwing butterfly.

## 6 POPULATION

The population of Papua New Guinea in 2005 was estimated by the United Nations (UN) at 5,887,000, which placed it at number 103 in population among the 193 nations of the world. In 2005, approximately 2% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 106 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.1%, a rate the government viewed as too high, although

the fertility rate declined from 5.1 births per woman in 1990 to 4.4 births per woman in 2005. The projected population for the year 2025 was 8,205,000. The population density was 13 per sq km (33 per sq mi), with major concentrations of population in the highlands and eastern coastal areas of the island of New Guinea.

The UN estimated that 13% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.56%. The capital city, Port Moresby, had a population of 275,000 in that year. Other large cities and their estimated populations include Lae, 120,000; Madang, 35,300; Wewak, 25,143; Goroka, 25,000; and Rabaul, on New Britain, 17,855.

## 7 MIGRATION

The numbers of emigrants and immigrants have been roughly equal. In the 1980s, many came as refugees from Irian Jaya. In 1993, some 3,750 such immigrants were living in a camp in Western Province, while another 6,000 or so had land or kinship ties with Papuan New Guineans and were living near the border. In earlier years, emigration of nonindigenous residents may have been influenced by constitutional provisions that restricted eligibility for naturalization to those with eight years' residency, but limited their tax and business rights to the same status as those of aliens. Many rural dwellers migrated to Port Moresby and other urban centers during the 1970s and 1980s. The number of migrants in 2000 totaled 23,000, including 5,900 refugees. By the end of 2004, there were 7,627 refugees (all of whom were Indonesians), 198 asylum seekers, and 135 others of concern to the United Nations High Commissioner for Refugees (UNHCR).

From 1999–2005, the net migration rate was zero. The government views the migration levels as satisfactory. In 2002 residents of Papua New Guinea received \$65 million in remittances.

## 8 ETHNIC GROUPS

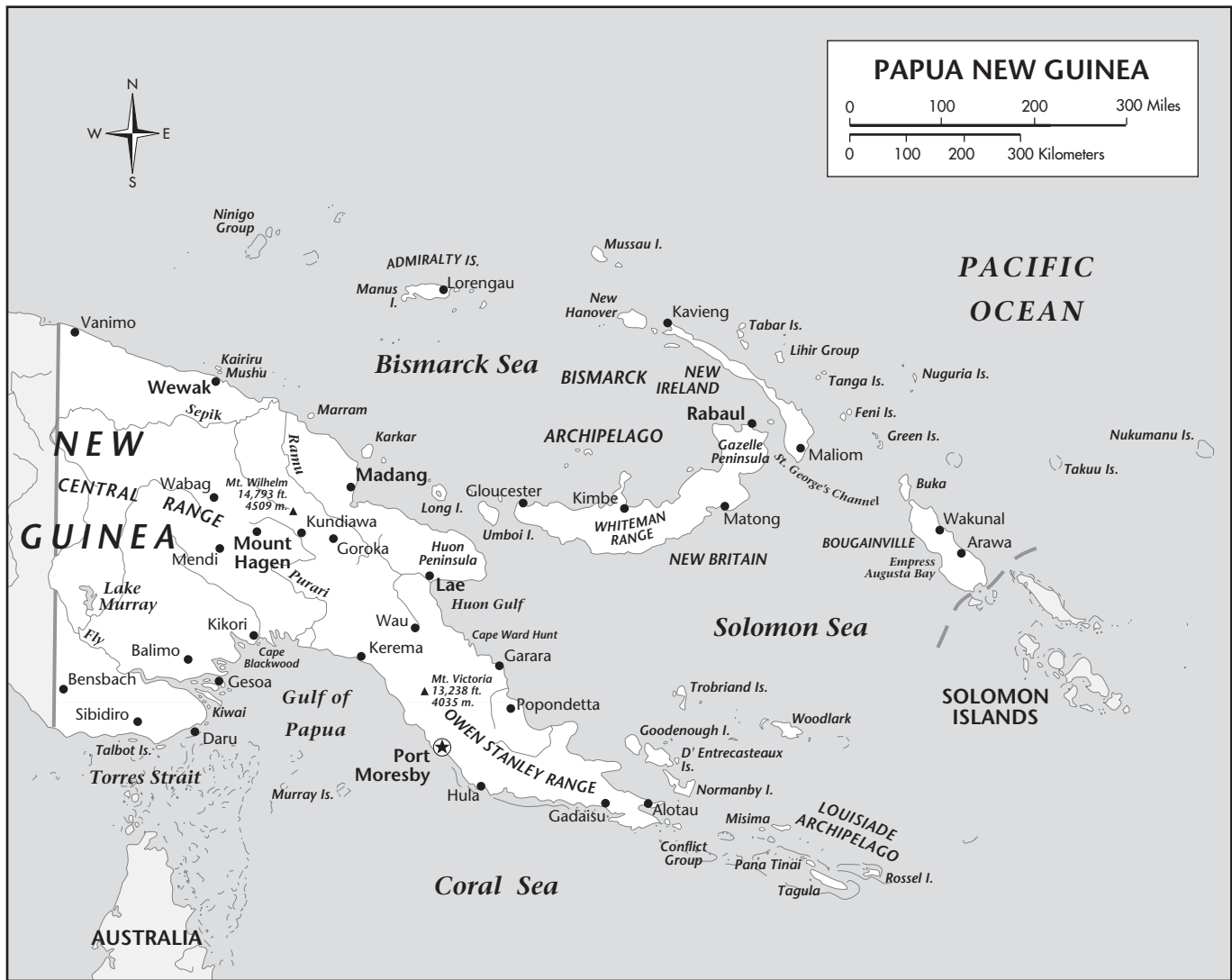
Papua New Guinea has more than 1,000 different ethnic groups. Indigenous Papua New Guineans vary considerably in ethnic origins, physical appearance, and spoken languages. The indigenous people are Melanesians. They are usually classified by language group, with Papuans representing the descendants of the original Australoid migration and Austronesian speakers descended from later migrants. The former are generally found in the highlands and the latter in coastal areas and on the islands other than New Guinea. Other groups with significant populations include Negritos, Micronesians, and Polynesians.

## 9 LANGUAGES

Under the Australian administration of the former Territory of Papua and New Guinea, English became the official language; however, it is only spoken by 1–2% of the population. More widely spoken, there are now two other official languages: Pidgin, a Melanesian lingua franca with roots primarily in English and German, and Hiri Motu, another lingua franca of Papuan derivation. In all, there are more than 700 indigenous languages, most of them spoken by a few hundred to a few thousand people.

## 10 RELIGIONS

Indigenous religions, varying widely in ritual and belief, remain important in tribal societies in Papua New Guinea, with about 34% of the population practicing some form of traditional belief either



LOCATION: 140°51' to 160°E; 0° to 12° S. BOUNDARY LENGTHS: Total coastline, 5,152 kilometers (3,202 miles); Indonesia, 820 kilometers (509 miles).  
TERRITORIAL SEA LIMIT: 12 miles.

exclusively or in conjunction with another faith. However, most of the population is nominally Christian. Of these, about 22% are Roman Catholics; 16% are Lutheran; another 8% are Presbyterian, Methodist, or of the London Missionary Society; 5% are Anglican; 4% from the Evangelical Alliance; and 1% Seventh-Day Adventist. Other Protestant sects account for 10% of the population. There are about 40,000 Baha'is and less than 2,000 Muslims. Certain Christian holidays are recognized as national holidays. There is a Council of Churches that serves to promote interfaith dialogue and understanding; members are primarily Christians.

## 11 TRANSPORTATION

Transportation is a major problem in Papua New Guinea because of the difficult terrain. Major population centers are linked chiefly by air and sea, although road construction has increased to supplement these expensive means of transport. Of some 19,600 km (12,179 mi) of roads in 2002, only 686 km (426 mi) were paved. In 2003, there were 34,468 passenger vehicles and 89,215 commer-

cial vehicles. Papua New Guinea has no railroads. However, there are 10,940 km (6,798 mi) of waterways.

The government operates a fleet of coastal work boats, none more than 9 m (30 ft) long. The principal harbors are Madang, Port Moresby, Lae, and Rabaul. There are international shipping services by refrigerated container ships, other cargo vessels, and some passenger service to Australia, Southeast Asian and Pacific island countries, the US west coast, and Europe. The main shipping lines are government owned. In 2005, the merchant fleet was comprised of 22 ships of 1,000 GRT or more, totaling 47,586 GRT.

Papua New Guinea had an estimated 571 airports in 2004. As of 2005 only 21 were principal airports with paved runways, and there were 2 heliports. Papua New Guinea's national air carrier, Air Niugini, established in 1973, has undertaken most of the services previously provided by Australian lines. In 2003, about 691,000 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Papua New Guinea appears to have been settled by 14,000 BC, with migrations first of hunters and later of agriculturists probably coming from the Asian mainland by way of Indonesia. Early communities had little contact with each other because of rough terrain and so maintained their autonomy, as well as their distinct languages and customs.

New Guinea was first sighted by Spanish and Portuguese sailors in the early 16th century and was known prophetically as *Isla del Oro* (Island of Gold). The western part of the island was claimed by Spain in 1545 and named New Guinea for a fancied resemblance of the people to those on the West African coast. ("Papua" is a Malay word for the typically frizzled quality of Melanesian hair.) Traders began to appear in the islands in the 1850s, and the Germans sought coconut oil available in northern New Guinea about that time. The Dutch and the British had earlier agreed on a division of their interests in the island, and from 1828, the Dutch began to colonize the western portion.

Although the British flag was hoisted on various parts of eastern New Guinea, the British government did not ratify annexation. Some Australian colonists were eager to see New Guinea become a British possession, for trade, labor, gold mining, and missionary reasons. However, it was not until 1884, after an abortive Australian annexation attempt and under fear of German ambitions in the area, that Britain established a protectorate over the southern coast of New Guinea and adjacent islands. The Germans followed by laying claim to three different parts of northern New Guinea. British and German spheres of influence were delineated by the Anglo-German Agreement of 1885. Germany took control of the northeastern portion of the island, as well as New Britain, New Ireland, and Bougainville, while Britain took possession of the southern portion and the adjacent islands.

British New Guinea passed to Australian control in 1902 and was renamed the Territory of Papua in 1906. German New Guinea remained intact until the outbreak of war in 1914, when Australian forces seized it. Although the territories retained their separate identities and status, they were administered jointly by Australia from headquarters at Port Moresby. In 1921, the former German New Guinea was placed under a League of Nations mandate administered by Australia; in 1947, it became the Trust Territory of New Guinea, still administered by Australia but now subject to the surveillance of the UN Trusteeship Council.

Both territories were merged into the Territory of Papua and New Guinea in 1949. A Legislative Council, established in 1953, was replaced by the House of Assembly in 1964. Eight years later, the territory was renamed Papua New Guinea, and on 1 December 1973, it was granted self-government. Separatist movements in Papua in 1973 and secessionist activities on the island of Bougainville in 1975 flared briefly and then subsided, though debates over citizenship and land-reform provisions were vigorous until the passage of a constitution in 1975. Papua New Guinea achieved complete independence on 16 September 1975, with Michael Somare as prime minister of a coalition government.

Somare was voted out of office in 1980 but reelected in 1982; subsequently, he put through a constitutional change giving the central government increased authority over the provincial governments. In November 1985, Somare was again voted out of of-

fice on a no confidence motion, and replaced by his previous deputy, Paias Wingti. Elections in mid-1987 returned Wingti to office at the head of a shaky five-party coalition, but his government was defeated in a no confidence vote in July 1988, and a coalition government led by Rabbie Namaliu replaced the PDM government.

A secessionist crisis on Bougainville dominated domestic politics during 1990–91. The Bougainville Revolutionary Army (BRA) declared the island of Bougainville to be independent from Papua New Guinea in May 1990, and in response government forces landed on the north of Bougainville in April 1991. Paias Wingti, the leader of the People's Democratic Movement (PDM), was reelected prime minister in July 1992 as the leader of a new coalition government with the support of the People's Progress Party, and the League for National Advancement. During 1993 the government continued to extend its control over Bougainville, partly because of popular revulsion against human rights violations by members of the BRA. In September 1994, rebel troops withdrew to the surrounding hills of the Bougainville copper mine allowing government forces to reclaim it. In 1995, the prime minister halted cease-fire talks.

Julius Chan was elected prime minister on 30 August 1994, but stepped aside pending a judicial inquiry into his hiring a group of mercenaries to put down the rebellion in Bougainville. In 1997, reformist premier Bill Skate, governor of Port Moresby, was elected by members of PNG's 109-seat parliament, defeating Michael Somare. Skate represented Julius Chan who lost his seat in the elections but who supported Skate's selection as premier.

Resolution to the Bougainville problem remained elusive until the government of Bill Skate reached a truce with the rebels in 1998. In April 1998, a permanent cease-fire agreement was signed and the reconstruction of war-torn Bougainville commenced. Up to 20,000 people had been killed during nine years of conflict. In 1999, the rebel leaders and the PNG government signed an agreement known as the Matakana and Okataina Understanding which established an agreement to continue discussions about the island's political future. In August 2001, the Bougainville Peace Agreement was signed, which would provide for an autonomous Bougainville government and secure a plan of disarmament. A referendum on independence would be conducted in 10 to 15 years' time.

In July 1999, Bill Skate resigned as prime minister as allegations regarding the misappropriation of development funds arose. On 14 July 1999, the national assembly chose Sir Mekere Morauta as prime minister in a 99 to 5 vote. Morauta sought to restore damaged relations with the People's Republic of China, which was angered by the Skate government's decision to accept normal relations with Taiwan in return for economic assistance. The Morauta government engaged in a privatization program, and successfully negotiated with the IMF and World Bank for an aid package in 2000. On 14 March 2001, hundreds of soldiers led a mutiny against Morauta's government in protest of a proposed defense force restructuring plan. They seized an armory, and only relinquished their weapons a week later when Morauta promised a full amnesty for the soldiers involved in the revolt and a withdrawal of the controversial military restructuring plan.

Former Prime Minister Michael Somare became prime minister once again on 5 August 2002 when his National Alliance won

the parliamentary elections in June that year. The elections were marked by violence and widespread irregularities, including vote-rigging. Somare was elected unopposed by a vote of 88 to 0, with members from Morauta's People's Democratic Movement and a section of the PANGU Party abstaining. Somare immediately set out to halt Morauta's privatization program, stating that the government would need more time to assess state assets. Somare headed a coalition of 13 parties and 20 independent members of parliament. He named a 28-member cabinet, including 19 new members of parliament.

In 2003, the PNG government formally began planning for setting up an autonomous government in Bougainville, with a multinational team in place to monitor the effort. In December 2004, the cabinet gave formal approval to a draft constitution granting the province of Bougainville free elections and an autonomous government. The cabinet also requested the United Nations Security Council to keep its mission in place in Bougainville 6–12 months to oversee elections. In May 2005, elections took place, with 293 candidates competing for 40 assembly seats. One month later, Bougainville elected Joseph Kabui president. Kabui named a caretaker cabinet comprising 10 members, with 8 of the ministries going to members of the ruling Bougainville People's Congress Party.

Following the deadly tsunamis of December 2004, in 2005 the Japanese Meteorological Agency was to begin providing PNG and 5 other western Pacific nations alerts of any tsunamis following earthquakes of 6.5 or greater on the Richter scale.

### **13 GOVERNMENT**

Papua New Guinea is an independent, parliamentary democracy in the Commonwealth of Nations, with a governor-general representing the British crown.

Under the 1975 constitution, legislative power is vested in the national parliament (formerly the house of assembly) of 109 members, including 20 representing provincial electorates and 89 from open electorates, serving a term of up to five years. Suffrage is universal and voting compulsory for adults at age 18. The government is formed by the party or coalition of parties, that has a majority in the national parliament, and executive power is undertaken by the national executive council, selected from the government parties and chaired by the prime minister.

The government has constitutional authority over the defense force, the Royal Papua New Guinea Constabulary, and intelligence organizations.

### **14 POLITICAL PARTIES**

Political parties in PNG lack ideological conviction and rely almost exclusively on patronage politics, personalism, and regional bases. Generally, party allegiances have been fluid, with regional and tribal politics impacting greatly on political events. More than 40 parties registered to participate in the June 2002 elections. In those elections, Michael Somare's National Alliance Party (NA) took 19 seats, and formed a 13-party coalition. Former Prime Minister Mekere Morauta's People's Democratic Movement (PDM) took 13 seats. Other parties winning seats included the United Resources Party (URP), the People's Progressive Party (PPP), the Papua and Niugini Union (PANGU), the People's Ac-

tion Party (PAP), and the People's Labor Party (PLP). Next elections were to be held no later than June 2007.

### **15 LOCAL GOVERNMENT**

Papua New Guinea is divided into 20 provinces, including the National Capital District. Each province has its own government, headed by a premier. In addition, there are more than 160 locally elected government councils. The local government system went through a process of reform in 1995, when the then-19 provincial governments were replaced by regional authorities. Bougainville presently exercises significant autonomy in its administrative affairs.

### **16 JUDICIAL SYSTEM**

The legal system is based on English common law. The Supreme Court is the nation's highest judicial authority and final court of appeal. Other courts are the National Court; district courts, which deal with summary and nonindictable offenses; and local courts, established to deal with minor offenses, including matters regulated by local customs.

The Papua New Guinea government has undertaken a process of legal reform under which village courts have been established to conserve and reactivate traditional legal methods. Special tribunals deal with land titles and with cases involving minors. An Ombudsman Commission has been established to investigate and refer to the public prosecutor cases involving abuse of official authority.

The constitution declares the judiciary independent of executive, political, or military authority. It also provides a number of procedural due process protections including the right to legal counsel for criminal defendants. The chief justice of the Supreme Court is appointed by the governor-general upon nomination by the national executive council in consultation with the minister for justice. The Judicial and Legal Services Commission appoint other judges.

### **17 ARMED FORCES**

Papua New Guinea's armed forces in 2005 had a total of 3,100 active personnel. The Army had an estimated 2,500 personnel that consisted of two infantry battalions and one engineering battalion. The country's maritime forces (400) were equipped with four patrol and coastal vessels and two amphibious landing craft. The Air Force (200) had no armed aircraft, only six fixed wing transports, and four utility helicopters. Australia provides a 38-member training unit. The defense budget totaled \$26.7 million in 2005.

### **18 INTERNATIONAL COOPERATION**

Papua New Guinea became a member of the United Nations on 10 October 1975 and participates in ESCAP and several UN nonregional specialized agencies, such as the FAO, the World Bank, ILO, UNESCO, UNIDO, and the WHO. It also belongs to the WTO, the ASEAN Regional Forum, APEC, the Colombo Plan, the ACP Group, the Asian Development Bank, the Alliance of Small Island States (AOSIS), the Commonwealth of Nations, G-77, the Pacific Island Forum, the South Pacific Commission, and the South

Pacific Regional Trade and Economic Cooperation Agreement (Sparteca). The country is part of the Nonaligned Movement.

In environmental cooperation, Papua New Guinea is part of the South Pacific Regional Environmental Program, the Antarctic Treaty, the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 1<sup>9</sup> ECONOMY

Economic activity is concentrated in two sectors, agriculture and mining. The subsistence sector, which occupies more than two-thirds of the working population, produces livestock, fruit, and vegetables for local consumption; agricultural products for export include copra, palm oil, coffee, cocoa, and tea. Rubber production has declined, and in the mid-1980s, coffee crops were threatened by the spread of coffee rust fungus through Western Highlands Province. New mining operations have compensated for the 1989 closure of the Bougainville mine, which had been a chief foreign exchange earner since the early 1970s. The main gold and silver mines are located at Ok Tedi in the Star Mountains, on Misima Island, and at Porgera. Oil and natural gas have been discovered in Southern Highlands Province. Forestry and fishing hold increasing importance.

Economic growth, which averaged 3.7% in the late 1980s, rose to 9% in 1991, 11.8% in 1992, and 16.6% in 1993. The growth was driven by a mineral and petroleum boom centered in the Highlands region. Growth slowed to 3% in 1994, 2.9% in 1995, and 1.6% in 1996 and 1997 due to an anticipated drop in production from Papua New Guinea's aging mines and oil fields, and a 1997 drought that cut the coffee crop in half. To halt the economic decline, the government awarded a lease to private developers for the \$800 million Lihir gold project. In addition, construction projects involving airports, highways, disaster rehabilitation, development of the Gobe oil field, and a petroleum refinery are planned or being implemented. These projects, together with the onset of new production at the mine, generated a slightly improved GDP growth rate of 1.6% in 1998. The economy did not reach the expected 4.5% increase in part because of the Asian financial crisis, and recurring drought. Growth in 1999 was 3.6%, and in 2000 and 2001, the economy experienced small contractions of -0.8% and -3.3%, respectively. Inflation persisted in double digits, averaging just over 10%. In 2002, positive growth returned, but at an anemic 1.2%, while the annual inflation rate rose to 12%.

In 2004, the economy expanded by 2.5%, down from 2.7% in 2003; in 2005, the GDP growth rate was estimated at 2.8%. The inflation rate has decreased from 14.7% in 2003, to 2.1% in 2004, and is not posing problems to the economy anymore. The unemployment rate has been fairly stable, hovering at around 3.3%. Although the country is endowed with natural resources, the poor infrastructure, and the difficult nature of the terrain, hamper exploitation efforts. Subsistence agriculture continues to provide a livelihood for 85% of the population.

## 2<sup>0</sup> INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Papua New Guinea's gross domestic product (GDP) was estimated at \$13.3 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,400. The annual growth rate of GDP was estimated at 1.1%. The average inflation rate in 2005 was 1.7%. It was estimated that agriculture accounted for 35.2% of GDP, industry 38.3%, and services 26.4%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$6 million or about \$1 per capita and accounted for approximately 0.2% of GDP. Foreign aid receipts amounted to \$221 million or about \$40 per capita and accounted for approximately 8.1% of the gross national income (GNI).

The World Bank reports that in 1990 household consumption in Papua New Guinea totaled \$1.9 billion or about \$346 per capita based on a GDP of \$3.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.6%. It was estimated that in 2002 about 37% of the population had incomes below the poverty line.

## 2<sup>1</sup> LABOR

The Papua New Guinea labor force numbered an estimated 3.4 million in 2005. Agriculture accounted for 85% of the workforce, particularly in small farming communities and isolated villages. There is no data available on the country's unemployment rate. Legislation covers working conditions and wages, and provides for collective bargaining. The Papua New Guinea Trade Union Congress is the main union federation. About one-half of the wage earners were unionized, and there were about 50 trade unions. Unions have the right to organize and bargain collectively but the government may cancel wage agreements if they are deemed to be against "public policy." The right to strike is protected, and it is prohibited to discriminate against union activity. However, there have been some reports of retaliation against union members. Approximately half of the 250,000 wage earners are union members.

The minimum working age is 18, although children may be employed in family-related work as young as 11. However, few children work in any capacity outside of subsistence farming. The minimum weekly wage in urban areas was \$9.87 as of 2001. The law provides for minimum occupational health and safety standards; however, due to a shortage of inspectors, workplaces are not inspected regularly but only when a union or worker requests.

## 2<sup>2</sup> AGRICULTURE

Agriculture in Papua New Guinea is divided into a large subsistence sector and a smaller monetary sector for export. Agriculture's importance has steadily declined since 1985, when it made up 34% of GDP—in 2003, agriculture only contributed about 26%

to GDP. About 74% of the population engages in subsistence agriculture. Subsistence crops include yams, taro, and other staple vegetables. Cash crops are increasing in rural areas, stimulated by government-financed development programs. Production by small farmers of coffee, copra, cocoa, tea, rubber, and oil palm is important for export, although production on plantations, which are usually foreign owned, is also significant. Such plantations are gradually being sold back to nationals. Principal crops and 2004 output (in tons) included sweet potatoes, 520,000; sugarcane, 442,000; palm oil, 345,000; coconuts, 650,000; coffee, 60,000; cocoa, 42,500; rubber, 4,000; and pyrethrum, 1,000. Papua New Guinea grows very little rice, the staple food for many of its inhabitants. A single Australian company imports over 150,000 tons per year to satisfy demand.

### **23 ANIMAL HUSBANDRY**

Livestock in 2005 included an estimated 1,750,000 hogs, 7,500 sheep, and 4 million chickens. That same year there were 91,500 head of cattle, and production was being encouraged with the aim of achieving self-sufficiency in meat supplies. Local poultry and beef production is sufficient to almost meet domestic demand. Beef imports are subject to quota controls. The farming of crocodiles, whose hides are exported, has also been expanded. Total crocodile production in 2003 was 27,000 tons.

### **24 FISHING**

In many coastal parts of Papua New Guinea, fishing is of great economic importance. The government is involved in the development of fishing through supply of freezers and of transport and research facilities. The total catch in 2003 was 188,217 tons, 7% from inland fishing. Fish exports in 2003 were valued at \$98.7 million.

### **25 FORESTRY**

Forests and woodlands covered about 67% of the land area in 2000. Exploitable forests account for roughly 40% of the total land area and include a great variety of hardwood and softwood species. The total roundwood production in 2004 was 7.241 million cu m (255.6 million cu ft), as compared with about 7.06 million cu m (249 million cu ft) in 1981. About 76% of all the timber cut in 2004 was used for fuel; production of sawn timber was estimated at 70,000 cu m (2.5 million cu ft). Plywood, hardwoods, and logs are regularly exported to Japan, New Zealand, Australia, and Europe.

### **26 MINING**

The mining of gold, silver, and copper were leading industries in Papua New Guinea. The country also produced cement, common clays, sand and gravel, stone, natural gas, natural gas liquids, and crude petroleum.

Gold output in 2003 was estimated at 70,000 kg, unchanged from 2002. In 1888, gold was discovered on Misima Island, marking the start of mining on Papua New Guinea. Prior to World War II, gold mining contributed 75% of export earnings. This proportion declined greatly in subsequent years, reaching 40% in 1995. Reserves on Lihir Island have been estimated to contain 613 tons of recoverable gold, and deposits at Porgera, near Ok Tedi, in the

Star Mountains, were considered to hold another 470 tons. Production of silver in 2003 was estimated at 73,000 kg, unchanged from 2002.

Copper output (metal content) in 2003 was estimated at 204,000 metric tons. All copper came from the Ok Tedi mine, near the Indonesian border. In 1971/72, the Bougainville copper mine, one of the richest in the world, began to export copper ores and concentrates, which totaled 220,000 tons in 1988 and accounted for 44% of all exports in the years the mine operated. The mine closed in 1989 because of civil unrest caused by Bougainville Revolutionary Army militants. Nine years of civil unrest were temporarily halted by a cease-fire in 1997.

Mineral exploration was being expanded. Bauxite was known to exist on Manus Island, in the Admiralty Islands, and on New Ireland Island. Additionally, lead, manganese, molybdenum, zinc, limestone, and phosphate guano and rock deposits were present. Major deposits of chromite, cobalt, and nickel were believed to be recoverable at a site on the Ramu River, northeast of Ok Tedi. Mineral resources in Papua New Guinea were difficult and expensive to mine, and exploration and mining were hampered by rugged terrain, the nation's poor road infrastructure, and the high cost of developing infrastructure. Ethnic strife has become commonplace, and has had a negative impact on mining exploration and investment. Land disputes have become common as well, because land was communally held and there was no real system of land registration. To revive waning mineral exploration interest, the government announced a major overhaul of the tax system, which has been criticized for making investment in mining too expensive. The new tax regime was applicable only when a project was under way, and included guaranteed fiscal stability for the financing period of a project, the lowering of corporate tax rates, and the reduction of dividend holding tax. Companies were also able to deduct 25% of exploration expenditure against income, and were required to pay an additional profit tax. The mining levy would be phased out within a four-year period.

### **27 ENERGY AND POWER**

As of 2002, Papua New Guinea had a total installed electrical capacity of 0.542 million kW, of which conventional thermal plants accounted for 59% of capacity and hydroelectric plants the remainder. Electricity generated in 2002 was 1.538 billion kWh. Of this total, 44% came from fossil fuels and the rest from hydroelectric facilities. Consumption of electricity in 2002 was 1.538 billion kWh.

Papua New Guinea had proven oil reserves estimated at 170 million barrels, as of 2004. In that same year, oil production was estimated at 46,200 barrels per day. However, the country has no refining capacity and in 2002, its production was totally exported. In 2002, imports and domestic demand for refined oil products each averaged 22,040 barrels per day. Proven reserves of natural gas totaled 385.5 billion cu m in 2004. In 2002, the country's gross production of natural gas totaled 4.24 billion cu ft, of which 0.35 billion cubic feet was re-injected. Dry consumption that year totaled 3.88 billion cu ft. The country also imported 1,000 short tons of hard coal in 2002.

## 28 INDUSTRY

The industrial sector, constrained by the small domestic market and the population's low purchasing power, is largely undeveloped. Industries are concentrated in industrial metals, timber processing, machinery, food, drinks, and tobacco. Although industrial production, including construction and the provision of utilities, electricity and water, has increased to about 40% of GDP, the manufacturing component has been decreasing as a percent of GDP, from 9.5% in 1980 to 9% in 1990 to 8.2% in 2001, according to Asian Development Bank statistics. This relative decline is mainly due to double digit growth in the construction sector, a boom led by work on the Lihir gold mine and the Gobe petroleum project. The growth rate in construction peaked in 1997 and 1998, at 21.7% and 25.4%, respectively, but the sector continues strong.

In 2002, a number of construction projects involving housing, airports, highways, disaster rehabilitation, and a petroleum refinery were planned or under way. Handicraft and cottage industries have expanded. A government-sponsored program assists Papua New Guineans in setting up businesses and purchases equity in existing firms. It has also encouraged small-scale import-substitution operations.

In 2005, industry accounted for 38.3% of the GDP, and was seconded by agriculture with 35.2%, and services, with 26.4%. However, 85% of the 3.4 million labor force continues to be engaged in subsistence agriculture.

## 29 SCIENCE AND TECHNOLOGY

The Papua New Guinea Scientific Society, founded in 1949 at Boroko, promotes the sciences, exchanges scientific information, preserves scientific collections, and establishes museums. The University of Papua New Guinea, founded in 1965 at Waigani, and the Papua New Guinea University of Technology, founded in 1965 at Lae, provide scientific and technical training. The Lowlands Agricultural Experiment Station, founded in 1928, is in Kerevat. The Papua New Guinea Institute of Medical Research was founded in 1968. In 1987–97, science and engineering students accounted for 10% of college enrollments.

In 2002, Papua New Guinea has high technology exports totaling \$11 million, or 195 of its manufactured exports.

## 30 DOMESTIC TRADE

Trade in rural areas is mostly informal and cash is used in transactions. The local market, particularly in fruit and vegetables, is an important feature of economic and social life. Domestic trade in urban centers is primarily through modern supermarket chains and independent stores. The companies sponsoring supermarkets tend to be in both the importing and wholesale businesses and take responsibility for distribution of goods to outlying villages, which are generally somewhat isolated. Domestic trade is hampered by street gangs that terrorize local and foreign residents and merchants. There are a few Australian-based franchises within the country.

Most stores are open weekdays from 8 AM to 5 PM and until noon on Saturdays. Banks are open from 9 AM to 2 PM Monday through Thursday and from 9 AM to 5 PM on Fridays. Other businesses operate from 8 AM to 4:30 PM weekdays. Most businesses and government offices do not open on the weekends.

### Principal Trading Partners – Papua New Guinea (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	2,260.2	1,302.4	957.8
Areas nes	1,228.9	...	1,228.9
Australia	358.3	729.8	-371.5
Japan	96.1	65.4	30.7
United Kingdom	78.9	10.2	68.7
Germany	76.6	4.5	72.1
United States	59.8	115.7	-55.9
Philippines	35.0	3.6	31.4
China	28.9	57.4	-28.5
Italy-San Marino-Holy See	28.9	2.3	26.6
Singapore	27.5	89.2	-61.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

## 31 FOREIGN TRADE

In 2000, Papua New Guinea's exports totaled \$2.4 billion while imports totaled \$1 billion, down from \$1.1 billion in 1999. Consumer goods accounted for 9.3% of imports; machinery, 17.8%; industrial supplies, 18.3%; transportation equipment, 15.1%; food and beverages, 17.2%; and other imports, 0.3%. Of its natural resources, Papua New Guinea mainly exports crude petroleum (29%), copper ore (8.9%), and coffee (6.1%). Other exports include palm oil (6.0%) and rough wood (1.8%).

Through most of the period when Papua New Guinea was a territory administered by Australia, the two were also major trading partners. In the 1970s, Papua New Guinea's trade with other countries, especially Japan and Germany, increased.

In 2005, exports reached \$2.8 billion (FOB—Free on Board), while imports grew to \$1.6 billion (FOB). The bulk of exports went to Australia (28%), Japan (5.8%), Germany (4.7%), and China (4.6%). Imports included machinery and transport equipment, manufactured goods, food and live animals, and chemicals, and mainly came from Australia (46.4%), Singapore (21.6%), Japan (4.3%), and New Zealand (4.2%).

## 32 BALANCE OF PAYMENTS

Papua New Guinea relies heavily on imported goods and services, both for consumption and as inputs for its exports. The country registered deficits on current accounts during the early 1980s, after recording annual surpluses in the late 1970s. In the late 1980s, mine closings, civil unrest, and sustained deterioration in prices for the country's principal agricultural exports severely tested the economy and led to a program of structural adjustment supported by the World Bank and IMF. When the economy rebounded in the early 1990s, however, the government lost interest in the reforms and instituted expansionist fiscal policies that led to a decline in international reserves. To restore foreign exchange levels, the government devalued the currency in 1994. When that failed to solve the problem, the government let the kina float, resulting in a depreciation of about 28% by 1996. In 1995, Papua New Guinea reached an agreement with the World Bank and IMF on a series of economic reforms. The subsequent receipt of approximately \$200

**Balance of Payments – Papua New Guinea (2001)**

(In millions of US dollars)

<b>Current Account</b>		<b>282.1</b>
Balance on goods	880.5	
Imports	-932.4	
Exports	1,812.9	
Balance on services	-376.9	
Balance on income	-230.2	
Current transfers	8.6	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-151.9</b>
Direct investment abroad	...	
Direct investment in Papua New Guinea	62.5	
Portfolio investment assets	-72.7	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-66.9	
Other investment liabilities	-74.7	
<b>Net Errors and Omissions</b>		<b>-1.6</b>
<b>Reserves and Related Items</b>		<b>-128.6</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

million in loans in August 1995 substantially bolstered foreign reserves. Another agreement with the IMF in 2000 brought in an additional \$115 million in loans to the country.

The International Monetary Fund (IMF) reported that in 2001 Papua New Guinea had exports of goods totaling \$1.81 billion and imports totaling \$932 million. The services credit totaled \$285 million and debit \$662 million. The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Papua New Guinea's exports was \$1.8 billion while imports totaled \$1.024 billion resulting in a trade surplus of \$776 million.

**Public Finance – Papua New Guinea (2002)**

(In millions of kina, central government figures)

<b>Revenue and Grants</b>	<b>2,666.3</b>	<b>100.0%</b>
Tax revenue	2,449.2	91.9%
Social contributions	4.4	0.2%
Grants	47.6	1.8%
Other revenue	165.1	6.2%
<b>Expenditures</b>	<b>3,052.4</b>	<b>100.0%</b>
General public services	1,821.8	59.7%
Defense	72	2.4%
Public order and safety	227.6	7.5%
Economic affairs	369.5	12.1%
Environmental protection	...	...
Housing and community amenities	10.7	0.4%
Health	174	5.7%
Recreational, culture, and religion	26	0.9%
Education	305.7	10.0%
Social protection	45.1	1.5%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Exports of goods and services totaled \$2.4 billion in 2003, while imports grew to \$2.0 billion. The resource balance was consequently positive, at \$378 million. The current account balance was fairly stable in 2003 and 2004, hovering around \$237 million. Foreign exchange reserves (including gold) increased to \$636 million in 2004.

**33 BANKING AND SECURITIES**

The Bank of Papua New Guinea, the country's central bank, was established in 1973, and the currency, the kina, was first issued in April 1975. The kina is backed by a standby arrangement with Australia, and the value of the kina is tied to the Australian dollar.

The Papua New Guinea Banking Corp. was set up in 1973 to take over the savings and trading business of the former Australian government-owned bank operating in Papua New Guinea. It competes with seven other private commercial banks, three of which are subsidiaries of Australian banks. Liquidity increased over the first six months of 1996, with total liquid assets held by the commercial banks standing at \$2.1 billion at the end of 1996. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$376.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$846.1 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 11.25%.

There is no securities exchange in Papua New Guinea.

**34 INSURANCE**

In 1997, there were at least 11 insurance companies operating in Papua New Guinea.

**35 PUBLIC FINANCE**

Papua New Guinea receives most of its bilateral aid from Australia, which donates about \$200 million a year in assistance. Foreign budgetary support was phased out in 2000; aid is now concentrated on project development. Other major sources of aid include Japan, the EU, China, Taiwan, the UN, the Asian Development Bank, the IMF, and the World Bank.

The US Central Intelligence Agency (CIA) estimated that in 2005 Papua New Guinea's central government took in revenues of approximately \$1.3 billion and had expenditures of \$1.3 billion. Revenues minus expenditures totaled approximately \$14 million. Public debt in 2005 amounted to 47.1% of GDP. Total external debt was \$1.978 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government revenues were K2,666.3 million and expenditures were K3,052.4 million. The value of revenues was US\$1,036 million and expenditures US\$1,186 million, based on an official exchange rate for 2002 of US\$1 = K2.573 as reported by the IMF. Government outlays by function were as follows: general public services, 59.7%; defense, 2.4%; public order and safety, 7.5%; economic affairs, 12.1%; housing and community amenities, 0.4%; health, 5.7%; recreation, culture, and religion, 0.9%; education, 10.0%; and social protection, 1.5%.

### **3<sup>6</sup>TAXATION**

Company incomes are taxed at a rate of 25–50%. Additional profits tax is calculated on the net profits of mining and petroleum companies at a rate of 35–50%. In addition, progressive tax rates are applied to individuals' wages and salaries, with taxes automatically withheld from paychecks. Tax rates range from 10–35%. Land and property taxes, estate and death taxes, gift taxes, stamp taxes, excise taxes, and sales taxes are also imposed.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

Papua New Guinea acceded to the World Trade Organization in 1996 and has liberalized its trade to conform to WTO standards, removing all nontariff barriers to trade including quotas, bans, and license requirements. The government put a value-added tax (VAT) into effect in 1998 and intends to reduce all nonprotective tariffs to zero using the VAT. There are import duty rates of 5%, 8%, and 11%. The protective tariff is 40% and there are higher rates applied to luxury items such as tobacco and liquor.

### **3<sup>8</sup>FOREIGN INVESTMENT**

The bulk of foreign investment is in the mining and petroleum sector. Statistic on foreign equity holdings for 1995 show that Australia was the largest investor with K1,446 million, followed by the United Kingdom with K160 million and the United States with K91 million. Overall, foreign equity holdings fell from 55% of GDP in 1990 to 33% in 1994, primarily due to the completion of major mining and petroleum projects. In 1995, developers RTZ and Niugini Mining were awarded a lease for the \$800 million Lihir gold project raising foreign equity holdings to 37% of GDP.

The Investment Promotion Authority (IPA), established in 1992, facilitates and certifies foreign investment. Corruption, civil unrest, and bureaucratic delays, however, frustrate the process. A number of free trade zones are in the early stages of development.

Foreign investment in Papua New Guinea took on an air of international intrigue when it was revealed that in early 1997 Prime Minister Julius Chan had entered into a \$46 million contract with Sandline Incorporated, a mercenary military organization, to retake Bougainville Island and in particular the copper mining complex there that had been occupied by separatists since 1989. Money behind the contract was traced to the British-Australia mining company, RTZ-CRA. The army prevented the use of the mercenaries. Chan lost his parliamentary seat in the 1997 elections, and a peace agreement was signed with the Bougainville Revolutionary Army (BRA) in 1998.

Foreign direct investment (FDI) was only \$87.6 million in 1997 and \$109.6 million in 1998. FDI nearly tripled in 1999, however, to \$296.5 million, before falling back to \$130.7 million in 2000. FDI in 2002 was \$178.7 million.

### **3<sup>9</sup>ECONOMIC DEVELOPMENT**

The fundamental purposes of Papua New Guinea's economic strategy have been distilled into the nation's eight aims: a rapid increase in the proportion of the economy under the control of Papua New Guineans; a more equal distribution of economic benefits; decentralization of economic activity; an emphasis on small-scale artisan, service, and business activity; a more self-reliant economy; an increasing capacity for meeting government spend-

ing from locally raised revenue; a rapid increase in the equal and active participation of women in the economy; and governmental control and involvement in those sectors where control is necessary to achieve the desired kind of development.

In March 2000, Papua New Guinea's economic reform efforts came under the supervision of an IMF Structural Adjustment Program (SAP) financed by a stand-by credit line of SDR85.54 million (about \$120 million) that ran from 29 March 2000 to 29 September 2001. The IMF is critical of policies through which the government has intervened heavily in the economy—through tax incentives, licensing and approval requirements, trade restrictions, tariffs and price controls—to create an economy dominated by a few privately-owned, highly protected, noncompetitive, import substitution enterprises. The SAP called for privatization of the few state owned enterprises, liberalization of trade and investment, reduction in public service employment and the decontrol of prices. In 2002, the government was implementing many of these reforms either as conditionals under the IMF stand-by agreement and/or as requirements for participation in APEC and accession to the WTO.

The annual growth average is supposed to pick up over the rate registered in 2005 (2.9%), as a result of stronger mining and petroleum sectors. The Kainantu and Simberi goldmines will likely be put into operation at the beginning of 2006, boosting gold output, while work on the Hidden Valley gold project and the Ramu nickel-cobalt project could also begin in 2006. However, if the country is to benefit significantly from an export-led growth strategy it needs to carry on serious infrastructure improvements.

### **4<sup>0</sup>SOCIAL DEVELOPMENT**

A mandatory occupational retirement system covers persons employed by firms with 20 or more workers, providing old age, disability, and survivor benefits. The system is financed by 5% contribution of earnings from employees, and 7% of payroll from employers. Retirement is set at age 55, or at any age with 12 years of contributions. Benefits are provided as a lump sum, and include total contributions plus interest. Workers' compensation is provided by employers through direct provision of benefits or insurance premiums. Medical services, where available, are provided free or at a nominal cost. Rural communities traditionally assume communal obligations to those in need.

The constitution and other laws provide extensive rights for women, however traditional patterns of discrimination still prevail. Women are considered second-class citizens. Village courts tend to enforce these patterns, and intertribal warfare often involves attacks on women. Polygyny is common, and the tradition of paying a bride-price persists. Violence against women is widespread and few victims press charges. Much of the violence is committed by women against another of their husband's wives. The government does not adequately fund programs to protect the rights and welfare of children.

In 2004, human rights violations included excessive use of police force, poor prison conditions, and limits on freedom of assembly.

### **4<sup>1</sup>HEALTH**

Government policy is to distribute health services widely and to provide comprehensive medical care, both preventive and curative. Approximately 96% of the population had access to health

care services. As of 2004, there were an estimated 5 physicians, 53 nurses, and 2 dentists per 100,000 people. In 2000, 42% of the population had access to safe drinking water and 82% had adequate sanitation. Total health care expenditure was estimated at 3.2% of GDP.

The main health problems are malaria, tuberculosis, leprosy, and venereal disease. Significant malnutrition occurs in some areas and pneumonia and related respiratory infections are major risks. The increased incidence of malaria has been linked to importation from neighboring islands. Immunization rates for children up to one year old were fairly high: tuberculosis, 91%; diphtheria, pertussis, and tetanus, 66%; polio, 66%; and measles, 39%. The rates for DPT and measles were, respectively, 56% and 58%. While malnutrition remains a major problem, dramatic changes have occurred in some groups with exposure to more Westernized diets. Diabetes in the highland populations is low but has been documented to be as high as 16% in major cities of Papua New Guinea.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 31.6 and 7.8 per 1,000 people. Approximately 26% of married women (ages 15 to 49) were using contraception. The infant mortality rate decreased from 110 deaths per 1,000 live births in 1974 to 51.45 in 2005. Approximately 16% of all births were low birth weight babies. The maternal mortality rate was 370 per 100,000 live births. Life expectancy was 64.93 years in 2000.

Papua New Guinea had the highest per capita HIV prevalence in the North and South Pacific regions. As of 2004, there were approximately 1,600 people living with HIV/AIDS in the country. The HIV/AIDS prevalence was 0.60 per 100 adults in 2003. There were an estimated 600 deaths from AIDS in 2003.

Coronary heart disease, previously rare or nonexistent, has become more prevalent in past years. Total cholesterol values are higher in urban coastal and periurban subjects than in rural locations.

## 42 HOUSING

Traditional housing in rural areas appears to be adequate, but in urban areas there are acute shortages because of migration. In most urban areas, squatter settlements have been established. New housing has generally fallen far short of meeting the demand, especially for medium- and low-cost units. As of 1988, the housing stock totaled 555,000 and the number of people per dwelling averaged 5.8. As of 2000, about 87% of the population lived in rural areas.

## 43 EDUCATION

The present government aims at upgrading and improving the system and quality of education. Children attend state-run community schools for primary education and provincial and national high schools for secondary education. Primary school covers nine years of schooling, including one year of preschool and grades I to VIII. The provincial secondary schools cover a two-year program, which may be followed by a two-year national high school program. Students choose to enter a two-year technical school for their secondary education. In addition to the national government system, there is an international school system that ends at high school. Fees are considerably higher than the government

run schools, and the curriculum is based on the British system. There are also privately run preschools and primary schools. The academic year runs from February to November.

In 2001, about 38% of all six-year-olds were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 74% of age-eligible students; 79% for boys and 69% for girls. In 2001, secondary school enrollment was about 23% of age-eligible students; 25% for boys and 20% for girls. It is estimated that about 52.6% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 35:1 in 2003; the ratio for secondary school was about 22:1.

The University of Papua New Guinea in Port Moresby offers degrees in law, science, medicine and arts. The University of Technology in Lae offers degrees in technical subjects such as engineering, business, architecture, and forestry. The Pacific Adventist College, a privately run university outside Port Moresby, offers courses in education, business, accounting, secretarial studies, and theology. In 1999, about 2% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 57.3%, with 63.4% for men and 50.9% for women.

As of 2003, public expenditure on education was estimated at 2.3% of GDP, or 17.5% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The largest libraries are at the University of Papua New Guinea (440,000 volumes) and at the Papua New Guinea University of Technology (130,000). Local libraries are well established in urban centers. The National Library Service in Boroko has 85,000 volumes. The Papua New Guinea Institute of Public Administration in Boroko holds 90,000 volumes.

The Papua New Guinea National Museum and Art Gallery, in Boroko, has a good collection of art and general ethnography. The museum is implementing the National Cultural Property Act to protect the country's cultural heritage and to further establish appropriate museums. In 1981 the country opened the Madang Museum, Culture and Tourism Center in Yomba. The J. K. MacCarthy Museum, an ethnological collection, is located in Goroka.

## 45 MEDIA

In 2003, there were an estimated 12 mainline telephones for every 1,000 people. The same year, there were approximately three mobile phones in use for every 1,000 people. A coastal radio service provides communications between land-based stations and ships at sea.

In 2004, the government-owned National Broadcasting Commission was operating two radio networks with limited range. NBC broadcasts in English, Pidgin, Hiri Motu, and a dozen other vernaculars. EMTV, owned by a private Fijian company, was the only television broadcaster in 2004. There were also two independent local cable companies. The privately owned NAU-FM radio network is based in Port Moresby. In 2003, there were an estimated 86 radios and 23 television sets for every 1,000 people. About 4.2 of every 1,000 people were cable subscribers. Also in 2003, there were 58.7 personal computers for every 1,000 people and 14 of every 1,000 people had access to the Internet. There was one secure Internet servers in the country in 2004.

The *Papua New Guinea Post-Courier* is published daily in English with a 2002 circulation of about 30,480. *The National*, another daily, is published on Boroko and had a 2002 circulation of 20,000. Other local news sheets are published, many in Pidgin. *Niugini Nius*, also in Boroko, is published Tuesday–Friday (circulation 31,000) and also has a weekend edition (16,000).

The constitution provides for free speech and free media, and the government is said to generally respect these rights in practice.

#### **46 ORGANIZATIONS**

The Papua New Guinea Chamber of Commerce and Industry is located in Port Moresby. There are some organizations dedicated to the promotion of specific industries, such as the Papua New Guinea Tourism Promotion Authority and the Papua New Guinea Chamber of Mines and Petroleum.

National youth organizations include the Papua New Guinea National Union of Students, YMCA/YWCA, and the Scout Association of Papua New Guinea. There are several sports associations organizing amateur competitions for such pastimes as cricket, track and field, baseball, lawn tennis, tae kwon do, and squash. Women's organizations include the East Sepik Women and Children's Health Project and the Simbu Women's Resource Center. There are national chapters of the Red Cross Society and Caritas.

#### **47 TOURISM, TRAVEL, AND RECREATION**

The Tourism Promotion Authority of Papua New Guinea works with the government to actively promote tourism as a priority for economic development. There are large-scale resorts and basic lodges to accommodate all travelers. Ecotourism is the main attraction with an abundance of vibrant flora and fauna in the rain forest and national parks. Water sports, golf, tennis, and rock climbing are popular pastimes. Tourists must have a valid passport, onward/return ticket, proof of sufficient funds, and an entry permit. A 60 day visa may be issued upon arrival to visitors from Australia, Cyprus, Japan, Portugal, Austria, Denmark, Neth-

erlands, Switzerland, Belgium, France, Norway, Sweden, Canada, Germany, New Zealand, the United States, and the United Kingdom.

In 2003, about 56,000 tourists visited Papua New Guinea, over half of whom came from Australia. There were 2,830 rooms in hotels and other establishments with 4,306 beds.

In 2004, the US Department of State estimated the daily cost of staying in Papua New Guinea at \$217.

#### **48 FAMOUS PAPUA NEW GUINEANS**

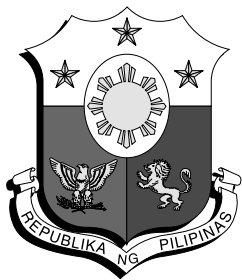
The best known Papua New Guineans are Michael Thomas Somare (b.1936), chief minister during colonial rule and the nation's first prime minister; Sir Albert Maori Kiki (1931–93), author of *Kiki: Ten Thousands Years in a Lifetime*; and Vincent Eri (1936–93), author of *The Crocodile*.

#### **49 DEPENDENCIES**

Papua New Guinea has no territories or colonies.

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# PHILIPPINES

Republic of the Philippines

*Republika ng Pilipinas*



**CAPITAL:** Manila

**FLAG:** The national flag consists of a white equilateral triangle at the hoist, with a blue stripe extending from its upper side and a red stripe extending from its lower side. Inside each angle of the triangle is a yellow five-pointed star, and in its center is a yellow sun with eight rays.

**ANTHEM:** *Bayang Magiliw (Nation Beloved)*.

**MONETARY UNIT:** The peso (₱) is divided into 100 centavos. There are coins of 1, 5, 10, 25, and 50 centavos and 1 and 2 pesos, and notes of 5, 10, 20, 50, 100, and 500 pesos. ₱1 = \$0.01815 (or \$1 = ₱55.1) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local measures also are used.

**HOLIDAYS:** New Year's Day, 1 January; Freedom Day, 25 February; Labor Day, 1 May; Heroes' Day, 6 May; Independence Day (from Spain), 12 June; Thanksgiving, 21 September; All Saints' Day, 1 November; Bonifacio Day, 30 November; Christmas, 25 December; Rizal Day, 30 December; Last Day of the Year, 31 December. Movable religious holidays include Holy Thursday and Good Friday.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Republic of the Philippines consists of an archipelago of 7,107 islands situated SE of mainland Asia and separated from it by the South China Sea. The total land area is approximately 300,000 sq km (115,831 sq mi), 67% of which is contained within the two largest islands: Luzon, 108,171 sq km (41,765 sq mi) and Mindanao, 99,078 sq km (38,254 sq mi). Other large islands include Samar, Negros, Palawan, Panay, Mindoro, Leyte, Cebu, Bohol, and Masbate. Comparatively, the area occupied by the Philippines is slightly larger than the state of Arizona. The Philippines' length is 1,851 km (1,150 mi) SSE–NNW, and its width is 1,062 km (660 mi) ENE–WSW.

The Philippines is separated from Taiwan on the N by the Bashi Channel (forming part of the Luzon Strait) and from Sabah, Malaysia (northern Borneo), on the SW by the Balabac Strait (off Palawan) and the Sibutu Passage (off the Sulu Archipelago). Bordering seas include the Philippine Sea and the Pacific Ocean on the E, the Celebes Sea on the S, the Sulu Sea on the SW, and the South China Sea on the W. The Philippines has a total coastline of 36,289 km (22,549 mi).

The Philippines claims the Spratly Islands, in the South China Sea, as do China, Malaysia, Taiwan, and Vietnam. About 1,000 Philippine marines were stationed in the Spratlys in 1983. The Philippines also has a claim on Sabah, dating back to 1670.

The Philippines' capital city, Manila, is located on the island of Luzon.

## <sup>2</sup>TOPOGRAPHY

The topography is extremely varied, with volcanic mountain masses forming the cores of most of the larger islands. The range cul-

minates in Mt. Pulog (elevation 2,928 m/9,606 ft) in northern Luzon and in Mt. Apo, the highest point in the Philippines (elevation 2,954 m/9,692 ft), in Mindanao. A number of volcanoes are active, and the islands have been subject to destructive earthquakes. On 16 July 1990, a 7.7 magnitude earthquake occurred on Luzon causing the death of 1,621 people; it was recorded as the strongest earthquake that year worldwide. A 6.5 magnitude earthquake occurred in Samar on 18 November 2003, causing structural damage to buildings and roads, but few injuries. Another 6.5 magnitude tremor occurred in Mindoro on 8 October 2004.

Lowlands are generally narrow coastal strips except for larger plains in Luzon (Cagayan Valley and Central Plains), Mindanao (Cotabato and Davao-Agusan valleys), and others in Negros and Panay. Rivers are short and generally seasonal in flow. Important ones are the Cagayan, Agno, Abra, Bicol, and Pampanga in Luzon and the Cotabato and Agusan in Mindanao. Flooding is a frequent hazard. The shores of many of the islands are embayed (Manila Bay is one of the finest harbors in East Asia); however, several islands lack adequate harbors and require offshore lightering for sea transport. The only two inland water bodies of significant size are Laguna de Bay in Luzon and Lake Sultan Alonto in Mindanao.

## <sup>3</sup>CLIMATE

The Philippine Islands, in general, have a maritime tropical climate and, except in the higher mountains, temperatures remain warm, the annual average ranging from about 23° to 32°C (73 to 90°F) throughout the archipelago. Daily average temperatures in Manila range from a minimum of 21°C (70°F) to a maximum of 30°C (86°F) in January and from 24°C (75°F) to 33°C (91°F) in June. Annual normal relative humidity averages 80%. Rainfall and seasonality differ markedly throughout the islands, owing to varying

exposures to the two major wind belts, northeast trades or monsoon (winter) and southwest monsoon (summer). Generally, the east coasts receive heavy winter rainfall and the west coasts heavy summer rainfall. Intermediate and southern locales receive lesser amounts more equally distributed. The average annual rainfall in the Philippines ranges from 96 to 406 cm (38 to 160 in).

#### **4 FLORA AND FAUNA**

The Philippines supports a rich and varied flora with close botanical connections to Indonesia and mainland Southeast Asia. Forests cover almost one-half of the land area and are typically tropical, with the dominant family, Dipterocarpaceae, representing 75% of the stands. The forest also has vines, epiphytes, and climbers. Open grasslands, ranging up to 2.4 m (8 ft) in height, occupy one-fourth of the land area; they are man-made, the aftermath of the slash-and-burn agricultural system, and most contain tropical savanna grasses that are nonnutritious and difficult to eradicate. The diverse flora includes 8,000 species of flowering plants, 1,000 kinds of ferns, and 800 species of orchids.

There are over 150 species of mammals, with common mammals including the wild hog, deer, wild carabao, monkey, civet cat, and various rodents. There are about 196 breeding species of birds, among the more numerous being the megapodes (turkey-like wildfowl), button quail, jungle fowl, peacock pheasant, dove, pigeon, parrot, and hornbill. Reptilian life is represented by 190 species; there are crocodiles and the larger snakes include the python and several varieties of cobra.

#### **5 ENVIRONMENT**

Primary responsibility for environmental protection rests with the National Pollution Control Commission (NPCC), under whose jurisdiction the National Environmental Protection Council (NEPC) serves to develop national environmental policies and the Environmental Center of the Philippines implements such policies at the regional and local levels.

Uncontrolled deforestation in watershed areas, with consequent soil erosion and silting of dams and rivers, constitutes a major environmental problem, together with rising levels of air and water pollution in Manila and other urban areas. The NPCC has established standards limiting automobile emissions but has lagged in regulating industrial air and water pollution. In 2000, carbon dioxide emissions totaled 77.5 million metric tons.

The nation has 479 cu km of renewable water resources, with 88% of the annual withdrawal used to support farming and 4% used for industrial activity. Pollution has also damaged the coastal mangrove swamps, which serve as important fish breeding grounds. Between the 1920s and 1990s, the Philippines lost 70% of its mangrove area. In 2000, about 19% of the total land area was forested. About 50% of the nation's coral reefs are rated dead or dying as a result of pollution and dynamiting by fishermen. The nation is also vulnerable to typhoons, earthquakes, floods, and volcanic activity.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 50 types of mammals, 70 species of birds, 8 types of reptiles, 48 species of amphibians, 49 species of fish, 3 types of mollusks, 16 species of other invertebrates, and 212 species of plants. Threatened species in the Philippines included the

monkey-eating eagle, Philippine tarsier, tamarau, four species of turtle (green sea, hawksbill, olive ridley, and leatherback), Philippines crocodile, sinarapan, and two species of butterfly. The cebu warty pig, Panay flying fox, and Chapman's fruit bat have become extinct.

#### **6 POPULATION**

The population of Philippines in 2005 was estimated by the United Nations (UN) at 84,765,000, which placed it at number 12 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 35% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.3%, a rate the government viewed as too high. The projected population for the year 2025 was 115,675,000. The overall population density was 283 per sq km (732 per sq mi), but the population is unevenly distributed, being most densely concentrated in Luzon and the Visayan Sea islands.

The UN estimated that 48% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.70%. Metropolitan Manila, the capital, had a population of 10,352,000 in that year. Created in 1975, metropolitan Manila includes four cities—Manila proper, Quezon City, Caloocan City, and Pasay City—and 13 surrounding municipalities. Other major cities include Davao, Cebu, Zamboanga, Bacolod, Cagayan de Oro, and Iloilo.

#### **7 MIGRATION**

The rapid growth of the Philippine population has led to considerable internal migration. On Luzon, frontier-like settlements have pushed into the more remote areas. The Mindoro and Palawan islands also have attracted numerous settlers, and hundreds of thousands of land-hungry Filipinos have relocated to less densely populated Mindanao. There also has been a massive movement to metropolitan Manila, especially from central Luzon. Emigration abroad is substantial. To reduce domestic unemployment, over 500,000 Philippine citizens were working abroad in the late 1980s and early 1990s, mainly in the Middle East, but also in Hong Kong and Singapore. Emigration to the United States particularly has been considerable: As of the 2000 US census, 1,369,070 Americans, or .85% of US population, residing chiefly in California and Hawaii claimed only Filipino ancestry. In 2004, 143 Filipinos sought asylum in Canada.

As of 1998, there were still 1,589 asylum seekers from Vietnam in a Palawan camp, who were refused refugee status but allowed to stay pending a repatriation solution. Distinctions between Indochinese and other nationalities have been dropped, and all are now referred to as urban refugees. Many refugees became legal exiles while studying in the Philippines following political or military upheavals in their homelands; a majority have since married Filipino nationals. The number of migrants in 2000 was 160,000. As of 2004, the Philippines hosted 107 urban refugees, 44 asylum seekers, and 1,829 Vietnamese of concern as rejected cases. In 2005, the net migration rate was -1.49 migrants per 1,000 population. The government views the emigration level as too high, but the immigration level as satisfactory. In 2003 remittances to the Philippines were \$8 billion.

## <sup>8</sup>ETHNIC GROUPS

Filipinos of Malay (Malayan and Indonesian) stock constitute about 95.5% of the total population. They are divided into nine main ethnic groups: the Tagalog, Ilocanos, Pampanguenos, Pangasinans, and Bicolanos, all concentrated in Luzon; the Cebuanos, Boholanos, and Ilongos of the Visayas; and the Waray-Waray of the Visayas, Leyte, and Samar. The largest single group is the Tagalog, accounting for about 28% of the total population. The Cebuano is the next largest group, representing about 13% of the population. Numerous smaller ethnic groups inhabit the interior of the islands, including the Igorot of Luzon and the Bukidnon, Manobo, and Tiruray of Mindanao. There are small groups of Chinese and Muslims.

## <sup>9</sup>LANGUAGES

There are two official languages: Filipino (based on Tagalog), the national language adopted in 1946 and understood by a majority of Filipinos; and English, which is also widely spoken and understood. Spanish, introduced in the 16th century and an official language until 1973, is now spoken by only a small minority of the population. More than 80 indigenous languages and dialects (basically of Malay-Indonesian origin) are spoken. Besides Tagalog, which is spoken around Manila, the principal dialects include Cebuano (spoken in the Visayas), Ilocano (spoken in northern Luzon), and Panay-Hiligaynon. The teaching of Filipino is mandatory in public and private primary schools, and its use is encouraged by the government.

## <sup>10</sup>RELIGIONS

Most of the population (about 81%) belong to the Roman Catholic Church. Other Christian churches represent about 11.6% of the population and include such denominations as Seventh-Day Adventist, United Methodist, United Church of Christ, Assemblies of God, the Church of Jesus Christ of Latter-Day Saints, and Philippine Baptist (associated with Southern Baptist). In addition, there are three churches established by Filipino religious leaders, the Independent Church of the Philippines, also called Aglipayan; the Iglesia ni Cristo (Church of Christ); and the Ang Dating Daan (an offshoot of the Church of Christ). Muslims represent about 5% of the population and are commonly called Moros by non-Muslims. They are concentrated in Mindanao and the Sulus. Most Muslims are Sunni. Buddhists make up less than 1% of the population. There are also small communities of Hindus and Jews. It is believed that a majority of the indigenous population includes elements of native religions within their practice of other faiths.

Freedom of religion and the separation of church and state is guaranteed by the constitution. In an effort to reduce tensions between Christians and Muslims in the southern islands and to answer Muslim autonomist demands, the government established an Office of Muslim Affairs in 1981 and allocated funds for Islamic legal training and for Muslim schools and cultural centers. Part of its role, as of 1999, involved coordinating the travel of pilgrims to Mecca, Saudi Arabia, and coordinating diplomatic ties with countries that have contributed to Mindanao's economic development and to the "peace process" with insurgent groups. The National Ecumenical Consultative Committee is a government-sponsored



LOCATION: 4°23' to 21°25'N; 116° to 127°E. TERRITORIAL SEA LIMIT: 12 miles.

group that encourages interfaith dialogue. Certain Christian holidays are recognized as national holidays.

## <sup>11</sup>TRANSPORTATION

The total length of roadways in 2002 was 202,124 km (125,721 mi), of which only 19,202 km (11,944 mi) were paved. Luzon contains about one-half of the total road system, and the Visayas

about one-third. There were 796,385 passenger cars and 1,774,300 commercial vehicles registered in 2003.

In 2004, the Philippine railroad system consisted of 897 km (557 mi) of common-carrier narrow gauge railroad track on Luzon and Panay. However, the system only plays a minor role in transportation, since only 492 km (306 mi) were in operation. As of 2004, there were 3,219 km (2,000 mi) of waterways, but their use is limited to vessels with a draft of less than 1.5 m (4.5 ft).

Water transportation is of paramount importance for inter-island and intra-island transportation. A small offshore fleet registered under the Philippine flag is engaged in international commerce, but most ocean freight is carried to and from the Philippines by ships of foreign registry. In 2005, the merchant fleet numbered 419 ships of 1,000 GRT or more, totaling 4,524,259 GRT. There are 25 major ports. Manila is the busiest Philippine port in international shipping, followed by Cebu and Iloilo. Other ports and harbors include Batangas, Cagayan de Oro, Davao, Guimaras Island, Iligan, Jolo, Legaspi, Masao, Puerto Princesa, San Fernando, Subic Bay, and Zamboanga.

In 2004 there were an estimated 255 airports. As of 2005 a total of 83 had paved runways, and there were also two heliports. Ninoy Aquino International Airport, formerly Manila International Airport, is the principal international air terminal. Five other airports serve international flights as well. Philippine Air Lines (PAL), the national airline, provides domestic and international flights. Under the Aquino government there were plans to sell PAL stock to the private sector. In 2003, about 6.467 million passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Evidence of human habitation dates back some 250,000 years. In more recent times, experts believe that the Negritos, who crossed then existing land bridges from Borneo and Sumatra some 30,000 years ago, settled the Philippine Islands. Successive waves of Malays, who arrived from the south, at first by land and later on boats called *barangays*—a name also applied to their communities—came to outnumber the Negritos. By the 14th century, Arab traders made contact with the southern islands and introduced Islam to the local populace. Commercial and political ties also linked various enclaves in the archipelago with Indonesia, Southeast Asia, India, China, and Japan. Ferdinand Magellan, a Portuguese-born navigator sailing for Spain, made the European discovery of the Philippines on 15 March 1521 and landed on Cebu on 7 April, claiming the islands for Spain, but the Filipino chieftain Lapulapu killed Magellan in battle. The Spanish later named the islands in honor of King Philip II, and an invasion under Miguel Lopez de Legaspi began in 1565. The almost complete conversion of the natives to Christianity facilitated the Spanish conquest; by 1571, it was concluded, except for the Moro lands (Moro is the Spanish word for Moor). The Spanish gave this name to Muslim Filipinos, mostly inhabitants of southern and eastern Mindanao, the Sulu Archipelago, and Palawan. The Spanish administered the Philippines, as a province of New Spain, from Mexico. Trade became a monopoly of the Spanish government; galleons shipped Oriental goods to Manila, from there to Acapulco in Mexico, and from there to the mother country.

Although Spain governed the islands until the end of the 19th century, its rule was constantly threatened by the Portuguese, the

Dutch, the English (who captured Manila in 1762, occupying it for the next two years), the Chinese, and the Filipinos themselves. After the 1820s, which brought the successful revolts of the Spanish colonies in the Americas, Filipinos openly agitated against the government trade monopoly, the exactions of the clergy, and the imposition of forced labor. This agitation brought a relaxation of government controls: the colonial government opened ports to world shipping, and the production of such typical Philippine exports as sugar, coconuts, and hemp began. Filipino aspirations for independence, suppressed by conservative Spanish rule, climaxed in the unsuccessful rebellion of 1896–98. Jose Rizal, the most revered Filipino patriot, was executed, but Gen. Emilio Aguinaldo and his forces continued the war. During the Spanish-American War (1898), Aguinaldo declared independence from Spain on 12 June. When the war ended, the United States acquired the Philippines from Spain for \$20,000,000. US rule replaced that of the Spanish, but Philippine nationalists continued to fight for independence. In 1899, Gen. Aguinaldo became president of the revolutionary First Philippine Republic and continued guerrilla resistance in the mountains of northern Luzon until his capture in 1901, when he swore allegiance to the United States. Over the long term, the effect of US administration was to make the Philippines an appendage of the US economy, as a supplier of raw materials to and a buyer of finished goods from the American mainland. Politically, US governance of the Philippines was a divisive issue among Americans, and the degree of US control varied with the party in power and the US perception of its own security and economic interests in the Pacific. In the face of continued nationalist agitation for independence, the US Congress passed a series of bills that ensured a degree of Philippine autonomy. The Tydings-McDuffie Independence Law of 1934 instituted commonwealth government and further stipulated complete independence in 1944. In 1935, under a new constitution, Manuel Luis Quezon y Molina became the first elected president of the Commonwealth of the Philippines.

On 8 December 1941, Japan invaded the Philippines, which then became the focal point of the most bitter and decisive battles fought in the Pacific during World War II. By May 1942, the Japanese had achieved full possession of the islands. US forces, led by Gen. Douglas MacArthur, recaptured the Philippines in early 1945, following the Battle of Leyte Gulf, the largest naval engagement in history. In September 1945, Japan surrendered. On 4 July 1946, Manuel A. Roxas y Acuna became the first president of the new Republic of the Philippines. Both casualties and war damage wreaked on the Philippines were extensive, and rehabilitation was the major problem of the new state. Communist guerrillas, called *Hukbalahaps*, threatened the republic. Land reforms and military action by Ramon Magsaysay, the minister of national defense, countered the Huks' revolutionary demands. Magsaysay was elected to the presidency in 1953 but died in an airplane crash in 1957. Carlos P. Garcia succeeded Magsaysay and then won election to the office in 1958. Diosdado Macapagal became president in November 1961. He was succeeded by Ferdinand Edralin Marcos following the 1965 elections. Marcos was reelected in 1969 with a record majority of 62%. The Marcos government brutally suppressed the renewed *Hukbalahap* insurgency, but armed opposition by Muslim elements, organized as the Moro National Lib-

eration Front (MNLF), the Maoist-oriented New People's Army (NPA), and by other groups gathered force in the early 1970s.

Unable under the 1935 constitution to run for a third term in 1973, President Marcos, on 23 September 1972, placed the entire country under martial law, charging that the nation was threatened by a "full-scale armed insurrection and rebellion." Marcos arrested many of his more vehement political opponents, some of whom remained in detention for several years. In January 1973, the Marcos administration introduced a new constitution, but many of its provisions remained in abeyance until 17 January 1981, when Marcos finally lifted martial law. During the intervening period, Marcos consolidated his control of the government through purges of opponents, promotion of favorites, and delegation of leadership of several key programs—including the governorship of metropolitan Manila and the Ministry of Human Settlements—to his wife, Imelda Romualdez Marcos. Although Marcos made headway against the southern guerrillas, his human-rights abuses cost him the support of the powerful Roman Catholic Church, led by Jaime Cardinal Sin. Elections were held in April 1978 for an interim National Assembly to serve as the legislature until 1984, but local elections held in 1980 were widely boycotted. Pope John Paul II came to Manila in February 1981, and even though martial law was no longer in effect, he protested the violation of basic human rights. In June 1981, Marcos won reelection for a new six-year term as president under an amended constitution preserving most of the powers he had exercised under martial rule. New threats to the stability of the regime came in 1983 with the rising foreign debt, a stagnant economy, and the public uproar over the assassination on 21 August of Benigno S. Aquino, Jr. Aquino, a longtime critic of Marcos, was shot at the Manila airport as he returned from self-exile to lead the opposition in the 1984 legislative elections. The gunman was immediately killed, and 26 others suspected of conspiracy in the assassination were acquitted in December 1985 for lack of evidence. Public sympathy gave opposition parties 59 out of 183 elective seats in 1984.

In 1985, political pressures forced Marcos to call for an election in February 1986 in view of a widespread loss of confidence in the government. The Commission on Elections and the National Assembly, controlled by his own political party, proclaimed Marcos the winner. His opponent, Maria Corazon Cojuangco Aquino, the widow of Benigno S. Aquino, claimed victory, however, and charged the ruling party with massive election fraud. The National Movement for Free Elections, the United States, and other international observers supported Aquino's charge. Accordingly, other countries withheld recognition of Marcos. On 21 February 1986, a military revolt grew into a popular rebellion, urged on by Jaime Cardinal Sin. US president Ronald Reagan gave Marcos an offer of asylum, which Reagan guaranteed only if Marcos left the Philippines without resistance. Marcos went into exile in Hawaii.

#### After Marcos

On 25 February 1986, Corazon Aquino assumed the presidency. Her government restored civil liberties, released political prisoners, and offered the NPA a six-month cease-fire, with negotiations on grievances, in exchange for giving up violence. Because Aquino came to power through the forced departure of an officially proclaimed president, the legality of her regime was suspect. Consequently, she operated under a transitional "freedom constitution"

until 11 February 1987, when the electorate ratified a new constitution. On 11 May 1987 the first free elections in nearly two decades were held under the new constitution. More than 83% of eligible voters cast their ballots, 84 candidates ran for the 24 senate seats, and 1,899 candidates ran for the 200 house seats. There were 63 election-related killings. Old-line political families still controlled the system, as 169 House members out of the 200 elected either belonged to or were related to these families.

On 20 December 1987 one of the worst disasters in maritime history occurred when an overcrowded passenger ship collided with an oil tanker off Mindoro Island and at least 1,500 people perished. This delayed local elections until 18 January 1988. Nationwide 150,000 candidates ran for 16,000 positions as governor, vice governor, provincial board member, mayor, vice mayor, and town council member. In 1988 election-related violence killed more than 100 people. Members of the pro-government parties, a faction of the PDP-Laban and Lakas ng Bansa, formed a new organization, Laban ng Demokratikong Pilipino (LDP) in June 1988. In March 1989 the thrice-postponed election for barangay officials was held, electing some 42,000 barangay captains. In August 1989 President Aquino signed a law giving limited autonomy to provinces where most Philippine Muslims lived: Mindanao, Palawan, Sulu, and Tawi-Tawi islands.

There were five coup attempts between the time Aquino took office and the end of 1987. This continuing succession of coup plots culminated in a large, bloody, well-financed attempt in December 1989. Led by Colonel Gregorio Honasan (who participated in the 1987 coup attempt, and was a close associate of Senator Juan Ponce Enrile) and involving more than 3,000 troops that targeted several bases; US air support helped to quell this attempt. The Senate granted Aquino emergency powers for six months. President Aquino's administration lost international credibility with the appeal for US military support to quell the coup attempt. The authorities made arrests, but the Supreme Court ruled that Senator Juan Ponce Enrile could not be charged with murder, nullifying a criminal case against him. He was charged in a lower court with rebellion. In September 1990, 16 military members were convicted of the assassination of Senator Benigno Aquino in 1983 and sentenced to life in prison.

Former president Ferdinand Marcos had appealed to Aquino to allow him to attend the funeral of his mother, as he had appealed several times to visit his mother while she was ill; Aquino denied each request. The Philippine government had traced at least \$5 billion in deposits to Swiss bank accounts made by Marcos. Marcos attempted to negotiate his return to the Philippines, promising his support for Aquino and the return of \$5 billion to the Philippines. Aquino also rejected his wife Imelda's plea for her husband's return. The Philippine government filed an antigraft civil suit for \$22.6 billion against Marcos in 1987. Marcos and his wife, Imelda, were indicted in the United States, charged with the illegal transfer of \$100 million in October 1988. On 28 September 1989 former President Ferdinand Marcos died in Honolulu. Aquino refused to allow his burial in the Philippines.

Under pressure from Communist rebels Aquino removed the US military bases from the Philippines in 1989. Three US servicemen were murdered outside Clark Air Force Base and the Communists took responsibility for the murders. A Communist guerrilla who admitted participating in the 21 April 1989 assas-

sination of US Army Colonel James Row was arrested. In September 1989 US vice president Dan Quayle met with Aquino to discuss the renewal of the lease on US military bases. Prior to his arrival two American civilians working on the bases were killed; the government attributed these deaths to Communist guerrillas. The Communists continued to threaten US servicemen and local politicians. Anti-American demonstrations at Clark Air Base and in Manila led to clashes with the police and to injuries. The Communists continued their threats and two more US servicemen were killed near the Clark Air Base. In June of 1990 the Peace Corps removed 261 volunteers from the Philippines after Communist threats against them. In September 1990 Aquino said it was time to consider an "orderly withdrawal" of US forces from the Philippines.

Within a year the Philippines was pummeled with three major natural disasters. In July 1990 an earthquake measuring 7.7 on the Richter scale struck. The epicenter was 55 mi north of Manila and more than 1,600 people were killed. A super-typhoon devastated the central Visayas in November 1990. An even more destructive natural disaster occurred on 12 June 1991 when Mount Pinatubo in Zambales province, a volcano dormant for more than 500 years, violently erupted, causing the abandonment of Clark Air Base in Angeles City; 20,000 US military, their dependents, and civilian employees evacuated to the United States from Clark and the Subic Bay Naval Station.

The Philippine-American Cooperation Talks (PACT) reached agreement on military base and nonbase issues, but Philippine Senate refused to ratify the proposed treaty. On 6 January 1992 the Philippines government served notice of the termination of the US stay at Subic Naval Base in Zambales. After almost a century of US military presence, on 30 September 1992 the United States handed over Subic Naval Base to the Philippines. The Philippine government turned it into a free port, headed until 1998 by Dick Gordon.

Amnesty International (AI), the human rights organization, published a report in 1992 critical of the Aquino administration's assent to human rights violations perpetrated by the military; AI alleged that 550 extra judicial killings occurred during 1988-91. The military refuted the AI report citing its oversight of rebel activities.

In March 1991 President Aquino stated that Imelda Marcos could return to the Philippines, but that she faced charges that her husband stole \$10 billion during his 20 years as president. Mrs. Marcos returned in November, after five years in Hawaii, to face civil and criminal charges, including tax fraud. In January 1992 Imelda Marcos announced that she would run for election in 1992; in the same month she was arrested, and then released, for failing to post bail on charges that she unlawfully maintained accounts in Switzerland. In September 1993 the government permitted the embalmed body of Ferdinand Marcos to return to the Philippines for burial near his home in northern Luzon. On 24 September 1993 Imelda Marcos was found guilty of participating in a deal that was "disadvantageous to the government" under the Anti-Graft and Corruption Practices Act. She faced a maximum prison sentence of 24 years, but she remained free on bail while her appeal was considered.

In national and local elections held 11 May 1992, Fidel V. Ramos and Joseph E. Estrada were elected president and vice president,

respectively. On 30 June 1992 Fidel Ramos succeeded Corazon Aquino as president of the Philippines with a plurality of 23.6%. Nearly 85% of eligible voters turned out to elect 17,205 officials at national, regional, and local levels. The election was relatively peaceful with only 52 election-related deaths reported. Rules required voters to write the names of the candidate they wanted for office. This, combined with the number of candidates, meant it was several weeks before the votes were completely tallied. Ramos, a Methodist and the Philippine's first non-Catholic president, considered the country's population growth rate as an obstacle to development. A rally of 300,000 Catholics led by Cardinal Sin took place in Manila in 1993 to protest the Ramos administration's birth control policies and the public health promotion of prophylactics to limit the spread of AIDS.

Domestic insurgency by the Muslim population continued throughout the 1980s. By the 1990s, however, internal divisions among the Muslims, reduced external support, military pressure, and government accommodations, including the creation of the Autonomous Region in Muslim Mindanao in 1990 had greatly reduced the threat. In January 1994 the government signed a cease-fire agreement with the Moro National Liberation Front, ending 20 years of guerrilla war. Splinter groups among the Muslim population continue, however, to cause difficulties for both the MNLF and the government.

The last remaining communist insurgency in Asia was reduced temporarily by the Ramos government's peaceful signal, the 1992 Anti-Subversion Law, and the 1993 split in the ranks of the NPA that created a lull until issues related to the weakened leadership were resolved. The NPA returned to violent opposition sporadically throughout the 1990s, especially by the Revolutionary Proletarian Army, an offshoot of the NPA. The NPA significantly increased its use of children as armed combatants and noncombatants during this same time.

In January 1994 the congress passed a law restoring the death penalty for 13 crimes including treason, murder, kidnapping and corruption. Police reform was a particular goal of the legislation. This legislation was partly in response to a series of abductions of wealthy ethnic Chinese Filipinos abducted for ransom, in which the Philippine National Police were found to be involved.

Conflicting claims to the Spratly Islands in the South China Sea are a source of tension between the Philippines and the People's Republic of China. In 1989 Chinese and Philippine warships exchanged gunfire in the vicinity of the Spratly Islands. The incident was resolved by diplomatic means. In June 1994 China protested an oil exploration permit granted to Vaalco Energy of the United States, and to Alcorn Petroleum and Minerals, its Philippine subsidiary. The Philippine response was to refer to a principle of "common exploration" and development of the Spratlys. China had employed this same principle when the Philippines had protested China's granting the United States permission to explore in the Spratlys in 1993. China, Vietnam, Taiwan, the Philippines, Malaysia, and Brunei all lay claim to all, or a portion, of the Spratly Islands. In June 1994 a 5-day conference on East Timor held in Manila ended with an agreement to establish a coalition for East Timor in the Philippines and proposed a peace plan based on the gradual withdrawal of Indonesian troops. But turmoil in the Spratlys did not end. In 1995, China briefly occupied Mischief Reef in a part of the islands claimed by the Philippines. In spring

of 1997, Chinese warships were seen near Philippine-occupied islands in the chain. The two countries have also traded occupation of Scarborough Shoal, heightening tensions and prompting Manila to seek renewed American military presence. In May 1999 the Philippine Senate ratified a new Visiting Forces Agreement with the United States, despite claims by opponents that the VFA would give the US military the opportunity to bring nuclear weapons, without declaration, into the Philippines, violating the Philippine constitution.

The issue of Filipino women forced to work abroad, long a controversy in the country's large impoverished class, came to a head in 1995. In March, Filipina domestic worker Flor Contemplacion was executed in Singapore for the murder of a maid and a child. Outraged Filipinos claimed the girl was framed; they filled the streets of Manila in protest. The crisis, the product of unemployment and underemployment forcing families to export their children to low-wage overseas jobs, culminated in Mr. Ramos's sacking of two cabinet ministers.

In January 1996, Philippines police uncovered and thwarted a plot by Islamic extremists to assassinate Pope John Paul II during his visit to Manila that month.

Muslim rebels in Mindanao continued their insurgencies against the government, raiding the trading town of Ipil in April 1996. The terrorists killed 57 people and burned the town's business district. The rebels also took part in the resurgence of kidnappings and bank robberies in Manila and Mindanao. More than 100 kidnappings were reported in 1996, many in which police officers were also suspected. A peace agreement between the Philippine government and the MNLF was signed on 2 September 1996, that ended the 24-year-old war in Mindanao. The agreement was signed by the government chief negotiator Manuel Yan, Nur Misuari, Indonesian Foreign Minister Ali Alatas, and Secretary General Hamid Algabid of the Organization of Islamic Conference (OIC). Later, Misuari ran for and won the governorship of the Autonomous Region for Muslim Mindanao (ARM) in the 9 September 1996 elections.

The Philippine economy suffered a harsh blow in 1995 when a typhoon ravaged the rice harvest, trebling the destruction of the rice acreage lost to the Mount Pinatubo eruption. But the economy rebounded in late 1995 and through 1996, buoyed by the government's massive infrastructure improvements and plans to develop former US military bases Subic Bay and Clark Air Force Base as tourist attractions and economic zones.

President Ramos introduced the Philippines 2000 movement, which was both a strategy and a movement; he called it the Filipino people's vision of development by the year 2000. As envisioned, the Philippines by the year 2000 would have a decent minimum of food, clothing, shelter, and dignity. The major goal of Philippines 2000 was to make the Philippines the next investment, trade, and tourism center in Asia and the Pacific. The Ramos administration achieved several of its economic goals but few of the social changes envisioned.

On 30 June 1998 the newly elected President, Joseph Ejercito Estrada, took office. The new Vice President was Gloria Macapagal-Arroyo. In November 2000, impeachment proceedings began against Estrada on allegations of corruption, betrayal of the public trust, and violation of the constitution. Estrada stepped down as president on 20 January 2001 after months of protests, and Arroyo

was sworn in as president. Estrada in April 2001 was charged with taking more than US\$80 million from state funds while in office; he was arrested and placed in custody. Arroyo faced a sluggish economy upon coming into office; the economy was still recovering from the 1997–98 Asian financial crisis. She initiated privatization and deregulation policies, especially in agriculture and the power-generating industry. On 30 December 2002, Arroyo declared she would not seek a second term in the 16 May 2004 presidential elections, so that she could focus on her economic reform agenda, restore peace and order, reduce corruption, and “heal political rifts.” Despite this promise, she did participate in the 2004 presidential elections.

The separatist conflict on Mindanao had claimed more than 140,000 lives in three decades as of 2005. In March 2001, the 12,500-member Moro Islamic Liberation Front declared a ceasefire and declared it was ready to hold talks with the government. However, on 11 February 2003, more than 2,000 government soldiers advanced toward an MILF base near Pikit, attempting to disband a group of kidnappers known as the “Pentagon gang,” which is on the list of US terrorist organizations. Approximately 135 MILF fighters were killed in three days of fighting. In January 2002, nearly 700 US troops, including 160 Special Forces soldiers, were sent to Mindanao to assess the military situation, provide military advice, and train the 7,000 Philippine soldiers pursuing the guerrillas of the Abu Sayyaf group operating in the southern islands of Basilan and Jolo. The Philippine constitution forbids foreign troops fighting on its territory.

Following the 11 September 2001 terrorist attacks on the United States, the United States urged countries around the world to increase antiterrorist measures they might take. Southeast Asia was a primary focus of attention. In May 2002, the 10 members of ASEAN pledged to form a united antiterror front and to set up a strong regional security framework. The steps include introducing national laws to govern the arrest, investigation, prosecution, and extradition of suspects. As well, they agreed to exchange intelligence information and to establish joint training programs such as bomb detection and airport security.

The militant Islamic group Abu Sayyaf (“Bearer of the Sword”) is one of several guerrilla organizations involved in a resurgence of violence in the Philippines since 2000. It split off from the Moro National Liberation Front (MNLF) in 1991 to pursue a more fundamentalist course against the government. Actions taken since the early 1990s include bombings, assassinations, and kidnappings of priests and businessmen. One of its goals is an independent Islamic state in Mindanao, but its activities have been linked to international terrorism as well, including ties to Osama bin Laden's al-Qaeda network, according to the US government. In May 2001, Abu Sayyaf kidnapped 20 people, including 3 Americans, demanding ransom. They beheaded one of the American captives, and held the others—a missionary couple—hostage. In June 2002, Philippine commandos attempted to rescue the couple and a Filipino nurse being held with them. Two of the hostages were killed in a shootout, and one of the missionaries was freed. In August, Abu Sayyaf kidnapped six Filipino Jehovah's Witnesses and beheaded two of them. The group also claims responsibility for two bombings in Dabao City in 2003 which killed 38 people. In addition to Abu Sayyaf, a new Islamic insurgent group, Jemaah Islamiyah is believed to be training recruits in the southern Philip-

pines, which is dedicated to the establishment of an Islamic theocracy in Southeast Asia. Financial links have been found between Abu Sayyaf, Jemaah Islamiyah and al-Qaeda.

The 2004 presidential elections were extremely close. Arroyo was able to retain the presidency with 40% of the vote to Fernando Poe Jr. with 37%. However, the Philippines continued to be plagued by accusations of corruption in the government, business arena and security forces. President Arroyo is credited with increasing economic (GDP) growth, 4.3% in 2002 to 4.7% in 2003 and to about 6% in 2004, but there are substantial criticisms levied against her government. Intense poverty remained a central problem in the Philippines as do counterinsurgency groups like the MNLF, Abu Sayyaf, Jemaah Islamiyah and the communist New People's army. Steady unemployment contributes to the intense poverty with the 2005 rate exceeding 12%. Despite Arroyo's efforts, trafficking of women and children still remained a prominent issue.

### **13 GOVERNMENT**

Under the constitution of 11 February 1987 the Philippines is a democratic republican state. Executive power is vested in a president elected by popular vote for a six-year term, with no eligibility for reelection. The president is assisted by a vice president, elected for a six-year term, with eligibility for one immediate reelection, and a cabinet, which can include the vice president. Legislative power rests with a bicameral legislature. Congress consists of a senate, with 24 members elected for six-year terms (limited to two consecutive terms). Senators are chosen at large. Senators must be native-born Filipinos and at least 35 years old. A house of representatives is elected from single-member districts for three-year terms (limited to three consecutive terms). Districts are reapportioned within three years of each census. In 2004, 212 members were elected. Up to 52 more may be appointed by the president from "party lists" and "sectoral lists," but the constitution prohibits the house of representatives from having more than 250 members. Representatives must be native-born Filipinos and at least 25 years of age. Presidential and legislative elections are next scheduled for May 2007.

### **14 POLITICAL PARTIES**

The first Philippine political party, established in 1900, was the Federal Party, which advocated peace and eventual statehood. Later, the Nationalist Party (NP) and the Democratic Party were established. They did not produce an actual two-party system, since the Nationalists retained exclusive control and the Democrats functioned as a "loyal opposition." However, following Japanese occupation and the granting of independence, an effective two-party system developed between the Liberal Party (LP) and the NP. The Progressive Party, formed in 1957 by adherents of Ramon Magsaysay, polled more than one million votes in the presidential election of 1958. In the elections of November 1965, Senator Ferdinand Marcos, the NP candidate, received 55% of the vote. In the 1969 election, he was elected to an unprecedented second term. All political activity was banned in 1972, following the imposition of martial law, and was not allowed to resume until a few months before the April 1978 elections for an interim National Assembly. The Marcos government's New Society Movement (Kilusang Bagong Lipunan-KBL) won that election and the 1980 and 1982 balloting for local officials, amid charges of electoral fraud and at-

tempts by opposition groups to boycott the voting. The principal opposition party was the People's Power Movement-Fight (Lakas Ng Bayan-Laban), led by Benigno S. Aquino, Jr., until his assassination in 1983. This party joined with 11 other opposition parties in 1982 to form a coalition known as the United Nationalist Democratic Organization (UNIDO). Following Aquino's murder, some 50 opposition groups, including the members of the UNIDO coalition, agreed to coordinate their anti-Marcos efforts. This coalition of opposition parties enabled Corazon Aquino to campaign against Marcos in 1986. In September 1986 the revolutionary left formed a legal political party to contest congressional elections. The Partido ng Bayan (Party of the Nation) allied with other left-leaning groups in an Alliance for New Politics. This unsuccessful attempt for electoral representation resulted in a return to guerrilla warfare on the part of the Communists.

After assuming the presidency, Aquino formally organized the People's Power Movement (Lakas Ng Bayan), the successor to her late husband's party. In the congressional elections of May 1987, Aquino's popularity gave her party a sweep in the polls, making it the major party in the country. Marcos's KBL was reduced to a minor party. Some of its members formed their own splinter groups, such as the Grand Alliance for Democracy (GAD), a coalition of parties seeking distance from Marcos. Others revived the LP and the NP, seeking renewed leadership. The left-wing People's Party (Partido Ng Bayan), which supports the political objectives of the NPA, was a minor party in the elections. In May 1989 Juan Ponce Enrile reestablished the Nacionalista Party. A new opposition party, the Filipino Party (Partido Pilipino), organized in 1991 as a vehicle for Aquino's estranged cousin Eduardo "Danding" Cojuangco's presidential campaign. He ran third in the election, taking 18.1% of the vote, behind Miriam Defensor Santiago with 19.8% of the vote. On 30 June 1992 Fidel Ramos succeeded Corazon Aquino as president of the Philippines with a plurality of 23.6%. In September 1992 Ramos signed the Anti-Subversion Law signaling a peaceful resolution to more than 20 years of Communist insurgency, with the repeal of the antismunition legislation in place since 1957. On 26 August 1994 Ramos announced a new political coalition that would produce the most powerful political group in the Philippines. Ramos' Lakas-National Union of Christian Democrats (Lakas/NUCD) teamed with the Democratic Filipino Struggle (Laban ng Demokratikong Pilipino, Laban). Following the 1995 elections, the LDP controlled the Senate with 14 of the 24 members. The elections in 1998 changed the political landscape once more. In the Senate the newly created Laban Ng Masang Pilipino, led by presidential candidate, Joseph Estrada, captured 12 seats to the Lakas 5, PRP 2, LP 1, independents 3. The LAMP party also dominated the House of Representatives with 135 seats to the Lakas 37, LP 13, Aksyon Demokratiko 1, and 35 independents.

Political parties and their leaders in 2002 included: Kilusang Bagong Lipunan (New Society Movement), led by Imelda Marcos; Laban Ng Demokratikong Pilipino (Struggle of Filipino Democrats) or LDP, led by Eduardo Angara; Lakas, led by Jose De Venecia; Liberal Party or LP, led by Florencio Abad; Nacionalista Party, led by Jose Oliveros; National People's Coalition or NPC, led by Eduardo Cojuangco; PDP-Laban, led by Aquilino Pimentel; and the People's Reform Party or PRP, led by Miriam Defensor-Santiago.

The elections in 2004 again changed the political landscape dramatically. The senate became a majority Lakas with 7 seats, LP with 3 seats, KNP (coalition) with 3 seats, independents with 4 seats, others with 6 seats (there were 23 rather than 24 sitting senators because one senator was elected Vice President) Fourteen senators were pro-government, 9 were in opposition. Lakas also were a majority in the House of Representatives with 93 seats, NPC with 53, LP with 34, LDP with 11, and others with 20.

## **15 LOCAL GOVERNMENT**

Under the constitutions of 1935, 1973, and 1987, the country has been divided into provinces, municipalities, and chartered cities, each enjoying a certain degree of local autonomy. Each of the 73 provinces and subprovinces elects a governor, a vice-governor, and two provincial board members for terms of six years. There are 61 chartered cities headed by a mayor and a vice-mayor. Chartered cities stand on their own, are not part of a province, do not elect provincial officials, and are not subject to provincial taxation, but have the power to levy their own taxes. Municipalities, of which each province is composed, are public corporations governed by municipal law. There are approximately 1,500 municipalities, and within each municipality are communities (*barangays*), each with a citizens' assembly. There are about 42,000 *barangays*.

The 1987 constitution provides for special forms of government in the autonomous regions created in the Cordilleras in Luzon and the Muslim areas of Mindanao. Any region can become autonomous by a referendum. The Local Government Code of 1991 provided for a more responsive and accountable local-government structure. Local governments are to be given more powers, authority, responsibilities and resources through a system of decentralization.

## **16 JUDICIAL SYSTEM**

Under the 1973 constitution, the Supreme Court, composed of a chief justice and 14 associate justices, was the highest judicial body of the state, with supervisory authority over the lower courts. The entire court system was revamped in 1981, with the creation of new regional courts of trials and of appeals. Justices at all levels were appointed by the president. Philippine courts functioned without juries. Delays in criminal cases were common, and detention periods in national security cases were long. Security cases arising during the period of martial law (1972–81) were tried in military courts. The 1987 constitution restored the system to what it had been in 1973. Despite the reinstitution of many procedural safeguards and guarantees, the slow pace of justice continues to be a major problem.

The national court system consists of four levels: local and regional trial courts; a national Court of Appeals divided into 17 divisions; the 15-member Supreme Court; and an informal local system for arbitrating or mediating certain disputes outside the formal court system. A Shariah (Islamic law) court system, with jurisdiction over domestic and contractual relations among Muslim citizens, operates in some Mindanao provinces. Supreme Court justices may hold office, on good behavior, until the age of 70.

The constitution calls for an independent judiciary and defendants in criminal cases are afforded the right to counsel. The legal system is based on both civil and common law. It is especially in-

fluenced by Spanish and Anglo-American laws. The Philippines accepts the compulsory jurisdiction of the International Court of Justice.

The government allows free press although several journalists have been killed in revenge for reporting on crimes committed by local authorities.

An informal local system for arbitrating or mediating certain problems operates outside the formal court system. There is no jury system. Defendants enjoy a presumption of innocence and have the right to confront witnesses, to present evidence and to appeal.

Issues affecting women, such as rape, domestic violence and sexual discrimination continued to be problematic although banned by law. Drug trafficking, forced labor and child prostitution continued to be problems for the law enforcement community.

The Philippines is a member of many international organizations including the United Nations and the World Trade Organization.

## **17 ARMED FORCES**

The Philippines' armed forces had 106,000 active personnel in 2005, with reserves of 131,000. The Army had 66,000 active personnel that included eight light infantry divisions and five engineer battalions. Equipment included 65 *Scorpion* light tanks, 85 armored infantry fighting vehicles, 370 armored personnel carriers, and more than 282 artillery pieces. The Navy had an estimated 24,000 personnel (including 7,500 Marines) and an aviation arm. Major naval units included 1 frigate and 58 patrol/coastal vessels. The naval aviation arm was outfitted with six fixed wing transport aircraft and four utility helicopters. The Air Force had an estimated strength of 16,000, with 21 combat capable aircraft that included 11 fighter aircraft. The service also had 25 assault helicopters. Paramilitary forces consisted of a Coast Guard, the 40,500-member Philippine National Police and the 40,000 reservist Citizen Armed Force Geographical Units. The defense budget in 2005 totaled \$844 million.

The Philippines sent troops and observers to participate in UN missions in five countries.

## **18 INTERNATIONAL COOPERATION**

The Philippines is a charter member of the United Nations, having joined on 24 October 1945, and belongs to ESCAP and several nonregional specialized agencies, such as the FAO, ILO, UNESCO, UNHCR, UNIDO, the World Bank, IAEA, and the WHO. The Philippines is a member of ASEAN and led in the formation of the Asian Development Bank, which opened its headquarters in Manila in 1966. The nation is also a member of APEC, the Colombo Plan, G-24, G-77, and the WTO. It has observer status in the OAS.

The Philippines is part of the Nonaligned Movement. The government has offered support to UN missions and operations in Kosovo (est. 1999), Liberia (est. 2003), East Timor (est. 2002), and Burundi (est. 2004), among others. In environmental cooperation, the Philippines is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the London Convention, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 19 ECONOMY

Efforts to transform the Philippine economy from a primarily agricultural producer of crops for subsistence and export to a more diversified growth economy led by manufactured exports commanding more favorable terms of trade like its Asian tiger neighbors have been repeatedly hindered by natural disasters and external economic shocks. In 1990–91 the islands suffered the triple blow of earthquake, super-typhoon, and volcanic eruption. In succession, there were the even more devastating typhoon of 1995, the Asian financial crisis of 1997, and the global economic slowdown of 2001. In 2005, 14.8% of GDP was in agriculture, 31.7% in industry, and 53.5% in services. In 2004, 36% of the labor force was engaged in agriculture, compared with 16% in industry and 48% in services.

The manufacturing sector, though expanded and diversified since political independence, depends on imported raw materials and cannot supply internal needs. Electronics and telecommunications exports, which grew by double digits in the 1990s and had accounted for at least 75% of export revenues in 1999, proved vulnerable to the worldwide slowdown in consumer demand in the recession of 2001, and the contraction by half in foreign investment as a result of the 11 September 2001 terrorist attacks on the United States.

The Philippines has great potential as a tourist destination. However, since the early 1990s the tourist industry has, in addition to natural disasters and high fuel costs, been afflicted with political difficulties, particularly with the emergence of the Abu Sayyaf (Bearers of the Sword) Islamic fundamentalist group. Tourism receipts peaked in 1997 at close to \$3 billion, but in 2000 were less than \$2 billion.

Though the Philippine economy had a real GDP growth rate in 2001 of 3.4%, down from 4.8% in 2000, this positive showing was due primarily to a 4% growth in agriculture, and in spite of a 15% fall in exports, and 61.1% decline in its trade surplus (to \$2.6 billion) compared to 2000. For the first three quarters of 2002, the government reported growth in all three sectors, with services leading at 5.1% increase over 2001, industry second, at 3.8% growth, and agriculture at 2.3%. The improvement in services is ascribed to liberalization and deregulation that have encouraged innovations in telecommunications, retail, transportation and financing. The Malampaya natural gas project is central to industrial performance, while agriculture suffered from adverse weather conditions.

Widespread unemployment and underemployment plague the labor market. In 2002, the unemployment rate was 10.3% and the underemployment rate was 15.9%. High rates of labor migration abroad provide some relief and accounts for a substantial portion of the country's foreign exchange earnings.

Throughout the 1990s the shortage of electric power was a notorious constraint on the economy. In Manila, the industrial hub, power outages lasted from four to six hours per day. In 2000, in its Philippine Energy Plan (PEP) the government set as a goal 100% electrification by 2004. Consumer price protection was provided by the Price Act of 1992 through the stabilization of the price of basic necessities and prime commodities and by measures against undue price increases during emergency situations. In 1993 the inflation rate continued to decline and real economic growth accelerated through the beginning of 1997, before the onset of the

Asian financial crisis in August. As measured by the consumer price index (CPI), inflation peaked in 1998 at 9.7%, but had declined to 4.4% in 2000. There was an increase to 6.1% in 2001. Between 1993 and 1999, the Philippine government liberalized telecommunications, deregulated transportation, privatized water, and resolved the power crisis.

Real GDP growth averaged 3% from 1988 to 1998, peaking at 5.3% in 1997 and bottoming out in 1998 at 0.4%. From 1999 to 2002 real growth averaged close to 4%. Over the 2001–05 period, real GDP growth averaged 4.3%, and stood at 4.9% in 2005. GDP growth was forecast at 4.7% for 2006, but lower oil prices and higher global trade growth in 2007 were projected to allow GDP growth to accelerate to 5%. By year-end 2005, confidence in the Philippine economy had returned, as there had been a 70.5% year-on-year increase in FDI inflows into the country in January to August 2005.

The economy is marked by many disparities—in ownership of assets, in income, in levels of technology in production, and in the geographic concentration of economic activity. The National Capital Region (NCR), centered on Manila, contains 14% of the population and produces one-third of GDP. Per capita income in the NCR, the richest region of the country, is roughly nine times that of the poorest region, the four provinces forming the Muslim autonomous region in Mindanao. In 2000, the richest 10% of the population had an income 23 times that of the poorest 10%. Those living in poverty were estimated at 39.4% of the population in 2000, with the rate in rural areas standing at 46.9%. The poverty rate in the NCR was only 12.7%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 the Philippines's gross domestic product (GDP) was estimated at \$451.3 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,100. The annual growth rate of GDP was estimated at 4.7%. The average inflation rate in 2005 was 7.9%. It was estimated that agriculture accounted for 14.8% of GDP, industry 31.7%, and services 53.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$7.880 billion or about \$97 per capita and accounted for approximately 9.9% of GDP. Foreign aid receipts amounted to \$737 million or about \$9 per capita and accounted for approximately 0.9% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Philippines totaled \$55.18 billion or about \$677 per capita based on a GDP of \$79.3 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.7%. In 2001 it was estimated that approximately 37% of household consumption was spent on food, 11% on fuel, 1% on health care, and 14% on education. It was estimated that in 2001 about 40% of the population had incomes below the poverty line.

## 21 LABOR

The Philippines had a labor force estimated at 36.73 million in 2005. As of 2004, agriculture accounted for 36% of the nation's workforce, with 16% working in industry, and 48% in the services sector. In 2005, the unemployment rate was estimated at 12.2% of the workforce.

In May 1974, the government passed a new labor code that restructured the trade union movement on a one-industry, one-union basis. Most of the more than 3,700 trade unions are small; industrial unions have been united in the Philippines Trade Union Congress, and agricultural workers in the Federation of Free Farmers. Strikes are prohibited in such essential services as transportation, communications, and health care. In 2001, about 11% of the labor force was unionized, although only 2% were covered by collective bargaining agreements. While the right to strike and bargain are recognized by law, numerous instances of intimidation of union officials have been reported.

In 2002, the average legal daily minimum wage was \$5.60 for nonagricultural workers. This does not provide a family with a decent living standard. Perhaps as many as one-fifth of businesses in the Philippines does not pay the minimum wage. Agricultural wages are even lower, at a minimum of \$2.60 per day. The minimum working age is 15, although children even younger may work under the supervision of a parent or guardian. In practice, many children work in the informal economy, although serious efforts are being made by the government to reduce the number of children who are working.

## 22 AGRICULTURE

About one-third of the total land area is classified as arable. Three-fourths of the cultivated area is devoted to subsistence crops and one-fourth to commercial crops, mainly for export. Farms tend to be small, and many areas are double-cropped. Soils are generally fertile, but 30% of the agricultural land is suffering erosion.

In 1973, the Marcos government began a land-reform program that undertook to transfer landowners to about half of the country's 900,000 tenant farmers. By February 1986, over one-half of the area—about 600,000 hectares (1,482,600 acres)—had not been distributed. The Aquino administration proposed a program in two stages: the first, covering 1.5 million hectares (3.7 million acres) in 1987–89, involved previously undistributed land and other land held by the state; the second, covering 3.9 million hectares (9.6 million acres) in 1990–92, involved land cultivating sugar, coconuts, and fruits. A more detailed 1990–95 plan sought to increase productivity of small farms, maintain self-sufficiency in rice and corn production, and to increase the agricultural sector's role in the trade balance.

Roughly half the cultivated land is devoted to the two principal subsistence crops, palay (unhusked rice) and corn. Production of palay was 14,497,000 tons in 2004; long-term production has increased, mainly through the use of high-yielding hybrid seeds under a government development program begun in 1973. The Philippines attained self-sufficiency in rice in 1974 and became a net exporter of rice for the first time in 1977. A similar development plan was aimed at raising yields of corn, which is the chief food crop in areas unsuitable for rice-growing and is increasingly important as feed for use in the developing livestock and poultry

industries. The Philippines has been self-sufficient in corn for human consumption since the late 1970s, but since production of animal feed lags behind the demand, imports are still necessary. Corn output in 2004 was 5,413,000 tons. Lesser crops include peanut, mango, cassava, camote, tomato, garlic, onion, cabbage, eggplant, calamansi, rubber, and cotton.

Commercial agriculture, dominated by large plantations, centers on coconuts and copra, sugarcane, tobacco, bananas, and pineapples. Coconuts are the most important export crop, accounting for 26% of world production; in 2004, 14,345,000 tons were produced. Copra production, in which the Philippines leads the world, rose from 1,470,000 tons in 1965 to an estimated 2,250,000 tons in 2004/05. As oil milling capacity rose, the domestic market for copra expanded, accounting for almost all of the output and leaving only marginal amounts for exportation. The government put a ban on copra exports in March 1983, but it was lifted in March 1986. Sugarcane production provided the country's single largest export item until 1978, when output and prices fell. Production was 28 million tons in 2004 (compared with an annual average of 31.5 million tons during 1979–81). Pineapple production rose to 1,759,000 tons in 2004; production of coffee was 101,000 tons, and 5,638,000 tons of bananas were produced that year. Other important cash crops in 2004 included mangos, 968,000 tons; tobacco, 48,000 tons; and rubber, 96,000 tons.

## 23 ANIMAL HUSBANDRY

Animal husbandry never has been important, meat consumption being very low. The carabao, or water buffalo, are the principal draft animals, particularly in the rice paddies; hogs are the chief meat animals (except in Muslim sections). The Philippines is self-sufficient in pork and poultry, but imports of beef and dairy products are still necessary. In 2005 there were 12.1 million hogs, 6.5 million goats, 3.2 million buffaloes, 2.6 million head of cattle, and 136 million chickens. Meat production in 2005 included (in thousands of tons): pork, 1,100; chicken, 647; beef from cattle, 175; and goat, 35. Dairy production totaled 13,000 tons from cows in 2005; and eggs, 545,000 tons. The livestock and poultry sectors each contribute about 13% to the total value of agricultural production. In 2004, exports of livestock, meat, and skins were valued at nearly \$7.6 million.

## 24 FISHING

Fish is the primary source of protein in the Filipino diet. Some 2,000 species abound in Philippine waters. Despite more than a doubling in output since the 1960s, the fishing industry remains relatively undeveloped, and large quantities of fish are imported. The Bureau of Fisheries and Aquatic Resources (BFAR) cites the continued environmental degradation of Philippine waters as a major constraint on fish production. In 2003, the total domestic fish catch was 2,169,164 tons (11th in the world), and aquacultural production amounted to 459,615 tons. Exports of fish products in 2003 were valued at \$428.2 million.

Six species are most important, according to BFAR, because each has yielded 100,000 tons per year or more since the mid-1980s. These species are: sardines, roundscad, frigate tuna, anchovies, milkfish, and tilapia. Indian mackerel, skipjack and yellowfin tuna, sea bass, red snapper, mullet, kawakawa, squid, and prawn are also plentiful. Principal commercial fishing grounds are off

Palawan, north of Panay and Negros, and to the south and west of Mindanao. Subsistence fishing is conducted throughout the archipelago. Fish ponds, chiefly for cultivation of bangos or milkfish, are principally in the swampy coastal areas of western Panay and around Manila Bay. Pearl shells (including cultured pearls), sponges, sea cucumbers (trepan), shark fins, and sea turtles are exported.

## 25 FORESTRY

Forests are an important economic resource in the Philippines. As of 2000, remaining forests occupy 5,789,000 hectares (14,300,000 acres), equivalent to 19.4% of the total Philippine land area. Major commercial forest reserves are located in Mindanao, Luzon, Samar, Negros, and Palawan. Areas devoted to industrial tree plantations in 2000 were estimated at 753,000 hectares (1,860,000 acres). Some 28,000 hectares (69,000 acres) were reforested in 2000, 21% by the private sector.

A series of devastating typhoons and the ensuing mudslides in central Luzon in December 2004 revealed the seriousness of both legal and illegal deforestation, prompting the government to review existing forestry laws. Applications to operate new sawmills have been suspended since 2003, as most sawmills had been utilizing illegally acquired logs. As a result, the output of logs, lumber, veneer, and plywood has been in decline since then.

Roundwood production in 2004 was estimated at 15.8 million cu m (557.7 million cu ft). Production of lumber in 2004 was estimated at 295,000 cu m (10.4 million cu ft); wood pulp, 175,000 tons; and plywood, 310,000 cu m (10.9 million cu ft). In the early 1980s, the Philippines was a significant exporter of tropical hardwood logs and lumber, but production fell by over 50% over the decade, leaving the country a net importer of tropical hardwood logs by 1990. The trade deficit for forest products was \$518.4 million in 2004.

Among other forest products are bamboo, rattan, resins, tannin, and firewood.

## 26 MINING

The mining and quarrying sector continued to decline in importance, accounting for about 2% of the country's gross domestic product (GDP) of \$77.1 billion in 2002. Production for much of the last quarter of the 20th century was slowed by political instability, declining foreign investment, low international prices, high operation and production costs, labor problems, an inadequate mining law, and natural disasters such as earthquakes, volcanic eruptions, landslides, tsunamis, typhoons, floods, and drought. Nevertheless, the Philippines ranked second in the Asia-Pacific region, after Indonesia, in terms of mineral prospectivity and resources. The Philippines reportedly had the world's largest source of refractory chromite, from Masinloc, and substantial resources of copper, gold, nickel, and silver. The production of chemicals and petroleum refining were leading industries in 2002.

Copper output was estimated at 20,414 metric tons (metal content) in 2003, up from 18,364 metric tons in 2002. Mined gold output was estimated at 37,840 kg in 2003, with mined nickel output estimated at 27,000 metric tons in 2003, up from 24,148 metric tons in 2002. The Philippines also produced sizable quantities of metallurgic chromite. Chromite ore production totaled an estimated 2,600 metric tons (gross weight) in 2003, up from 20,000

metric tons in 2002. Silver was also produced for export. The industrial mineral sector was dominated by the production of limestone, marble, and sand and gravel. In 2003, the Philippines also produced bentonite, hydraulic cement, clays (including red and white), feldspar, lime, perlite, phosphate rock, pyrite and pyrrhotite (including cuprous), marine salt, silica sand, stone (including dolomite, volcanic cinder, tuff, quartz), and sulfur. No guano phosphate was produced in 1999 and 2000, or in 2003.

Exploitation of the Philippines' potentially rich mineral resources has been stimulated somewhat by the Mining Act of 1995, which was designed to promote the mining industry to the international community and to provide incentives to ensure efficiency and economic viability for mining endeavors. The law also aimed to help the domestic mining industry regain its competitiveness by allowing companies (contractors) to obtain an exploration permit for a specific area for up to four years. For a viable deposit, the code provided four production agreements—production sharing, co-production, joint venture, or financial/technical assistance—with a duration of up to 50 years. A serious accident in 1996 involving spilled mine tailings from a copper mine on Marinduque led the government to freeze almost all applications for exploration licenses by foreign companies for one year. Through 2000, 59 exploration permits had been issued, and more than 400 applications were pending. The mining industry employed 400,000 people—300,000 of them engaged in small-scale mining and panning activities, chiefly in artisanal gold workings.

## 27 ENERGY AND POWER

The Philippines has modest reserves of oil, but more robust reserves of natural gas that could make the country a significant producer. The country is also the second-largest producer of geothermal power in the world.

As of 1 January 2004, the Philippines had proven oil reserves of 152 million barrels. In 2003, oil production averaged an estimated 26,000 barrels per day, of which 25,000 barrels per day consisted of crude oil. Domestic demand for petroleum products in 2003 however, far outstripped production. In that year, demand averaged an estimated 338,000 barrels per day, necessitating imports averaging an estimated 312,000 barrels per day. Crude oil refining capacity, as of 1 January 2004, was estimated at 333,000 barrels per day. However, as of October 2004, refineries in the Philippines were reported to be operating at 80% capacity. In 2004, refining in the country was dominated by three companies: Petron; Pilipinas Shell; and Caltex (Philippines), of which Petron is the largest. Petron's Limay, Bataan refinery can process 180,000 barrels per day of crude oil. Pilipinas Shell's refinery has a capacity of 153,000 barrels per day. Caltex (Philippines) closed its 6,000 barrel per day refining facility in late 2003, a year ahead of schedule, to make way for a storage and distribution facility.

The Philippines, as of 1 January 2004, had proven natural gas reserves estimated at 3.6 trillion cu ft. Of that amount, 2.6 trillion cu ft were contained in the Malampaya field, located in the South China Sea, off the island of Palawan. Plans by the Philippine government call for using the field's gas to fuel three power plants with a combined electric generating capacity of 2,700 MW and displacing 26 million barrels of oil. In 2002, domestic demand and output of natural gas were each estimated at 70.6 billion cu ft.

The Philippines had recoverable coal reserves estimated at 366 million short tons, as of 2002. In that same year, coal production was estimated at 1.9 million short tons, with demand placed at 5.7 million short tons. Imports in that same year came to 3.8 million short tons. However, coal's share of the Philippines' energy mix has been declining, due in large part to the development of new natural gas projects.

As of 1 January 2002, the Philippines had an electric generating capacity estimated at 13.4 million kW, of which geothermal energy contributed about 14.2% and conventional thermal-fired plants about 67%. Hydroelectric capacity accounted for around 18.7%. Total electrical output in 2002 was estimated at 45.6 billion kWh, of which 61.9% was from fossil fuels, 15.8% from hydropower, and the rest from geothermal sources. Geothermal energy, is produced on Luzon, Leyte, and Negros. Consumption of electricity in 2002 was estimated at 42.4 billion kWh. Large hydroelectric plants have been installed on the Agno and Angat rivers on Luzon and at María Cristina Falls on the Agusan River in Mindanao.

## 28 INDUSTRY

In 2001 employment in industry decreased by 86,000 since 2000, or by 1.8%, and its share of total employment declined 1.2%. In this same period there was a 7.4% increase in agricultural employment and a 0.6% increase in agriculture's share of the economy. These statistics reflect the setbacks the Philippines has encountered in its long-run strategy of converting to a more diversified economy with growth led by high value-added manufactured exports. These problems were aggravated by the global economic recession that began in 2001 and the aftershocks of the 11 September 2001 terrorist attacks on the United States. Over half of the value of Philippine exports in 2000 were accounted for by information technology (IT) products, which were particularly affected by the global recession.

Exports of electronics first surpassed food products and textiles in value in the late 1990s, as the government sought to shift from an economy based on agricultural produce and sweatshop factory output to an economy anchored by the assembly of computer chips and other electronic goods, many of them computer peripherals. Over 50 chip assemblers and computer components makers have invested in Philippine operations. Technology companies with major investments in the Philippines include Intel, Philips, Acer, Toshiba, Hitachi, Fujitsu, Cypress Semiconductor, and Amkor Technology. In a 1999 World Bank study, the Philippines was credited with one of the world's most technologically advanced export structures.

A promising development was a major natural gas discovery in the Malampaya field, formally inaugurated in 2001 with the completion of a 312 mile (504 km) sub-sea pipeline and the conversion of three power plants in Batangas to natural gas usage. In the Philippine Energy Plan (PEP) 2000–09 the government envisioned domestic energy production increasing to over 50% self-sufficiency from about 42% self-sufficiency in 2001. Oil production has not been promising: in 2001 only 2.3% of the oil consumed was produced in the Philippines. The Malampaya Deepwater Gas-to-Power Project has shifted the government focus to an emphasis on the development of natural gas resources.

By value, the leading industries are textiles, pharmaceuticals, chemicals, wood products, food processing, petroleum products,

electrical machinery, electronics assembly, petroleum refining, and fishing, with significant production in transport equipment, nonmetallic mineral products, fabricated metal products, beverages, rubber products, paper and paper products, leather products, publishing and printing, furniture and fixtures, and tobacco. The industrial production growth rate in 2005 was 0.5%.

The industrialization strategy proposed by the government in 1981 stressed development of exports and the accelerated implementation of 11 major industrial projects—a copper smelter, a phosphate fertilizer plant, an aluminum smelter, a diesel-engine manufacturing plant, an expansion of the cement industry, a “cocochemical” complex (based on coconuts), an integrated pulp and paper mill, a petrochemical complex, heavy engineering industries, an integrated steel mill, and the production of “alcogas.” The copper smelter, the phosphate fertilizer plant, and the “cocochemical” complex went into operation in 1985. Historically, manufacturing production has been geographically concentrated in the Metro Manila area and the adjoining regions of Southern Tagalog and Central Luzon. With the progress in electrification, this geographic concentration has begun to decrease. Most industrial output is concentrated in a relatively few large firms. Although small and medium-sized businesses account for about 80% of manufacturing employment, they account for only about 25% of the value-added in manufacturing. In 2005, industry accounted for 31.7% of GDP.

## 29 SCIENCE AND TECHNOLOGY

Leadership in formulating and implementing national science policy is exercised by the Department of Science and Technology. Special training in science is offered by the Philippine Science High School, whose graduates are eligible for further training through the department's scholarship program. The International Rice Research Institute in Los Banos, founded by the Rockefeller and Ford foundations and US AID in 1960, conducts training programs in the cultivation, fertilization, and irrigation of hybrid rice seeds. The Southeast Asian Regional Center for Graduate Study and Research in Agriculture maintains genotype and information banks for agricultural research.

The Philippine Nuclear Research Institute, founded in 1958, is located in Quezon City. The French Institute of Scientific Research for Development and Cooperation has an institute in Manila conducting research in molecular biology. In 1996, the Philippines had 68 universities and colleges offering courses on basic and applied sciences. In 1987–97, science and engineering students accounted for 14% of college and university enrollments. In the same period, research and development expenditures amounted to 0.22% of GNP. For the period 1990–2001 there were 156 scientists and engineers and 22 technicians engaged in research and development per million people. In 2002, high-tech exports were valued at \$11.488 billion and accounted for 65% of manufactured exports.

## 30 DOMESTIC TRADE

The archipelagic structure of Philippine marketing requires the establishment of regional centers and adds considerably to distribution costs, foreign domination of much of marketing, direct government participation, and the proliferation of small firms. About 90% of all imported goods come through the Port of Ma-

nila. Makati City is the business center of the country and hosts a number of distribution centers, trading firms, commercial banks, and high-end retail establishments. Cebu City is the trading center of the south.

Small stores typify retail trade. Manila has major shopping centers and malls. Generally, sales are for cash or on open account. Retailing is conducted on a high markup, low-turnover basis. A law provides for price-tagging on retail items. Direct marketing, particularly of foreign name-brand products, has gained in popularity. English is the general language of commercial correspondence. Most advertising is local; the chief media are newspapers, radio, television, posters, billboards, and sound trucks.

Shops are usually open from 10 AM to 8 PM, Monday through Saturday, but these hours can vary. Most department stores and supermarkets are open on Sunday. Banking hours are weekdays from 9 AM to 3 PM. Office hours, and hours for the Philippine government are generally from 8 AM to 5 PM Monday through Friday, with a one-hour lunch break from 12 to 1 PM. Some offices are open from 8 AM to 12 PM on Saturday. Staggered hours, with up to three shifts, are common in the metropolitan Manila area.

### <sup>31</sup> FOREIGN TRADE

The Philippines' traditional exports were primary commodities and raw materials. However, by 2000, machinery and transport equipment made up the majority of exports. In 2000, exports of electric machinery (mostly microcircuits, diodes, and transistors) accounted for 51% of total exports, and garments contributed 6.8% to the total value of exports. In 2000, the Philippines exported a majority of electronics, including microcircuits, transistors and valves (44%); automatic data processing equipment (12.2%); and telecommunications equipment (2.7%). Other exports included garments (6.8%), vegetable oil (1.2%), and fruits and nuts (1.1%). In 2000, machinery and electronics accounted for over three-fourths of all exports.

In 2004, the major exports were: electronic products (67.3% of all exports); semiconductors (47.1%); garments (5.5%); coconut oil (1.5%); and petroleum products (1%). Primary imports were: capital goods (38.1% of all imports); semi-processed raw materials (34%); parts for the manufacture of electronic equipment (15.4%); mineral fuels (11.7%); and chemicals (7.9%).

Japan and the United States continue to be the Philippines' primary trading partners. In percentage terms, for 2004, the Philippines' leading markets were: Japan (20.1% of all exports); the United States (17.9%); the Netherlands (9.1%); Hong Kong (7.9%); and China (6.7%). Leading suppliers included: Japan (19.8% of all imports); the United States (13.7%); China (7.7%); Singapore (7.4%); and Taiwan (7%).

### <sup>32</sup> BALANCE OF PAYMENTS

Since World War II, the Philippines experienced frequent trade deficits, aggravated by inflationary pressures. Deficits were counterbalanced by US government expenditures, transfer of payments from abroad, official loans (US Export-Import Bank, IBRD, and private US banks), net inflow of private investment, tourist receipts, remittances from Filipino workers overseas, and contributions from the IMF.

In 1996, trade liberalization policies helped to push imports up by 22% while exports rose by only 18%. The result was a widen-

ing trade deficit that amounted to 13% of GDP. Foreign investment in the stock market and remittances from overseas workers helped to offset the deficit and avert a balance-of-payments crisis. In 1998, the Philippines recorded a trade surplus at about 2% of GNP in the current account due to high electronics exports and low imports due to the devaluation of the peso. This was the first surplus in 12 years.

Merchandise exports, in double digits through most of the 1990s, slowed to a single-digit growth pace in 2000, reflecting fewer export receipts from electronics and telecommunications parts and equipment. This decline was attributed by the electronics industry to weaker prices for maturing products and technologies, and to the decline in electronic industry investments from the 1994–97 boom years (when investment averaged \$1.5 billion a year).

#### Principal Trading Partners – Philippines (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	36,231.2	39,543.5	-3,312.3
United States	7,273.4	7,674.5	-401.1
Japan	5,768.9	8,070.6	-2,301.7
China, Hong Kong SAR	3,093.9	1,690.9	1,403.0
Netherlands	2,921.7	323.8	2,597.9
Other Asia nes	2,492.2	1,966.8	525.4
Malaysia	2,462.6	1,434.6	1,028.0
Singapore	2,431.1	2,694.7	-263.6
China	2,144.6	1,932.6	212.0
Korea, Republic of	1,313.5	2,516.4	-1,202.9
Thailand	1,234.0	1,453.4	-219.4

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Philippines (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>3,347.0</b>
Balance on goods		-1,253.0
Imports	-36,095.0	
Exports	34,842.0	
Balance on services		-1,227.0
Balance on income		5,215.0
Current transfers		612.0
<b>Capital Account</b>		<b>21.0</b>
<b>Financial Account</b>		<b>-5,533.0</b>
Direct investment abroad		-158.0
Direct investment in Philippines		319.0
Portfolio investment assets		-1,586.0
Portfolio investment liabilities		880.0
Financial derivatives		...
Other investment assets		-13,307.0
Other investment liabilities		8,319.0
<b>Net Errors and Omissions</b>		<b>2,081.0</b>
<b>Reserves and Related Items</b>		<b>84.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Between 1996, exports surged from \$20.5 billion to \$38.1 billion. Imports reached \$38.6 billion in 1997, but by 2000 had dropped to \$33.8 billion. The 1999 and 2000 trade surpluses were the first since 1973; during the intervening period, expensive mineral fuel imports had thrown the balance into a deficit. In 2004, exports totaled \$38.8 billion and imports totaled \$44.7 billion, resulting in a trade deficit of \$5.9 billion. The current account recorded a surplus of \$2.2 billion in 2004, or 2.6% of GDP.

Traditionally, exports of primary products failed to balance imports, leading the government to restrict imports. Structural change accelerated in the 1970s, as the contribution of industry (including construction) to GDP rose from 29.5% in 1970 to 36.5% by 1980, primarily as a result of export-oriented industrialization promoted by the Marcos government. The Aquino assassination in August 1983 had immediate economic consequences for the Marcos government, as did the broader Third World Debt Crisis. Hundreds of millions of dollars in private capital fled the Philippines, leaving the country with insufficient foreign exchange reserves to meet its payments obligations. The government turned to the IMF and its creditor banks for assistance in rescheduling the nation's foreign debt, and an austerity program was set up during 1984–85. In December 1986, under IMF guidance, the Aquino government launched a privatization program with the establishment of the Assets Privatization Trust (APT). Monopolies established under the Marcos administration in coconuts, sugar, meat, grains, and fertilizer were dismantled and a ban on copra exports was lifted. All export taxes were abolished; and the government allowed free access to lower-cost or higher-quality imports as a means of improving the cost-competitiveness of domestic producers.

Many difficulties remained, however. The prices of commodity exports, such as sugar, copper, and coconut products, were still weak, while demand for nontraditional manufactured products, such as clothing and electronic components, failed to rise. The structural reforms produced an initial recovery between 1986 and 1989, but this was arrested by the series of natural disasters in 1990–91. In 1986, Aquino had also embarked on a Comprehensive Agrarian Reform Programme, but its goals remain unfulfilled.

In the 1990s, the government concluded three additional financial arrangements with the IMF—a stand-by agreement signed 20 February 1991 for about \$240 million; an arrangement under the Extended Fund Facility (EFF) signed 24 June 1994 for about \$554 million, and a stand-by agreement signed 1 April 1998 for about \$715 million. At the end of 2002, the Philippines owed over 140% of its quota to the Fund. Scheduled debt repayments to the IMF for 2003 were about \$330 million, and outstanding loans and purchases are not due to be retired until at least 2007. The country also had five debt reschedulings in the period 1984 to 1991 with the Paris Club—for official debt owed to aid donor countries—on which some payments are still owing.

### **33 BANKING AND SECURITIES**

The Philippine banking structure consists of the government-owned Central Bank of the Philippines (created in 1949), which acts as the government's fiscal agent and administers the monetary and banking system; and some 45 commercial banks, of which 17 are foreign-majority-owned. Other institutions include more than 111 thrift banks, 787 rural banks, 38 private development banks,

7 savings banks, and 10 investment houses, and two specialized government banks. The largest commercial bank, the Philippine National Bank (PNB), is a government institution with over 194 local offices and 12 overseas branches. It supplies about half the commercial credit, basically as agricultural loans. The government operates about 1,145 postal savings banks and the Development Bank of the Philippines, the Land Bank of the Philippines, and the Philippine Amanah Bank (for Mindanao). There are also 13 offshore banking units in the country, and 26 foreign bank representative offices. Total assets reached approximately \$65 billion in March 2001, 39% of which belonged to the five largest banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$41.9 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.298%.

Philippine stock exchanges are self-governing, although the Philippine Securities and Exchange Commission (SEC), established in 1936, has supervisory power over registrants. The country's two stock exchanges, Manila and Makati (both in the capital), were formally merged into the Philippines Stock Exchange (PSE) in March 1993. A computer link-up was effected a year later, although the two retained separate trading floors until November 1995. Only 220 companies were listed as of 1998. But the process of privatization is expected to push up listings, while domestic participation in the equity market is being specifically promoted by new regulations requiring that all initial public offerings reserve a 10% tranche for small investors. Before the Asian crisis, market capitalization of publicly listed companies had grown to \$89 billion, or six times the amount of 1992. But in 1998, only 10 of the largest companies accounted for more than half of trading volume. In 2000, a financial scandal in which the SEC failed to regulate the market properly drove the stock market down by a quarter and destroyed investor confidence. In 2000, market capitalization was a mere 38% of the previous year, and only 12% of the peak level in 1996. As of 2004, a total of 233 companies were listed on the PSE, which had a market capitalization of \$28.948 billion. In 2004, the PSE Composite Index rose 26.4% from the previous year to 1,822.8.

### **34 INSURANCE**

The Government Service Insurance System (GIS), a government organization set up in 1936, provides life, permanent disability, accident, old age pension, burial insurance and salary and real estate loan benefits. Compulsory third-party motor liability insurance went into effect on 1 January 1976. In addition, workers' compensation and personal accident insurance for workers abroad are compulsory. The Insurance Commission of the Department of Finance oversees the insurance industry.

Life and nonlife insurance companies provide coverage against theft, fire, marine loss, accident, embezzlement, third-party liability, and other risks. In 2003, a total of \$1.192 billion in direct insurance premiums were written, of which life insurance premiums accounted for \$702 million. In 2003, Malayan Insurance was the Philippines' top nonlife insurer, with gross written nonlife premiums of \$60.5 million. In 2000 (the latest year for which data was

available), the leading life insurer was Philam Life and General, with gross written life insurance premiums of \$161.3 million.

### 3<sup>5</sup> PUBLIC FINANCE

The principal sources of revenue are income taxes, taxes on sales and business operations, and excise duties. Infrastructural improvements, defense expenditures, and debt service continue to lead among the categories of outlays. The government's commitment to fiscal balance resulted in a budget surplus for the first time in two decades in 1994. The surplus was achieved by higher taxes, privatization receipts, and expenditure cuts. The Philippines was not affected as severely by the Asian financial crisis of 1998 as many of its overseas neighbors, as a result of over \$7 billion in remittances annually by workers overseas.

The US Central Intelligence Agency (CIA) estimated that in 2005 the Philippines' central government took in revenues of approximately \$12.3 billion and had expenditures of \$15.7 billion. Revenues minus expenditures totaled approximately -\$3.3 billion. Public debt in 2005 amounted to 77.4% of GDP. Total external debt was \$67.62 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, budgetary central government revenues were ₱628.71 billion and expenditures were ₱833.68 billion. The value of revenues was us\$12 million and expenditures us\$15 million, based on a market exchange rate for 2003 of us\$1 = ₱54.203 as reported by the IMF. Government outlays by function were as follows: general public services, 54.2%; defense, 4.9%; public order and safety, 6.4%; economic affairs, 12.4%; housing and community amenities, 0.2%; health, 1.6%; recreation, culture, and religion, 0.7%; education, 15.5%; and social protection, 4.1%.

### 3<sup>6</sup> TAXATION

The individual income tax consists of taxes on compensation income (from employment), business income, and passive income (interests, dividends, royalties, and prizes). As of 2005, personal income was taxed on a progressive scale with a top rate of 32%.

In 2000, the business income tax rate was lowered from 33% to 32%, where it stood as of 2005. For resident foreign corporations, after-tax profits remitted abroad to the head office are subject to a 15% tax. Corporations registered with the Philippine Economic Zone Authority (PEZA), the Board of Investment (BOI), the Bases Conversion Development Authority, or operating in independent special economic zones (ecozones), are eligible for special tax and customs incentives, exemptions and reductions designed to attract foreign, new, necessary and/or export-oriented foreign investment. The capital gains tax is 6% on real property; 5% on gains of ₱100,000 or less from the sale of stock not listed on the stock exchange, and 10% on gains over ₱100,000. Dividends are not subject to taxation if paid from one domestic corporation to another domestic corporation, or to resident foreign corporations. However, dividends paid to nonresident companies are generally subject to a 32% withholding tax, which can be reduced to 15%, under certain circumstances. Some cities, such as Manila, levy their own wholesale and retail sales taxes.

Taxes on transactions include a value-added tax (VAT) of 10%. For smaller businesses not registered with the VAT a percentage sales tax of 3% on quarterly sales is applied. Higher rates for ac-

#### Public Finance – Philippines (2003)

(In billions of pesos, budgetary central government figures)

<b>Revenue and Grants</b>	<b>628.71</b>	<b>100.0%</b>
Tax revenue	537.36	85.5%
Social contributions	...	...
Grants	1.2	0.2%
Other revenue	90.15	14.3%
<b>Expenditures</b>	<b>833.68</b>	<b>100.0%</b>
General public services	451.76	54.2%
Defense	40.65	4.9%
Public order and safety	53.5	6.4%
Economic affairs	103.4	12.4%
Environmental protection	...	...
Housing and community amenities	1.75	0.2%
Health	12.98	1.6%
Recreational, culture, and religion	6.14	0.7%
Education	129.6	15.5%
Social protection	33.93	4.1%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tivities involving issues of public morality: cockpits are taxed 18%, cabarets, 18% and jai-alai and racetracks, 30%.

Excise taxes are imposed on selected commodities such as alcoholic beverages, tobacco products, jewelry and petroleum products. In addition, the government levies a variety of other taxes, including mining and petroleum taxes, residence taxes, a head tax on immigrants above a certain age and staying beyond a certain period, document stamp taxes, donor (gift) taxes, estate taxes, and capital gains taxes. A document stamp tax is charged on stock certificates, proofs of indebtedness, proofs of ownership, etc.

### 3<sup>7</sup> CUSTOMS AND DUTIES

The Philippines, under its commitments to ASEAN, must accelerate its tariff reductions as part of in its AFTA Common Preferential Tariff (CEPT) Inclusion List. The Philippines, as a member of the Asia Pacific Economic Cooperation (APEC) forum, is also committed to the establishment of free trade in the region and is expected to eliminate intra-regional barriers by 2020. The government developed a separate plan in 1996 to lower tariffs to no more than 3% on raw materials and 10% on finished products by January 2003, and a uniform 5% tariff rate by January 2004. There is also a value-added tax (VAT) of 10% on almost all imports and excise taxes are levied on alcohol and tobacco products, automobiles, and other luxury items.

### 3<sup>8</sup> FOREIGN INVESTMENT

Investments have been concentrated in manufactures for exports, utilities, mining, petroleum refining, and export-oriented agriculture, with accelerating interest in labor-intensive textiles, footwear, electronics, and other nontraditional export industries. Investment is affected by import controls, exchange controls, and equity controls that favor Filipino participation in foreign ventures. Attempts to liberalize the economy of the Philippines are fighting three centuries of entrenched interests. Filipino political science research points out the influence and effects of Spanish co-

lonialism that delivered the control of politics and economics into the hands of a small number of families. In the name of nationalism these families legislated against foreign competition in the 1950s. Serious restructuring began in the wake of the Third World debt crisis and the turn to the IMF for assistance. The Omnibus Investments Code of 1987 generally limited foreign equity ownership to 40%, but allowed 100% foreign ownership in a “pioneer” priority industry identified in the annual Investment Priorities Plan (IPP). Special encouragement was given to pioneer manufacturing endeavors, export-oriented and labor-intensive industries, projects outside metropolitan Manila, and to joint ventures with a minimum of 60% Filipino capitalization. The structural reforms produced an initial recovery between 1986 and 1989, but this was arrested by the series of natural disasters in 1990–91.

The Foreign Investment Act of 1991 (FIA) further liberalized the investment climate of the Philippines. The FIA permits 100% foreign ownership, without prior BOI approval, of companies engaged in any activity not included in the foreign investment negative list. The foreign investment negative list is comprised of three categories where foreign investment is fully or partially restricted by the constitution or by specific laws. In all three categories foreign ownership is restricted to between zero and 40%. Restriction on setting up export processing zones has also been considerably relaxed. The development of special economic zones began with the transformation of the former US military bases into enterprise zones, the Subic Bay Freeport Zone (SBFZ) and the Clark Special Economic Zone (CSEZ) according to the Bases Conversion Act of 1992.

The Export Development Act of 1994 signaled the government’s conversion from an import substitution model of industrial development to an export-led growth model, more in line with its Asian tiger neighbors. The banking and insurance sectors were also significantly liberalized by legislation in 1994. Since 1948 the four existing foreign banks had not been allowed to open branches. Under a 1994 law, each was allowed to open up to six new branches, plus up to 10 new foreign full-service banks could be licensed with up to six branches each. Insurance was opened to 100% foreign ownership but such that the higher the percent foreign ownership, the higher minimum capital requirements. Rural banking, however, continues to remain closed to foreign investment. The next year, in 1995, the Special Economic Zone Act, and separate laws for independent ecozones in Zoambanga and Cayagyu, established the framework for the collection of four government-managed ecozones and over 40 private ecozones, all with liberalized incentives to attract foreign investment. Amendments to the FIA in 1996 enhanced the investor-friendly framework, albeit leaving the country vulnerable to the rapid divestments of the Asian financial crisis the next year. With recovery, the government embarked on further reforms aimed at attracting foreign investors.

In May 2000, the General Banking Law (GBL), in addition to strengthening the supervisory role of the Bangko Sentral ng Pilipinas (BSP), allowed 100% ownership of distressed banks. Also in 2000, the Estrada administration opened the retail trade and grain milling businesses to foreign investment.

There remain, however, major restrictions on foreign investments in the Philippines besides the natural hindrances that this most disaster-prone of countries is liable to, not the least of which is the complexity and detail of the investment regime. Under the

FIA, the government is obliged to promulgate a Foreign Investment Negative List (FINL) consisting of a List A of foreign ownership limited by the constitution and specific laws, and a List B of foreign ownership limited for reasons of security, defense, risk to health and morals and protection of small- and medium-scale enterprises.

In 2002 President Arroyo issued the Fifth FINL. On List A, by its terms, no foreign equity was to be allowed in the mass media except recording, nor in any of the licensed professions including law, medicine, accounting, engineering, environmental planning, interior design, teaching, and architecture. Small scale retail and mining, private security, utilization of marine resources, the operation of cockpits, and the manufacture of fireworks, are off-limits to foreigners, as are, on another level, the manufacture and stockpiling of nuclear, biological, chemical and radiological weapons. Only a maximum of 20% ownership is allowed a private radio communications network; only up to 25% in employee recruitment industries, public works construction projects (though with important exceptions for infrastructure/development projects, and those built with foreign aid); only up to 30% in ad agencies; only up to 40% in natural resource extraction projects (though the president can authorize up to 100%), ownership of private lands, ownership of condominiums, educational institutions, public utilities, commercial deep sea fishing, government procurement contracts, adjustment companies, and rice and corn processing (with at least 60% divestment to Filipino citizens required after 30 years of operation); and only up to 60% in financial and investment houses. On the B list for 2002, foreign ownership was restricted to 40% in manufacture of firearms, ammunition, explosives, military ordnance, dangerous drugs, saunas, steambaths, massage parlors, all forms of gambling, local businesses not engaged in exporting with paid-in capital of less than \$200,000 and local businesses that involved advanced technology or employed at least 50 persons with paid-in capital of less than \$100,000.

In 2001, President Arroyo, a trained economist, launched a high profile campaign to attract foreign investment. Former president Fidel Ramos and four other senior government officials were appointed as envoys to promote trade and investment. Against strong nationalist opposition, her administration passed the Electric Power Industry Reform Act that required the National Power Corporation (NPC) to privatize at least 70% of its generating assets by 2004. NPC’s transmission assets were fully privatized and opened up to the maximum 40% foreign ownership allowed for public utilities. 2001, in fact, turned out to be a banner year for foreign investment in the Philippines, which increased 171% to \$3.4 billion (about \$2 billion FDI and \$1.4 billion portfolio investment), all the more remarkable because of the decline by 50% worldwide in foreign investments that year, and because of the Philippines’ emergence as a front in the war on terrorism, thanks to the Abu Sayyaf organization and its close links to al-Qaeda. The Philippines’ newly deregulated and privatized energy sector was the main draw, the center piece being the Malampaya natural gas project, which was officially inaugurated on 16 October 2001 following the completion of its 312-mile (504-km) undersea pipeline and the conversion of three power plants in Batangas to natural gas usage.

The Philippine government, despite its attempts to attract more foreign investment, has failed to invest in the infrastructure that

is crucial to foreign and domestic investors—roads, communications, healthcare, and education. The government has been unable to address the issues of congestion and pollution in Manila. Nevertheless, in 2002 FDI increased to \$1.7 billion, but dropped to \$318 million in 2003. Nine-month FDI from January to September 2004 amounted to \$330 million, which was an increase of 30.4% over the same period in 2003, but remained low when compared with previous years.

### **39 ECONOMIC DEVELOPMENT**

Beginning in 1972, the main tenets of the Marcos government's economic policies, as articulated through the National Economic Development Authority, included substantial development of infrastructure, particularly through the use of labor-intensive rather than capital-intensive (i.e., mechanized) methods, and a shift in export emphasis from raw materials to finished and semifinished commodities. The policies of the Aquino administration have stressed labor-intensive, small and medium-scale agricultural projects and extensive land reform. In addition, wealth believed to have been amassed by President Marcos was actively being pursued all over the world. Long-range planning has followed a series of economic plans, most of them covering five-year periods. The development program for 1967–70 aimed to increase the growth rate of per capita income from the 0.9% level in 1961–65 to 2.4%; to increase national income by 5.7% per year during the plan period, and to reduce the unemployment rate from 13% (1965) to 7.2% (1970). The government invested \$3.5 billion in integrating the traditional and modern sectors of the economy. Marcos's first long-range plan following the 1972 declaration of martial law was a four-year (1974–77) infrastructure development program calling for 35% to be expended on transportation, 33% on energy and power, 20% on water resources, 10% on education, health, and welfare, and 2% on telecommunications. A 1974–78 plan, announced in late 1975, envisioned energy as the major focus of the new plan, with 34% of expenditures, followed by transportation, 30%; water resources, 23%; social programs, 7%; and other sectors, 6%. The goals of the 1978–82 plan included an 8% annual growth in GNP, rural development, tax incentives for export-oriented industries, continued self-sufficiency in grain crops despite rapid population growth, and accelerated development of highways, irrigation, and other infrastructure. The 1983–87 plan called for an annual expansion of 6.2% in GNP, improvement of the rural economy and living standards, and amelioration of hunger.

Under the Aquino administration the goals of the 1987–92 plan were self-sufficiency in food production, decentralization of power and decision making, job creation, and rural development. Economic performance for real growth fell far short of plan targets by 25% or more. Structural changes to provide a better investment climate were carried out. The Foreign Investment Act of 1991 liberalized the environment for foreign investment. An executive order issued in July 1991 reduced the number of tariff levels over five years and reduced the maximum duty rate from 50% to 30%. Quantitative restrictions were removed from all but a few products. The foreign exchange market was fully deregulated in 1992.

A new six-year medium-term development plan for 1993–98 was presented by the government in May 1993. The plan stressed people empowerment and international competitiveness within the framework of sustainable development. To do this, the gov-

ernment planned to disperse industries to regions outside the metropolitan Manila area. The plan also called for technological upgrading of production sectors, poverty alleviation, and human/social development. Over the six year period, agriculture's share of GDP was expected to decline from 23% to 19% of GDP while industry's share was to increase from 34% to 39%. The Medium-Term Philippine Development Plan (MTPDP) for 1999 through 2004 focused on rural development, especially on the modernization of the agricultural sector. The MTPDP targeted agricultural growth from 2.6% to 3.4% during the plan's time-frame, as well as growth in the industrial and service sectors. The Philippines finished three years of IMF supervision in March 1998, only to be hit by the Asian financial crisis. Financial assistance continued in 1998 and 1999 through the Asian Development Bank, World Bank, and Japan's Overseas Economic Cooperation Development Fund.

By 2006, the primary economic policy challenge confronting the government was to bring the public finances back into balance, allowing increased expenditure on areas such as infrastructure, education, and healthcare. The fiscal deficit had been pushed up due to poor tax administration, which saw revenue fall relative to GDP. The ballooning public debt is a problem, at 77.4% of GDP in 2005. Interest payments account for a third of all public spending. Nevertheless, the stock market in mid-2005 was at a five-year peak, and the peso was at its highest against the dollar since mid-2003. Applications for investment incentives had more than doubled in 2004 and were also high in 2005.

In the mid-2000s, the economies of Southeast Asia revolved around trade. In 2004, the region experienced a 6.3% GDP growth rate, largely due to a double-digit increase in exports. But looking solely to exports as a means to promote growth is risky: what is needed is a revival of domestic consumption, which would help insulate the region from the vagaries of the world economy. The only country where exports did not make a significant contribution to growth by 2005 was the Philippines, where almost all growth was attributable to domestic demand. Instead of being a mark of strength, however, this was a mark of economic weakness. Due to the billions of dollars of remittances that Filipinos working overseas send to their families back home, consumer spending in the Philippines is robust. However, the economy does not grow fast enough to provide jobs for those Filipinos who must find work overseas.

### **40 SOCIAL DEVELOPMENT**

The Social insurance system covers employees up to age 60, including domestic workers and the self-employed. Membership for employers is compulsory. Benefits include compensation for confinement due to injury or illness, pensions for temporary incapacity, indemnities to families in case of death, old age pensions, and benefits to widows and orphans. Charges to cover the system are paid jointly by employers and employees and according to 29 wage classes. The government funds any deficit. Retirement is at age 60 for most workers. A medical care plan for employees provides hospital, surgical, medicinal, and medical-expense benefits to members and their dependents, as well as paid maternity leave.

A handful of women enjoy high prestige and visibility, but most women occupy traditional social roles and occupations. Unem-

ployment rates are higher for women, and women continue to earn less than men. Sexual harassment in the workplace is widespread, and goes largely unreported because women are afraid of losing their jobs. Spousal abuse and violence remain serious concerns. The absence of divorce laws and lack of economic opportunity keep women in destructive relationships. The government has enacted various measures to safeguard the rights of children. Child prostitution, while illegal, is widespread and has contributed to the growing sex-tourism industry. Some human rights violations remain, including arbitrary arrest and detention, torture, and disappearances.

#### **41 HEALTH**

In 2004, there were an estimated 116 physicians, 56 dentists, 442 nurses, and 179 midwives per 100,000 people. There were 1,663 hospitals, 562 of which were operated by the government and 1,101 in the private sector. Government-financed child health malnutrition and early education programs are already well established in the Philippines. These programs suffer from chronic underfunding in terms of inadequate equipment, numbers of field-level staff, and other operating expenses. Government hospitals had 46,388 beds and private hospitals had 35,309. In addition, there were 2,299 rural health units. Total health care expenditure was estimated at 3.6% of GDP.

Pulmonary infections (tuberculosis, pneumonia, bronchitis) are prevalent. Malnutrition remains a health problem despite government assistance in the form of Nutripaks (consisting of indigenous foods such as mung beans and powdered shrimp) that are made available for infants, children, and pregnant women. It was estimated that 32% of children under five years old were considered malnourished. Protein malnutrition, anemia, and vitamin A and iodine deficiencies are commonly found in children. The goiter rate was 6.9 per 100. Heart disease is the third most common cause of death in the Philippines.

During the 1980s, a nationwide primary health care program was implemented. As a result, community involvement in health services increased, the prevalence of communicable diseases decreased, and the nutritional state of the population improved. Obesity and hypertension are more common in the cities. Approximately 87% of the population had access to safe drinking water and 83% had adequate sanitation. Children up to one year of age were immunized against tuberculosis, 91%; diphtheria, pertussis, and tetanus, 85%; polio, 86%; and measles, 96%. The rate for both DPT and measles was 79%.

The infant mortality rate declined from 78.4 per 1,000 live births in 1972 to 23.51 in 2005. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.9 and 6 per 1,000 people. Maternal mortality was 170 per 100,000 live births. In 2000, 47% of married women (ages 15 to 49) were using contraception. Average life expectancy was 69.91 years in 2005.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 9,000 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

#### **42 HOUSING**

Construction is largely undertaken by the private sector, with the support of government agencies. The Ministry of Human Settle-

ments (MHS), created in 1978, sets housing programs in motion. Its first major program was the Bagong Lipunon Improvement of Sites and Services (BLISS), which undertook 445 projects involving 6,712 units housing 40,272 people. As with many programs begun during the Marcos administration, the projects became ridden with scandal.

More creditable was the Pag-IBIG fund, which was set up to promote savings for housing and provide easy-term housing loans, with contributions from individuals, banks, industries, and the government. By the end of 1985, \$98 million in loans had been provided to 171,585 members. The Aquino administration offered tax exemptions to domestic corporations and partnerships with at least 300 employees that invest funds in housing. Over 5 million housing units were built in the period 1981–90.

At the 2000 census, there were 15,278,808 households in the Philippines with an average household size of 5 members. Most housing units are single-family detached homes. About 71% of all housing was owner occupied. Only about 27% of all households have their own community service-connected faucet for drinking water. A majority of households get their water from wells, river, lakes, and other bodies of water. Only 41% of all households had a privately used septic system.

Tens of thousands of barrios are scattered throughout the Philippines, each consisting of a double row of small cottages strung out along a single road. Each cottage is generally built on stilts and has a thatched roof, veranda, and small yard.

#### **43 EDUCATION**

Education is free for primary school and compulsory for six years and is coeducational. English is the main medium of instruction, although Pilipino or the local vernacular is used for instruction in the lower primary grades. Primary school lasts for four years, followed by two years of intermediate school. Students may then move on to four years of secondary school. The academic year runs from June to March.

In 2001, about 33% of all five-year-olds were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 94% of age-eligible students. The same year, secondary school enrollment was about 59% of age-eligible students; 54% for boys and 65% for girls. It is estimated that about 95.2% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 35:1 in 2003; the ratio for secondary school was about 37:1. In 2003, private schools accounted for about 7% of primary school enrollment and 20.5% of secondary enrollment.

The University of the Philippines, in Quezon City, with branches in major islands, is the leading institution of higher learning. In addition, there are some 50 other universities, including the University of Santo Tomás, founded in 1611 and run by the Dominican friars. In 2003, about 30% of the tertiary age population were enrolled in some type of higher education program. The adult literacy rate for 2004 was estimated at about 92.6%.

As of 2003, public expenditure on education was estimated at 3.1% of GDP, or 17.8% of total government expenditures.

#### **44 LIBRARIES AND MUSEUMS**

The National Library in Manila has an estimated 1.2 million volumes. The Filipiniana and Asia Division contains over 100,000 Fil-

ipiniana books. Large libraries are in the universities, notably the University of the Philippines (948,000 volumes), the University of Santo Tomás (822,000), the University of the East (177,900), and the University of San Carlos. The International Rice Research Institute in Manila holds 160,000 volumes. There are over 940 public libraries across the country, with about 580 as city or municipal libraries.

The National Museum in Manila collects and exhibits materials and conducts research in anthropology, ethnography, archaeology, botany, geology, history, and maps. The University of Santo Tomás Museum contains an art gallery and archaeology and anthropology collections. Three relatively new museums in Manila exhibit primarily art: Lopez Memorial Museum (1960) exhibits Filipino painters; Metropolitan Museum (1976) exhibits a variety of art forms; and the Philippines Presidential Museum (1986) exhibits fine and decorative arts. The Ateneo Art Museum in Quezon City features post-World War II Philippine paintings, and there is a Mabini Shrine in Tonauan, featuring relics of Apolinaria Mabina, a leader of Philippine independence.

#### **45 MEDIA**

There are four nationwide telephone networks, including the Philippine Long Distance Telephone Company, run mainly by the private sector, with services concentrated in urban areas. Overseas communications operate via satellites and undersea cables. In 2003, there were an estimated 41 mainline telephones for every 1,000 people. The same year, there were approximately 270 mobile phones in use for every 1,000 people.

Radio and television are operated by both government agencies and private concerns. Radio transmitting stations numbered over 700 in 2005, and there were 75 television stations in 2000. In 2003, there were an estimated 161 radios and 182 television sets for every 1,000 people. About 37 of every 1,000 people were cable subscribers. Also in 2003, there were 27.7 personal computers for every 1,000 people and 44 of every 1,000 people had access to the Internet. There were 161 secure Internet servers in the country in 2004.

In 2002 there were about 50 major daily newspapers, as compared with six during the Marcos era. The leading dailies published in metropolitan Manila (with language of publication and estimated 2002 circulation) are: *People Tonight* (English/Filipino, 500,000), *Abante* (English/Filipino, 350,000), *Ang Filipino Ngayon* (Filipino, 286,450), *Philippine Star* (English, 275,000), *Manila Bulletin* (English, 265,000), *Philippine Daily Inquirer* (English, 250,000), *Tempo* (English/Filipino, 230,000), *People's Journal* (English/Filipino, 219,000), *Manila Times* (English, 194,000), *Malaya* (English, 175,000), and *Balita* (Filipino, 151,000).

Under martial law, censorship of the press, radio, and television was imposed by the Marcos government. Many reporters, editors, and publishers were arrested during this period. Censorship was revoked under the Aquino administration. However, there are reports of threats, assaults, and killings of journalists who report on illegal activities such as gambling, logging, prostitution, and the drug trade among powerful individuals or groups, especially outside Manila.

#### **46 ORGANIZATIONS**

The Philippine Chamber of Commerce and Industry has branches in metropolitan Manila and other important cities, and there are associations of producers and industrial firms in many areas. The Trade Union Congress of the Philippines based in Quezon City represents over 1.4 million people. There are many associations of persons active in such fields as agriculture, architecture, art, biology, chemistry, economics, library service, literature, engineering, medicine, nutrition, veterinary service, and the press. The multinational ASEAN Confederation of Employers is located in Makati City, with that office coordinated in part by the Employers' Confederation of the Philippines.

The Philippine Academy is the oldest and best-known scholarly organization. The National Research Council of the Philippines promotes research and education in physical and social sciences and the humanities. A number of professional associations also promote public research and education in specific fields, particularly those involved in medical research and healthcare, such as the Philippine Medical Association, the Philippine National AIDS Council, and the Philippine Diabetes Association.

National youth organizations include the National Youth Parliament, League of Filipino Students, National Indigenous Youth, Junior Chamber, National Union of Students of the Philippines, Student Christian Federation of the Philippines, Young Christian Workers of The Philippines, Boy Scouts of the Philippines, and YMCA/YWCA. Sports associations are popular throughout the country. The International Bowling Federation is based in Pasig City.

There are several national organizations focusing on women's rights, including the Philippine Association of University Women and the National Commission on the Role of Filipino Women. Kiwanis and Lion's Clubs have programs in the country. The Asian Volunteers' Network for Human Rights in the Philippines is based in Quezon City. International organizations with national chapters include CARE Philippines, Defence for Children International, UNICEF, Habitat for Humanity, Amnesty International, and the Red Cross.

#### **47 TOURISM, TRAVEL, AND RECREATION**

The increase in tourism that followed the ouster of Ferdinand Marcos was dampened by the national disasters of the early 1990s. The tourism industry has since rebounded. Manila remains the chief tourist attraction. Other points of interest are the 2,000-year-old rice terraces north of Baguio; Vigan, the old Spanish capital; Cebu, the oldest city; numerous beaches and mountain wilderness areas; and homes formerly owned by the Marcoses. Basketball is the national sport, followed in popularity by baseball and football (soccer). Jai-alai is popular in Manila and Cebu. Cockfighting is legal and often televised. Each tourist must have a valid passport and an onward/return ticket; no visa is required for stays of up to 21 days.

In 2003, about 1.9 million tourists arrived in the Philippines. Over 58% of the tourists arrived from East Asia and the Pacific; North Americans accounted for close to 25%. There were 21,409 hotel rooms with 42,818 beds and a 60% occupancy rate that year. Tourism expenditure receipts totaled \$1.5 billion.

According to 2005 US Department of State estimates, the cost of staying in Manila was \$199 per day.

#### 48 FAMOUS FILIPINOS

Filipinos have made their most important marks in the political arena. Foremost are José Rizal (1861–96), a distinguished novelist, poet, physician, linguist, statesman, and national hero; Andrés Bonifacio (1863–97), the leader of the secret Katipunan movement against Spain; and Emilio Aguinaldo y Famy (1869–1964), the commander of the revolutionary forces and president of the revolutionary First Philippine Republic (1899). Notable Filipinos of the 20th century include Manuel Luis Quezon y Molina (1878–1944), the first Commonwealth president; Ramón Magsaysay (1907–57), a distinguished leader in the struggle with the Hukbalahaps; and Carlos Peña Rómulo (1899–1985), a Pulitzer Prize-winning author and diplomat and the president of the fourth UN General Assembly. Ferdinand Edralin Marcos (1917–89), who won distinction as a guerrilla fighter during the Japanese occupation, was the dominant political figure in the Philippines from his first election to the presidency in November 1965 to his ouster in February 1986. His wife, Imelda Romualdez Marcos (b.1929), emerged as a powerful force within her husband's government during the late 1970s and early 1980s were Benigno S. Aquino, Jr. (1933–83) and Jaime Sin (1928–2005), who became the archbishop of Manila in 1974 and a cardinal in 1976. Maria Corazon Cojuangco Aquino (b.1933), the widow of Benigno, opposed Marcos for the presidency in February 1986 and took office when he went into exile in the same month. Fidel Valdez Ramos (b.1928) succeeded Corazon Aquino and governed from 1992 until 1998, when he was succeeded by Joseph Estrada (b.1937). Estrada led the country from 1998–2001; Gloria Macapagal-Arroyo (b.1947) succeeded him in 2001.

Lorenzo Ruiz (fl.17th cent.) was canonized, along with 15 companion martyrs, as the first Filipino saint. Fernando M. Guerrero (1873–1929) was the greatest Philippine poet in Spanish. Two painters of note were Juan Luna y Novicio (1857–99) and Félix Resurrección Hidalgo y Padilla (1853–1913). Contempo-

rary writers who have won recognition include Claro M. Recto (1890–1960), José García Villa (1914–97), and Carlos Bulosan (1914–56). José A. Estella (1870–1945) is the best-known Filipino composer. Filipino prizefighters have included two world champions, Pancho Villa (Francisco Guilledo, 1901–25) and Ceferino García (1910–81).

#### 49 DEPENDENCIES

The Philippines has no territories or colonies.

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# QATAR

State of Qatar  
*Dawlat Qatar*

**CAPITAL:** Doha (Ad-Dawhah)

**FLAG:** Maroon with white serrated border at the hoist.

**ANTHEM:** *Qatar National Anthem.*

**MONETARY UNIT:** The Qatar riyal (QR) of 100 dirhams was introduced on 13 May 1973. There are coins of 1, 5, 10, 25, and 50 dirhams, and notes of 1, 5, 10, 50, 100, and 500 riyals. QR1 = \$0.27473 (or \$1 = QR3.64) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, although some British measures are still in use.

**HOLIDAYS:** Emir's Succession Day, 22 February; Independence Day, 3 September. Muslim religious holidays include 'Id al-Fitr, 'Id al-'Adha, and Milad an-Nabi.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Comprising an area of 11,437 sq km (4,416 sq mi), the State of Qatar consists of a peninsula projecting northward into the Persian Gulf, extending about 160 km (100 mi) N-S and 90 km (55 mi) E-W. Comparatively, the area occupied by Qatar is slightly smaller than the state of Connecticut. It is bordered by Saudi Arabia and has a total boundary length of 623 km (387 mi), of which 563 km (350 mi) is coastline. Qatar also includes a number of islands, of which the most important is Halul.

The Hawar Islands, which were part of a border dispute between Qatar and Bahrain for many years, were awarded to Bahrain by the International Court of Justice in 2001.

Qatar's capital city, Doha, is located on the Persian Gulf coast.

## <sup>2</sup>TOPOGRAPHY

The terrain is generally flat and sandy, rising gradually from the east to a central limestone plateau. About 56 km (35 mi) long, the Dukhan anticline rises from the west coast as a chain of hills of up to 100 m (325 ft) in height. Some low cliffs mark the northern end of the east coast. The presence of extensive salt flats at the base of the peninsula supports the theory that Qatar was once an island.

## <sup>3</sup>CLIMATE

Qatar's summer, from May to October, is extremely hot. Mean temperatures in June are 42°C (108°F), dropping to 15°C (59°F) in winter. Humidity is high along the coast. Rainfall is minimal.

## <sup>4</sup>FLORA AND FAUNA

Vegetation is generally sparse and typical of Persian Gulf desert regions. The gazelle, once common in Qatar, is now rarely seen. Jerboas (desert rats) and an occasional fox are found. Birds in-

clude the flamingo, cormorant, osprey, kestrel, plover, lark, and other migrants. Reptiles include monitors, other lizards, and land snakes. Life in the seas around Qatar is considerable and varied, including prawn, king mackerel, shark, grouper, and swordfish.

## <sup>5</sup>ENVIRONMENT

Environmental responsibility is vested in the Ministry of Industry and Agriculture. An Environmental Protection Committee was created in 1984 to monitor environmental problems. Conservation of oil supplies, preservation of the natural wildlife heritage, and increasing the water supply through desalination are high on Qatar's environmental priority list. Air, water, and land pollution are also significant environmental issues in Qatar. In addition to smog and acid rain, the nation has been affected by the air pollution generated during the Persian Gulf War. Pollution from the oil industry poses a threat to the nation's water. The nation's soils have been damaged by pesticides and fertilizers, and its agricultural land is in danger of desertification.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), there are at least 30 threatened species of animals, including the hawksbill turtle, green sea turtle, the spotted eagle, the tiger shark, the great snipe, and the white oryx.

## <sup>6</sup>POPULATION

The population of Qatar in 2005 was estimated by the United Nations (UN) at 768,000, which placed it at number 156 in population among the 193 nations of the world. In 2005, approximately 2% of the population was over 65 years of age, with another 25% of the population under 15 years of age. There were 206 males for every 100 females in the country. According to the UN, the an-

nual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 1,027,000. The overall population density was 70 per sq km (181 per sq mi), but the population is concentrated in the cities, with much of the country being uninhabited desert.

The UN estimated that 92% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 1.45%. The capital city, Doha (Ad-Dawahh), had a population of 286,000 in that year. Two other major towns have grown up around the oil industry: Dukhan, on the west coast, and the port of Umm Sa'id, south of Doha.

## **7 MIGRATION**

In 1993, the number of immigrant workers was about 85,000, including Pakistanis, Indians, and Iranians. In 2000, there were 409,000 noncitizen residents in Qatar, amounting to more than two-thirds of the population. By 2004, the foreign workforce had increased; the total estimated population of Qatar was 744,000, with Qataris comprising no more than one-fourth of this number. South Asia was the source of the largest number of these workers. By the end of 2004, the number of refugees and asylum seekers was low, 46 and 24, respectively. However, there were 6,000 stateless persons of concern to the United Nations High Commissioner for Refugees (UNHCR). In 2000, the net migration rate was 3.7 migrants per 1,000 population. In 2005, the net migration rate had changed significantly to an estimated 15.17 migrants per 1,000 population.

## **8 ETHNIC GROUPS**

About 40% of the population are Arabs, 18% are Pakistanis, 18% are Indians, 10% Iranians, and 14% from other ethnic backgrounds. The indigenous population (about 100,000) descends from Bedouin tribes that migrated to Qatar during the 1700s.

## **9 LANGUAGES**

Arabic is the national language, but English is widely spoken, and Farsi is used by smaller groups in Doha.

## **10 RELIGIONS**

Islam is the official religion of Qatar and is practiced by the great majority (95%) of the people. The Qataris are mainly of the Wahabi sect of the Hanbali school of Islam. There are also small populations of Christians, Jews, Hindus, Baha'is, and other faiths; however, they are mainly foreigners. The constitution provides for freedom of worship; however, there are still some restrictions on public worship in accordance with laws governing public behavior. Proselytizing by non-Muslims is prohibited. Apostasy by Muslims is a criminal offense. The minister of Islamic affairs oversees all aspects of faith within the nation. While legal status has been granted to Catholics, Anglicans, Orthodox Christians, Coptics, and some Asian Christian denominations, the government limits the building of houses of worship for these groups. Muslim holidays are recognized as national holidays.

## **11 TRANSPORTATION**

The modern road system dates from 1967. As of 2002, there were 1,230 km (764 mi) of highway, of which 1,107 km (688 mi) were

paved. Qatar has overland truck routes from Europe through Saudi Arabia via the Trans-Arabia Highway and road links with the United Arab Emirates and Oman. In 2003, there were 145,280 passenger cars and 75,000 commercial vehicles registered. Qatar has no railways or waterways. In 2004, there were four airports. As of 2005, three had paved runways, and there was one heliport. Doha International Airport is served by 20 international airlines. In 2001 (the latest year for which data was available), 1,134,600 passengers were carried on scheduled domestic and international flights. Qatar maintains modern deepwater ports at Doha and Umm Sa'id, where a tanker terminal is located. Qatar's National Navigation and Transport Co. enjoys a monopoly on arriving shipments. In 2005, the merchant fleet consisted of 22 vessels of 1,000 GRT or more, totaling 525,051 GRT.

## **12 HISTORY**

Archaeological evidence shows that human habitation existed in Qatar for many centuries prior to the modern age; however, little is known of Qatar's history until the 18th century. The al-Thani family, forebears of the present rulers, arrived in Qatar then from what is now Saudi Arabia. During the same century, the al-Khalifah family, who currently rule Bahrain, arrived from Kuwait.

In 1868, Great Britain intervened on behalf of the Qatari nobles and negotiated the Perpetual Maritime Truce, signed by Muhammad bin Thani, an accord that terminated the Bahraini claim to Qatar in exchange for a tribute payment. In 1872, however, Qatar fell under Ottoman occupation, and Jasim bin Muhammad bin Thani became Turkish deputy-governor of Qatar. Turkish dominion prevailed until the outbreak of World War I and the subsequent withdrawal of the Turks from the Arabian Peninsula. Qatar thereupon established its independence and, in 1916, Sheikh 'Abdallah bin Jasim al-Thani signed a treaty with the United Kingdom granting British protection in exchange for a central role for the United Kingdom in Qatar's foreign affairs. A 1934 treaty further strengthened this relationship. Commercial quantities of high-quality oil were discovered at Dukhan in 1940, but full-scale exploitation did not begin until 1949.

In 1960, Sheikh Ahmad bin 'Ali al-Thani succeeded his father, who had become too old to rule effectively. Social and economic development during the subsequent decade was disappointing, especially in view of the increasing availability of oil revenues. In January 1968, the United Kingdom announced its intention to withdraw its forces from the Persian Gulf states by the end of 1971. Discussions took place among the Trucial States, Bahrain, and Qatar, with a view to forming a federation. The Trucial States formed the United Arab Emirates, but Qatar could not agree to the terms of the union. On 3 September 1971, the independent State of Qatar was declared. A new treaty of friendship and cooperation was signed with the United Kingdom, and Qatar was soon admitted to membership in the Arab League and the United Nations (UN).

On 22 February 1972, Sheikh Khalifa bin Hamad al-Thani, the deputy emir and prime minister, seized power in a peaceful coup, deposing his cousin, Sheikh Ahmad. Following his accession, Sheikh Khalifa pursued a vigorous program of economic and social reforms, including the transfer of royal income to the state. On 31 May 1977, Sheikh Khalifa appointed Sheikh Hamad bin Khalifa al-Thani, his son, as heir apparent and minister of defense.

In 1981, Qatar, along with the other Persian Gulf states of Bahrain, Kuwait, Oman, Saudi Arabia, and the United Arab Emirates, established the Gulf Cooperation Council (GCC). The GCC attempted to mediate the war between Iran and Iraq, which had erupted in September 1980, but at the same time gave support to Iraq. Qatar's boundary disputes with Bahrain disrupted relations between the two countries in the mid-1980s. In 1991, they agreed to refer their dispute over the Hawar Islands to the International Court of Justice (ICJ) at The Hague. In 1992, there was a minor clash between Qatari and Saudi troops over a disputed border. That quarrel was resolved with a boundary agreement signed in Cairo in December 1992.

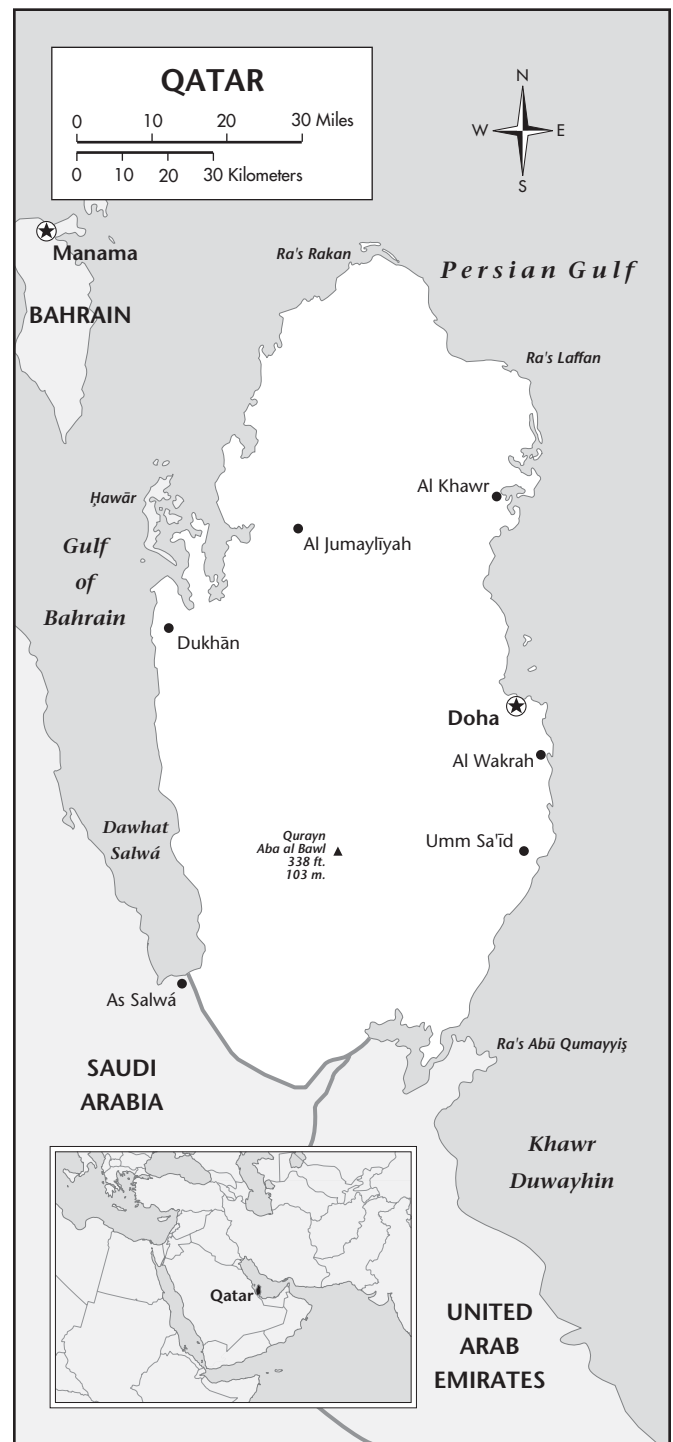
Qatari forces, although small in size, are active in the collective defense of the GCC and played a helpful role on the allied side in the Gulf War against Iraq.

In 1995, Sheikh Hamad seized power from his father amid a turbulent and secretive attempted coup in February of that year by unknown forces. Sheikh Khalifa, the aging ruler, had spent much of his time before being ousted sailing the Mediterranean on the royal yacht. Also a problem was the aging emir's eccentric method of funding the government, which was to siphon off half of the revenue generated from the country's oil into his personal bank accounts and to pay for government services from those funds. In the late 1980s and early 1990s, the emir felt more inclined to withdraw money than to deposit, and the resulting revenue drain was crippling the economy. When Sheikh Hamad took control of the government while his father was away on business, the now former emir froze his personal bank accounts, which held, essentially, Qatar's treasury. Estimates of Sheikh Khalifa's personal accounts range from \$4 billion to \$30 billion.

In 1996, the former emir set up a government in exile in the United Arab Emirates. The hostile transfer of power led to friction among the normally contention-free members of the GCC. Also that year, Sheikh Hamad issued writs demanding that his father turn over control of his assets to the state. Initially, the emir resigned himself to the loss of revenue, but severe budget constraints caused him to cut government spending and, in order to develop the huge offshore natural gas reserves the country would rely on in the future, huge infrastructure expenses needed to be made.

In 1999, the former emir still claimed to be the legitimate ruler of Qatar, and his allies within the ruling elite were still a source of problems for Sheikh Hamad. However, Sheikh Hamad has continued to rule and implement change in spite of outside threats. In October 2004, Sheikh Hamad received his father back into the country for the first time since he had overthrown him nine years previously. The former ruler returned to attend the funeral of his wife, Sheikha Mozah bint Ali bin Saud bin Abdel-Aziz al-Thani.

In 1999, Qatar supported the efforts of the Organization of Petroleum Exporting Countries (OPEC) to increase oil prices by cutting back crude oil production from March 1999 to April 2000. Qatar was also practicing fiscal discipline and creating low-cost efficiencies. The government was developing a tariff structure with a monthly ceiling on water and electricity services, previously free of charge. In addition, plans were in the works to implement a foreign investment code in agriculture, industry, tourism, and education ventures.



LOCATION: 26°23' to 24°31' N; 50°43' to 51°41' E. BOUNDARY LENGTHS: Persian Gulf coastline, 563 kilometers (350 miles); United Arab Emirates, 45 kilometers (28 miles); Saudi Arabia, 60 kilometers (38 miles). TERRITORIAL SEA LIMIT: 3 miles.

Perhaps most striking, Sheikh Hamad was encouraging political openness. In 1999, women voted and ran for office in municipal elections for the first time. A constitutional committee was charged with drawing up a permanent constitution under which Qatar would have an elected parliament. Political openness was even extended to the media as Qatar's satellite news channel, Al

Jazeera, broke a previous taboo with an open discussion and criticism of the state funding of the ruling family.

On 16 March 2001, the ICJ resolved a territorial dispute between Bahrain and Qatar over the potential oil- and gas-rich Hawar Islands. The islands had been controlled by Bahrain since the 1930s but were claimed by Qatar. Bahrain also claimed the town of Zubarah, which is on the mainland of Qatar. The dispute has lasted for decades and almost brought the two nations to the brink of war in 1986. In its judgment, the ICJ drew a single maritime boundary in the Gulf of Bahrain, delineating Bahrain and Qatar's territorial waters and sovereignty over the disputed islands within. The ICJ awarded Bahrain the largest disputed islands, the Hawar Islands, and Qit'at Jaradah Island. Qatar was given sovereignty over Janan Island and the low-tide elevation of Fasht ad Dibal. The court reaffirmed Qatari sovereignty over the Zubarah Strip.

During 2002 and into 2003, Qatar, along with the other countries of the Persian Gulf, was confronted with the situation of a potential US-led war with Iraq. On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and WMD capabilities, to allow the immediate return of International Atomic Energy Agency (IAEA) and UN weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. If Iraq was found to be in "material breach" of the resolution, "serious consequences" were to result.

The United States and the United Kingdom began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. As of 1 February, there were approximately 3,500 US military personnel in Qatar. In December 2002, a computer-assisted exercise entitled "Internal Look" was carried out in Qatar, involving approximately 1,000 military planners and a mobile command center, which would eventually be staffed by 1,600 US and UK troops. As of March 2003, an aerial command-and-control center was being constructed at Al Udeid, in the event that US forces could not use their control center in Saudi Arabia. The Al Udeid air base has the longest runway in the Gulf region (approximately 5,000 m/15,000 ft) and can accommodate nearly 100 aircraft. Operating at Al Udeid in early 2003 was air-to-air refueling of tanker aircraft in support of US-led forces in Afghanistan and to patrol Iraq's southern no-fly zone in the aftermath of the 1991 Gulf War. In December 2002, the United States and Qatar signed a bilateral defense agreement that US Secretary of Defense Donald Rumsfeld stated was not connected to Iraq.

However, Qatar has said it would not act in a conflict with Iraq without UN approval. At an Arab League summit held at Sharm el-Sheik, Egypt, on 1 March, sharp divisions between Arab leaders on the Iraq situation emerged, particularly between Libya and Saudi Arabia. However, the leaders issued a declaration expressing "complete rejection of any aggression on Iraq" and called for continuing UN weapons inspections. It also called upon Iraq to disarm itself of WMD and the missiles needed to deliver them. At the summit, some leaders argued that war was inevitable and that the countries of the region should prepare for its aftermath; some argued that war could be avoided if Iraq were to comply with weapons inspections; and a third group argued that the summit should issue an unequivocal antiwar declaration. In March–April

2003, the US Central Command forward base, the nerve center in the US-led military campaign in Iraq, was based in Qatar.

On 29 April 2003, Qatari voters approved a new constitution, which provides for a 45-member parliament, Consultative Council, or Majlis al-Shura, with 30 elected members and the rest selected by the emir. In a surprise move later this same year, in August 2003, the emir named his younger son, Prince Tamim, as crown prince, to replace his older brother, Prince Jassim. Further reforms were enacted in May 2004, when Sheikh Hamad decreed workers would be allowed to form trade unions and to take strike action, work by children under 16 was banned, an eight-hour working day was set, and equal rights for women were declared. Women were also entitled to a paid 50-day maternity leave. On 8 June 2004, the emir endorsed the ratified constitution. The constitution came into effect on 9 June 2005.

In February 2004, former Chechen president Zelimkhan Yandarbiyev, a resident of Doha, was killed in an explosion there. Two Russian spies were charged with his murder and were handed life sentences for the crime. Relations with Russia deteriorated. In March 2005, the terror continued when a car bomb blast near a British school in Doha killed one Briton and injured 12 other people.

### **13 GOVERNMENT**

Qatar is a monarchy ruled by an emir. In 1970, in anticipation of independence, Qatar promulgated a Basic Law, including a bill of rights, that provides for a nine-member executive Council of Ministers (cabinet) and a 30-member legislative Advisory Council, whose members serve three-year terms. The Council of Ministers, appointed by the emir and led by a prime minister (the head of government), formulates public policy and directs the ministries. Sheikh Khalifa served as acting prime minister from the time of the 1972 coup until he was ousted by his son, Sheikh Hamad bin Khalifa al-Thani, in 1995. Sheikh Khalifa formed a government in exile in the United Arab Emirates. Sheikh Hamad ruled Qatar. The ruling al-Thani family continues to hold a majority of cabinet positions and most of the key posts.

In March 1999, elections to a 29-member municipal council were held in which women were allowed to vote and run for office. One woman candidate was elected to the municipal council in 2003.

Sheikh Hamad's promised constitution of 1999 was ratified by the Qatari public on 29 April 2003, endorsed by the emir on 8 June 2004, and came into force on 9 June 2005.

The new constitution provides for a 45-member Consultative Council, or Majlis al-Shura; the public would elect two-thirds of the Majlis al-Shura; the emir would appoint the remaining members. Suffrage is universal; voting age is 18 years.

### **14 POLITICAL PARTIES**

There are no organized political parties. Security measures against dissidents are firm and efficient. There is no serious opposition movement. Citizens with grievances may appeal directly to the emir.

### **15 LOCAL GOVERNMENT**

Qatar is divided into 10 municipalities (baladiyat; singular, baladiyah): Ad Dawhah, Al Ghuwayriyah, Al Jumayliyah, Al Khawr, Al

Wakrah, Ar Rayyan, Jarayan al Batinah, Madinat ash Shamal, Umm Sa'id, and Umm Salal. Municipal councils have been established in Doha, Khor, Ash-Shamal, and several other towns. The councils manage their own planning and development programs, but they remain directly accountable to the Ministry of Municipal Affairs.

## **16 JUDICIAL SYSTEM**

The legal system is based on the Shariah (canonical Muslim law). The Basic Law of 1970, however, provided for the creation of an independent judiciary, including the Court of Appeal, which has final jurisdiction in civil and criminal matters; the Higher Criminal Court, which judges major criminal cases; the Lower Criminal Court; the Civil Court; and the Labor Court, which judges claims involving employees and their employers. The Shariah court has jurisdiction in family and criminal cases and may also assume jurisdiction in commercial or civil cases if requested by a Muslim litigant. Muslims and non-Muslims may ask the Shariah courts to assume jurisdiction in family, commercial, and civil cases. The losing party in all types of courts may submit his or her cases to an appeals court. In cases tried by the Shariah court, however, it is possible that the same judge will hear both the original case and the appeal. However, under the new judiciary law issued in 2003, the two court systems, civil and Islamic law, were merged under a higher court, the Court of Cassation, established for appeals.

The judiciary is attached to three different ministries. The civil courts are subordinate to the Justice Ministry. Whereas Shariah courts fall under the Ministry of Endowments and Islamic Affairs, the prosecutors fall under the Ministry of the Interior.

## **17 ARMED FORCES**

Qatar's armed forces in 2005 totaled 12,400 active personnel, of which 8,500 were Army personnel, 1,800 Navy, and 2,100 Air Force personnel. The Army was equipped with 30 main battle tanks, 68 reconnaissance vehicles, 40 armored infantry fighting vehicles, 226 armored personnel carriers, and 89 artillery pieces. Major naval units consisted of more than 27 patrol/coastal vessels. The Air Force had 18 combat-capable aircraft, including 12 fighter ground attack aircraft. The service also operated 18 antisurface unit warfare helicopters. The Army includes a Royal Guard regiment. Qatar's 2005 defense budget totaled an estimated \$2.19 billion.

## **18 INTERNATIONAL COOPERATION**

Qatar joined the United Nations (UN) on 21 September 1971; it participates in ESCWA and several nonregional specialized agencies, such as the FAO, IAEA, the World Bank, ILO, UNESCO, UNIDO, and the WHO. Qatar is a member of the WTO, the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab League, the Organization of the Islamic Conference (OIC), OPEC, OAPEC, G-77, and the GCC. The country has observer status in the OAS. Qatar is part of the Nonaligned Movement.

In environmental cooperation, Qatar is part of the Basel Convention, the Convention on Biological Diversity, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **19 ECONOMY**

Until recent decades, the Qatar peninsula was an undeveloped, impoverished area, with a scant living provided by the traditional occupations of pearl diving, fishing, and nomadic herding. In 1940, a major oil discovery was made at Dukhan and, in the ensuing decades, oil has been the dominant factor in the Qatari economy. Oil revenues have provided Qataris with per capita incomes comparable those of the industrialized nations of the West. In 1996, oil revenues accounted for more than 30% of gross domestic product (GDP), 70% of export earnings, and 66% of government revenues.

Other economic activities remain limited. Agriculture has received considerable attention in recent years, but most food is still imported. The state encourages free enterprise, provided it does not conflict with the public interest. Real property, however, may be acquired only by Qatari nationals. The discovery of a vast field of natural gas unassociated with Qatar's oil fields promises to add a new dimension to the economy. In 1987, work on the first phase of the North Gas Field project, with a production capacity of 800 million cu ft per day, began and was inaugurated in 1991. While Phase I production is meant for domestic consumption, the Phase II development envisages the production of at least an additional 800 million cu ft per day for export to Japan as liquefied natural gas. The first shipments to Japan began in January 1997. The project was heavily financed by Japanese banks under terms that limit Qatar's revenues for the next decade. Qatar has 300 trillion cu ft of proven natural gas reserves—third in the world behind Russia and Iran. Production of natural gas reached 690 billion cu ft in 1998.

The economy performed sluggishly during the first half of the 1990s but recovered somewhat in 1995 because of a surge in international oil prices and slightly higher rates of oil production. It is estimated that GDP grew by 1.9% in 1995. The government that took over after the coup of 1995 implemented economic reforms that updated the financial sector. In 1998, a temporary drop in international oil prices brought GDP down by 9.2%. However, the recovery of oil prices in the second half of 1999 brought a jump in GDP of 18.9% for the year and 34.9% in 2000. Per capita income rose from \$20,038 in 1998 to \$24,000 in 2001. Inflation, at 2.9% in 1998, dropped to 2.2% in 1999 and -1.0% in 2000.

The GDP growth rate in 2004 was an astonishing 8.7%, up from 3.3% in 2003; in 2005, Qatar was expected to continue to be one of the best-performing countries in the region, with an economic expansion rate of 8.8%. As a result of this impressive growth, Qatar is now one of the countries with the highest GDP per capita in the world—\$39,292 in 2004 and an estimated \$44,087 in 2005. Inflation, although on the rise (it was 6.8% in 2004), does not pose a problem for the domestic economy and is very beneficial for the export sector. Unemployment remains stable at 0.4%. The massive growth registered in previous years was mainly fueled by high oil prices, the diversification of the energy sector, an increase in foreign investments, and a boom in construction, infrastructure and real estate development.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Qatar's gross domestic product (GDP) was estimated at \$22.5 billion. The CIA defines GDP as the value of all final goods and ser-

vices produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$26,000. The annual growth rate of GDP was estimated at 8.8%. The average inflation rate in 2005 was 7.8%. It was estimated that agriculture accounted for 0.2% of GDP, industry 81%, and services 18.8%.

Approximately 22% of household consumption was spent on food, 11% on fuel, 5% on health care, and 13% on education.

## **2<sup>1</sup> LABOR**

As of 2005, Qatar's labor force totaled an estimated 440,000. In 2001 (the latest year for which data was available), industry accounted for 38.2% of the country's workforce, with 2.3% in the agricultural sector, 58.8% in the services sector, and 0.8% in undefined occupations. No labor may be recruited without the approval of the Department of Labor, and vacancies must be offered first to Qataris, second to Arabs, and only then to foreigners, who composed 85% of the workforce in 1992. In 2001, the unemployment rate was 2.7%.

Trade unions are prohibited, and strikes are permitted only after the case has been presented to the Labor Department of the Ministry of Civil Service and an agreement cannot be reached. Government employees, security forces employees, domestic workers, and members of an employer's family are not permitted to strike, nor are workers in public health or security if such a strike would harm the public or lead to property damage. Workers are prohibited from engaging in collective bargaining.

The standard workweek is 48 hours, although most government offices set a 36-hour week. Children as young as 15 may work with parental permission, and some young non-Qataris work in family businesses. However, youths of any nationality do not frequently work in Qatar. While the labor law gives the emir the authority to set a minimum wage, he has not chosen to do so. Enforcement of safety standards is lax.

## **2<sup>2</sup> AGRICULTURE**

Agriculture is constrained by a lack of adequate fertile soil, rainfall, and underground water sources; the aquifers that supply the crops are expected to soon run dry. Treated wastewater has been used for irrigation. In 2003, only 1.9% (21,000 hectares/52,000 acres) of the total land area was under cultivation. In 2004, 16,500 tons of dates were produced, mostly for local consumption. Rice is also grown for the domestic market.

## **2<sup>3</sup> ANIMAL HUSBANDRY**

According to 2005 estimates, Qatar had 200,000 sheep, 155,000 goats, 34,000 camels, 11,000 head of cattle, and 4.5 million chickens. Output in 2005 included about 5,850 tons of mutton and 4,900 tons of poultry. Dairy and poultry production meet about 25% of domestic needs. Public, private, and foreign financing have all been used to establish or expand dairy and poultry farming.

## **2<sup>4</sup> FISHING**

The Qatar National Fishing Co., formed as a Qatar-UK partnership in 1966, was wholly taken over by Qatar in 1980 and has its

own shrimp fishing fleet and processing facilities. Fish and shellfish production in 2003 totaled 11,000 tons.

Pearl fishing, once important in Qatar, has virtually disappeared. The principal fishing facilities at Doha and Al Khor have been improved. Overfishing and pollution have adversely affected catches, and there is further concern that oil pollution from the Gulf War may worsen conditions even further.

## **2<sup>5</sup> FORESTRY**

There are no forests in Qatar. Imports of forestry products totaled \$31.4 million in 2004.

## **2<sup>6</sup> MINING**

Much of Qatar's economy is based on the production of natural gas, petrochemicals, crude oil, and refined petroleum products. Among other exploitable minerals, production in 2004 included: limestone, estimated at 1 million metric tons; hydraulic cement, estimated at 1.4 million metric tons; nitrogen (ammonia), 1.428 million metric tons; and nitrogen (urea), estimated at 1 million metric tons. The country also produced clay, gypsum, and sand and gravel.

## **2<sup>7</sup> ENERGY AND POWER**

Qatar has large reserves of oil and the world's third-largest natural gas reserves. It is also emerging as a major exporter of liquefied natural gas (LNG), and is a member of the Organization of Petroleum Exporting Countries (OPEC).

Qatar's proven oil reserves were estimated at 15.2 billion barrels, as of 1 January 2005. In 2004, oil production was estimated at 1,068,000 barrels per day, of which crude oil accounted for 783,000 barrels per day. In 2004, net oil exports averaged an estimated 1,023,000 barrels per day, of which almost all was shipped to Asia, with Japan as the country's largest buyer. Domestic oil demand in 2004 was estimated at 45,000 barrels per day. Qatar's largest-producing oil field is the onshore Dukhan field on the western coast of the peninsula. Offshore production accounts for about 40% of the total, mainly from three of Qatar's six offshore fields about 50 miles from the coast. As a member of OPEC, Qatar is subject to the organization's crude oil production quotas. As of 1 November, 2004, Qatar's crude oil production quota was placed at 700,000 barrels per day, not including condensates. Crude oil refining capacity, as of 1 January 2005, was estimated at 137,000 barrels per day.

Qatar's natural gas reserves are the world's third largest, behind those of Russia and Iran, and are estimated at 910 trillion cu ft. Output in 2002 was estimated at 1 trillion cu ft. Domestic consumption in that year was estimated at 396 billion cu ft. Nearly all of Qatar's natural gas reserves are in the North Dome Field, considered to be the largest natural gas field (unassociated with oil) in the world. In 2003, net exports of natural gas were estimated at 669 billion cu ft. Production of natural gas liquids in 2004 was estimated 250,000 barrels per day.

Qatar's power plants are mostly gas fired, for which the residential sector accounts for around 70% of demand. In 2002, Qatar's electrical power generating capacity totaled 1.880 million kW, all of which used conventional thermal fuels. Power production in 2002 reached 9.497 billion kWh. Domestic demand for electricity in that year totaled 8.832 billion kWh.

## 28 INDUSTRY

Industry in Qatar is restricted by the small size of the population and the paucity of resources other than petroleum and natural gas. Qatar has nevertheless launched an ambitious industrialization plan aimed at diversifying the sources of national income and creating an economy that is not totally dependent on oil revenues. State enterprises include the Qatar Iron and Steel Co. (70% government owned); the Qatar Fertilizer Co.—QAFCO (70% government-owned, underwent its fourth expansion in 2002); the Qatar National Cement Co. (43% government owned and no foreign investment); Qatar Petrochemical Co.—QAPCO (80% government owned, produces ethylene, polyethylene, and sulfur); Qatar Liquefied Gas Co.—QatarGas (65% owned by Qatar Petroleum); Ras Laffan Liquefied Natural Gas—Ras Gas (70% owned by Qatar Petroleum, began operations in 1999 and expanded in 2001, producing about 10 million tons per year); Qatar Chemicals Co.—Q-Chem (51% owned by Qatar Petroleum, established 1997 with expansion into Q-Chem II in 2002); Qatar Fuel Additive Co.—QAFAC (50% owned by Qatar Petroleum, commissioned in 1999 to produce 830,000 metric tons per year of methanol and 610,000 metric tons per year of methyl tertiary butyl ether); and Qatar Vinyl Co.—QVC (25% owned by Qatar Petroleum and 31.9% by QAPCO). It is estimated that industry accounted for almost 10.6% of GDP in 2000, up from 7.5% in 1997.

The industrial production growth rate has been consistently higher than the economic growth rate (10% in 2003), and in 2004, the share of the industry in the national GDP rose to an astonishing 58.2%; at 0.3%, agriculture is an insignificant segment of the economy, and the country is still dependent on food imports; services came in second, with a 41.5% share in the economy. Around \$120 billion is to be invested in the next 10 years in the development of the energy and industrial sectors.

## 29 SCIENCE AND TECHNOLOGY

The Scientific and Applied Research Center, within the University of Qatar at Doha, coordinates the nation's technological development and seeks to develop ways to utilize the country's natural resources. A soil research station is located at Rodet al-Farassa. The Qatar National Museum, founded at Doha in 1975, has an aquarium and botanical garden and exhibits dealing with geology, botany, and zoology. In 1986, total expenditures on research and development amounted to QR6.7 million; 61 technicians and 229 scientists and engineers were engaged in research and development.

## 30 DOMESTIC TRADE

As elsewhere in the Persian Gulf, wholesale and retail operations in Qatar are frequently combined in the same enterprise. A relatively small number of large companies controls most of the retail market, particularly in food imports and distribution. Consumer cooperative societies have also been established for food retail sales. Local laws require that commercial agents be of Qatari nationality; however, a 2000 law opened up more possibilities for foreign investors. Consumer advertising can be displayed in mo-

### Principal Trading Partners – Qatar (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	8,230.9	4,052.1	4,178.8
Japan	2,378.3	426.5	1,951.8
Korea, Republic of	1,737.1	145.1	1,592.0
Singapore	1,017.1	30.8	986.3
Area nes	519.0	...	519.0
United Arab Emirates	436.1	285.6	150.5
Thailand	375.3	34.9	340.4
United States	283.8	528.3	-244.5
Egypt	263.4	...	263.4
Saudi Arabia	191.0	252.1	-61.1
Philippines	126.8	...	126.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

tion picture theaters, in the press, and on billboards. Radio and television services do not accept advertising.

Normal business hours are from 7:30 AM to 12 noon and from 3:30 PM to 6 PM. Government offices are open from 7 AM to 2 PM, Saturday through Wednesday. Banks are open from 8 to 12:30 AM. Private-sector business hours are usually 8 AM to 12:30 PM and 4 PM to 7:30 AM, Saturday through Thursday. Most businesses are closed on Friday.

## 31 FOREIGN TRADE

Qatar's most important commodity exports are crude petroleum (56%), natural and manufactured gas (30%), and refined petroleum products (2.1%). Other exports include manufactured polymers (3.2%), steel (2.1%), and fertilizers (1.9%).

In 2004, Qatar's exports grew to \$15 billion (FOB—Free on Board), while its imports were more than half that, at \$6.2 billion (FOB). The bulk of exports went to Japan (41.9%), South Korea (15.8%), Singapore (9.1%), and India (5.4%). Imports included machinery and transport equipment, food, and chemicals and mainly came from France (26.6%), the United States (9.5%), Saudi Arabia (9.4%), the United Arab Emirates (6.3%), Germany (5.2%), Japan (5.2%), and the United Kingdom (5.1%).

## 32 BALANCE OF PAYMENTS

Qatar has had a persistent trade surplus while maintaining an overall balance of payments deficit. The gap in the balance of payments is largely due to massive imports in services and person transfers, and somewhat to outflowing capital transfers.

The Qatar Central Bank reported that in 1998, there was a surplus in the balance of goods of \$358 million, a substantial decline from the surplus of \$897 million posted in 1997. The central bank's numbers were based on an exchange rate of QR3.64 per \$1. The decline was the result of a reduced rate of exports and an increased rate of imports. Although oil exports grew in volume, lower prices for oil resulted in less revenue. More than offsetting the surplus on goods, the balance on services posted a record deficit of \$2.4 billion. Capital and private transfers, as represented in state borrowings from foreign sources and official and private investments in foreign markets, recorded a surplus of \$1.34 billion,

a 13% increase over 1997. Overall, the 1998 balance of payments registered a deficit of \$736 million. This deficit was largely due to increased borrowing necessary to expand the country's liquefied natural gas (LNG) industry. It is estimated that these deficits will continue until revenues from LNG exports from the North Field begin to impact the economy.

The US Central Intelligence Agency (CIA) reported that in 2001, the purchasing power parity of Qatar's exports was \$11 billion, while imports totaled \$3.5 billion resulting in a trade surplus of \$7.5 billion.

Exports of goods reached \$18.7 billion in 2004 and were expected to grow to \$23.4 billion in 2005. Imports were expected to reach \$6.7 billion in 2005, up from \$5.4 billion in 2004. Qatar has thus managed to keep both a positive resource balance (\$13.3 billion, and \$16.7 billion, respectively) and a positive current account balance (\$7.5 billion in 2004, and an expected \$9.2 billion in 2005). Foreign exchange reserves (excluding gold) reached \$3.4 billion in 2004, covering more than seven months of imports.

### **3<sup>3</sup> BANKING AND SECURITIES**

Qatar's monetary and banking system is headed by the Qatar Central Bank (QCB). The bank supervises all banks and money exchange companies in Qatar. In 1993, the QCB was established to assume the functions of the Qatar Monetary Agency. The bank was set up in part to make it independent of the Ministry of Finance and Petroleum. The QCB is responsible for ensuring that all banks operating in Qatar comply with international standards and auditing procedures. Total assets of all banks operating in Qatar was estimated at \$13.8 billion in 2000. As of 1999, there were 14 banks operating in Qatar: seven national, two Arab, and six foreign. There were also 10 money exchange companies. The Qatar National Bank is the largest, with total assets exceeding \$5 billion.

The Qatari riyal was fixed to the US dollar at a rate of us\$1=QR3.65 in June 1980 and has remained at that rate to date. However, for practical purposes the rate is us\$1=QR3.639. Because the exchange rate is fixed, Qatar cannot employ monetary policy for domestic price regulation and employment objectives. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$7.9 billion.

There is no stock exchange. Shares in Qatari public companies are traded through banks.

### **3<sup>4</sup> INSURANCE**

In 1999, there were 11 insurance companies represented in Qatar, seven of which were foreign owned. The Qatar National Insurance Co. has the largest market share and manages the government's insurance business. In 1999, 1.3% of Qatar's gross domestic product (GDP) was insurance premiums.

### **3<sup>5</sup> PUBLIC FINANCE**

Revenues from oil and gas constitute about 90% of total government income. From 1986 to 1990, the government ran a deficit due to the drop in oil revenues from falling prices. These deficits resulted in the procrastination of payments by the government,

which created a financial difficulty for many private companies. To address this problem, the government took measures to boost the oil industry, which achieved positive results by the late 1990s.

The US Central Intelligence Agency (CIA) estimated that in 2005 Qatar's central government took in revenues of approximately \$17.3 billion and had expenditures of \$11.3 billion. Revenues minus expenditures totaled approximately \$6 billion. Public debt in 2005 amounted to 36.7% of gross domestic product. Total external debt was \$20.63 billion.

### **3<sup>6</sup> TAXATION**

The only tax levied in Qatar (besides customs duties) is an income and profits tax on corporations. Qataris and those who are citizens of countries that are members of the Gulf Cooperation Council (GCC: Bahrain, Kuwait, Oman, Saudi Arabia, and United Arab Emirates) are subject to a 0% tax rate. Thus, if the company is wholly owned by Qatari or other GCC nationals, the company is not taxed. Otherwise, foreign companies and/or their branches are taxed at progressive rates starting at 0% up to 35% covering each of seven income levels. There is no other personal or corporate tax liability in Qatar for either foreigners or nationals.

### **3<sup>7</sup> CUSTOMS AND DUTIES**

Import licenses are not required except for liquor (consumption of which is limited to non-Muslims). Customs duties are 4% on almost all commodities except for alcoholic beverages (100%), tobacco and cigarettes (150%), and records and phonographs (15%). A 20% protective tariff is imposed on cement, steel bars, and other products that compete with goods produced in Qatar. The importing of pork, any goods deemed pornographic, and any goods from Israel or South Africa are forbidden. Qatar is a member of the World Trade Organization and the Gulf Cooperation Council (GCC), through which it signed a free trade agreement that provides duty-free access to goods from GCC member nations.

### **3<sup>8</sup> FOREIGN INVESTMENT**

The Qatari government encourages overseas investment in Qatar, conditioned on a majority Qatari interest. For example, the Qatar Petrochemical Co. is jointly owned by the government of Qatar (80%), the French company Cdf Chimie Atochem (10%), and the Italian company Enichem (10%). Qatar Liquefied Gas Co., which began production in 1996, is a venture between the state-owned Qatar General Petroleum Corporation (QGPC) with 65% and four other foreign firms, including the US firm Mobil Oil with a 10% stake. In 1992, the firm signed a sales and purchase agreement with the Chubu Electric Power Co. in Japan for the sale of liquefied natural gas (LNG) per year for a period of 25 years. Another US company, Phillips Corporation, signed an agreement with QGPC in May 1977 for establishing a new \$750 million petrochemical complex at Umm Sa'id Industrial Area.

Until the mid 1990s, Japanese and European firms were the leading international suppliers to the following industrial sectors: power generation, water desalination, telecommunications, motor vehicles, heavy machinery, and petroleum equipment. Since then, however, the market share of US companies has risen to over 14%. Foreign investment in enhanced oil recovery and production and in LNG across the period 1992 to 2002 is estimated to have totaled over \$10 billion. Published foreign direct investment (FDI) sta-

tistics show a peak of \$418.3 million in 1997, declining to \$113.3 million in 1999. In 2000, FDI rose to \$251.6 million but declined to \$237.4 million in 2001. Average annual FDI 1997 to 2001 was \$273.58 million.

Recently, Qatar has made significant improvements toward liberalizing its trade and investment climate, providing more incentives and opportunities for foreign investors. The main focus area for incoming flows of capital is the massive natural gas reserves that have been discovered in the North Field. The LNG industry has managed to attract almost \$70 billion worth of investments.

### **39 ECONOMIC DEVELOPMENT**

Qatar follows a policy of diversifying and extending its industrial and commercial activities to reduce the current dependence on oil. Infrastructure, heavy and light industry, agriculture, and fishing have all been development targets. The Industrial Development Committee encourages investment and supervises industrial growth. The government also uses surplus oil revenues on the international money market to protect the purchasing power of those revenues. In the late 1990s, Qatar launched some major/minor projects worth about \$7 billion: liquefied natural gas plant expansion of the present fertilizer and petrochemical plants, aluminum smelter, Al Wusail power/water desalination plant, new Doha International Airport, and upgrading and expansion of the offshore oil fields. Foreign investment in Qatar's oil sector and industrial projects is estimated to have reached \$10 billion since 1992. Qatar has extended economic assistance to other Arab states, to other developing nations, and to Palestinian organizations.

In 2005, Qatar was one of the region's star performers, and it is expected to maintain that position in the next 10 years. The energy sector is considered to be the main engine of this economic expansion. Qatar has, so far, managed to attract over \$100 billion in investments in its energy sector, and it is estimated that it will invest an additional \$120 billion over the course of the next 10 years. Large government industrial and infrastructure projects, as well as preparations for hosting the Asian Games in 2006, will add some dynamism to the economic growth machine.

### **40 SOCIAL DEVELOPMENT**

Public health services and education are provided free by the state through the Ministry of Labor and Social Affairs, which also provides help to orphans, widows, and other Qatari nationals in need of assistance.

Both law and Islamic customs closely restrict the activities of Qatari women, who are largely limited to roles within the home. Shariah law governs inheritance and child custody matters and favors men. The testimony of two women in court is equivalent to that of one man. However, growing numbers of women are receiving government scholarships to study abroad, and some women work in education, medicine, and the media. Women compose two-thirds of the student body at the University of Qatar. Although domestic violence occurs, it is not a widespread problem. In 2004, legislation was enacted allowing women to form independent women's rights organizations.

Non-Muslims and Shia Muslims experience discrimination in employment and education. They are also unable to bring suits as plaintiffs in Shariah courts. Noncitizens make up 85% of the workforce yet are discriminated against and sometimes mistreat-

ed. Corporal punishment is allowed by law, although amputation is not. Freedom of speech and press are restricted.

### **41 HEALTH**

Free public health services are extended to all residents of Qatar, regardless of nationality. The Ministry of Health has tried with some success to keep pace with an expanding population. As of 2004, there were an estimated 221 physicians and 493 nurses per 100,000 people. Approximately 100% of the population had access to safe water and 100% of the population had access to health care services.

Life expectancy was estimated at 73.67 years as of 2005. That same year, infant mortality was estimated at 18.61 deaths per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at 15.8 and 4.3 per 1,000 people, respectively. The fertility rate was 2.6 children per woman living throughout her childbearing years.

The immunization rates for children under the age of one were as follows: diphtheria, pertussis, and tetanus, 91%; polio, 91%; measles, 86%; hepatitis, 90%; and tuberculosis, 94%. The HIV/AIDS prevalence was 0.09 per 100 adults in 2003.

### **42 HOUSING**

A "popular housing" scheme provides dwellings through interest-free loans and installment repayments on easy terms. Occupants are required to pay only 60% of the cost of their houses during a period of 20–35 years. To qualify for ownership, an applicant must be a married Qatari national with a limited income, between the ages of 20 and 50 years, and unable to build a house on his own. Qataris facing extreme hardship can receive a free house. Foreign nationals are not permitted to buy real estate. In 1991–93, 100% of the population had access to safe water.

### **43 EDUCATION**

Education is compulsory and free for all residents 6–16 years of age. All children receive free books, meals, transportation, clothing, and boarding facilities if required. Primary school covers six years of study. This is followed by three years of general preparatory school or religious preparatory school; the latter is only available for boys. Secondary school programs cover a three-year course of studies. Girls are permitted to attend general academic studies at the secondary level, but only boys are given the option of attending religious, commercial, or technical secondary schools.

In 2001, about 31% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 94% of age-eligible students. The same year, secondary school enrollment was about 82% of age-eligible students. It is estimated that about 87% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 13:1 in 2003; the ratio for secondary school was about 10:1. In 2003, private schools accounted for about 43% of primary school enrollment and 31.7% of secondary enrollment.

The leading higher education institution is the University of Qatar, founded at Doha in 1973. In addition to faculties of education, science, humanities, social sciences, Islamic studies, and engineering, the university offers a Language Teaching Institute (founded in 1972) and a Regional Training Center, established in

1979 with United Nations Development Program technical assistance. Scholarships for higher education abroad are given to all who qualify. In 2003, about 22% of the tertiary age population was enrolled in some type of higher education program, 12% for men and 32% for women. The adult literacy rate for 2004 was estimated at about 89.2%.

As of 2003, public expenditures on education were estimated at 3.6% of gross domestic product.

#### **44 LIBRARIES AND MUSEUMS**

The Qatar National Library (founded in 1962) has over 270,000 volumes. Construction of a new building for the library began in Doha in 2003 and is expected to be completed in 2007. The University of Qatar library has about 341,000 volumes. The British Council maintains a collection of 45,000 volumes. The Doha Public Library holds a collection of thousands of ancient Arabic manuscripts, as well as modern works and a small collection of books in English. Qatar also has a system of branch and school-affiliated libraries.

The Qatar National Museum in Doha has five major sections: the old Amiri Palace (11 buildings) and a new palace, aquarium, lagoon, and botanical gardens. The Doha Fort and Windtower House serves as an ethnographic museum.

#### **45 MEDIA**

Qatar enjoys excellent external telephone, telex, and cable facilities. Direct-dial telephone service is available to most parts of Europe, the Middle East, and the United States. In 2003, there were 184,500 mainline phones and 376,500 mobile phones in use nationwide.

Radio transmissions include 12 hours per day of English-language service. A French-language service was instituted in 1985. As of 1998, there were six AM and five FM radio stations. In 2001, there was one television station. Broadcasts are mostly in Arabic. In 1997, there were 268 radios and 273 television sets per 1,000 population. In 2003, there were 126,000 Internet subscribers.

In 2002, there were six major daily newspapers. Commercial publications available in Qatar (with 2002 circulation figures) include the daily newspapers *Al-'Arab* (25,000), *Ar-Rayah* (25,000), *Al-Sharq* (45,000), and *Gulf Times* (15,000).

The official censorship of the print media was lifted in 1995. Since then, it is said that the print media have been free of government interference. The censorship function continues for movies, videos, radio and television programming, and Internet services. Also, many foreign publications are banned or have significant portions blacked out. Items typically censored are those containing sexually explicit material or anything deemed hostile or contrary to the teachings of Islam.

#### **46 ORGANIZATIONS**

The Qatar Chamber of Commerce was founded in Doha in 1963. There are numerous family, social, and sporting clubs, including

the Beacon Club and the Doha Sailing Association. National youth organizations include the Qatar Boy Scouts Association and the Qatar Student Association. The Shaqab Institute for Girls (SIG) is an organization promoting education for young women; it is part of the Qatar Foundation for Education, Science and Community Development, which organizes programs designed to contribute to the overall development of country through various educational, cultural, and scientific ventures. There is a national chapter of the Red Crescent Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Tourist attractions in Qatar are somewhat limited, with small museums, mosques, and historic sites being of primary interest. Tourists also visit the Sealine Beach Resort, Palm Tree Island, and Entertainment City (the Kingdom of Aladdin). International tourists in Qatar numbered 556,965 in 2003. Most of the tourist arrivals were from the Middle East. Hotel rooms numbered 3,858, with 5,266 beds and a 44% occupancy rate.

In 2005, the US Department of State estimated the daily cost of travel in Qatar to be \$297.

#### **48 FAMOUS QATARIS**

Sheikh Khalifa bin Hamad al-Thani (b.1932) was emir of Qatar from 1972 to 1995. The heir apparent Sheikh Hamad bin Khalifa al-Thani (b.1948) became emir in June 1995 following a bloodless coup that ousted his father.

#### **49 DEPENDENCIES**

The State of Qatar has no territories or colonies.

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# SAMOA

Independent State of Samoa

*Malo Sa'oloto Tuto'atasi o Samoa i Sisifo*



**CAPITAL:** Apia

**FLAG:** The upper-left quarter of the flag is blue and bears five white, five-rayed stars representing the Southern Cross; the remainder of the flag is red.

**ANTHEM:** *The Flag of Freedom.*

**MONETARY UNIT:** The Samoan tala (ws\$) is a paper currency of 100 sene. There are coins of 1, 2, 5, 10, 20, and 50 sene and 1 tala, and notes of 2, 5, 10, 20, and 100 talas. ws\$1 = us\$0.35962 (or us\$1 = ws\$2.7807) as of 2004.

**WEIGHTS AND MEASURES:** British weights and measures are used.

**HOLIDAYS:** New Year's, 1–2 January; Independence Holidays (first three workdays of June); Anzac Day, 25 April; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays are Good Friday, Easter Monday, and Whitmonday.

**TIME:** 1 AM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Samoa consists of the islands of Savai'i and Upolu and several smaller islands, of which only Manono and Apolima are inhabited. The country, situated almost centrally both in the Pacific Ocean and among the South Sea islands, has a total land area of 2,944 sq km (1,137 sq mi), extending 150 km (93 mi) ESE–WNW and 39 km (24 mi) NNE–SSW. Savai'i and Upolu, separated by the Apolima Strait at a distance of nearly 18 km (11 mi), have a combined coastline of 403 km (250 mi). Comparatively, the area occupied by Samoa is slightly smaller than the state of Rhode Island.

## <sup>2</sup> TOPOGRAPHY

Located on the Pacific tectonic plate near the boundary of the Australian Plate, the country lies within the area of "Ring of Fire," a seismically active band surrounding the Pacific Ocean. The islands are, therefore, volcanic in origin, with coral reefs surrounding most of them. Rugged volcanic ranges rise on both islands. Volcanoes on Savai'i include Mauga Afi and Mauga Silisili, the latter of which is the highest point in Samoa, with an elevation of 1,857 m (6,094 ft). Mauga Fito is the highest point on Upolu, with an elevation of 1,116 m (3,660 ft). There are numerous swift-flowing, seasonal rivers on both islands.

Apolima is a volcanic crater whose wall is pierced by a passage that connects its harbor with the sea. Manono, about 70 m (230 ft) high, consists chiefly of coral sand. These two islands lie within the Apolima Strait. There are also a number of underwater volcanoes in the region.

## <sup>3</sup> CLIMATE

The climate is tropical, but because of the oceanic surroundings, temperature ranges are not considerable. The hottest month is

December, and the coldest is July; the mean daily temperature is about 27°C (81°F). The year is divided into a dry season (May to October) and a wet season (November to April). Rainfall averages 287 cm (113 in) annually, and the average yearly relative humidity is 83%. Although the islands lie outside the normal track of hurricanes, severe storms occurred in 1889, 1966, and 1968. Trade winds from the southeast are fairly constant throughout the dry season.

## <sup>4</sup> FLORA AND FAUNA

Lush vegetation covers much of the land. Along the coast there are mangrove forests, pandani, Barringtonia, hibiscus, and strand vegetation, commonly found throughout the Pacific. The adjacent lowland forest, which originally stretched inland over the lower slopes of the mountains, has been cut down extensively on Upolu and in more limited areas on Savai'i. Inland and at higher elevations, the rain forests contain trees and lianas of many genera and species. The higher elevations of Savai'i contain moss forests and mountain scrub.

Fifty species of birds are found; 16 of these are seabirds, many of which visit Samoa only during the breeding season. Sixteen of the 34 species of land birds are indigenous. Among the latter are small doves, parrots, pigeons, and wild ducks. The most interesting bird, scientifically, is the tooth-billed pigeon (*Didunculus strigirostris* Peale), which some ornithologists regard as the connecting link between bird life of the present and the tooth-billed birds of zoological antiquity.

The only indigenous mammals in Samoa are the rat (*Mus exulans* Peale) and the flying fox (*Pteropus samoensis* Peale). Numerous species of birds and mammals, chiefly domesticated, have been introduced by the Samoans and Europeans. Two species of snakes, several different lizards, and the gecko are found. Insect

life includes many species of moths, beetles, spiders, and ants. The mosquito (*Stegomyia pseudoscutellaris*) is a carrier of human filaria.

## **<sup>5</sup>ENVIRONMENT**

Samoa's environmental problems include soil erosion, damage to the nation's forests, and the need for protection of its wildlife. The lack of adequate sewage disposal facilities, as well as siltation and industrial by-products, threaten the nation's marine habitats. Samoa's water supply is too small to support its current population.

Lake Lanoto'o (Goldfish Lake), located on Upolu, is a Ramsar wetland site. The deep lake fills a volcanic crater with pea-green-colored water; wild goldfish inhabit its shorelines. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species include three types of mammals, seven species of birds, one type of reptile, four species of fish, one type of mollusk, and two species of plants. Threatened species include the humpbacked whale, albacore tuna, hawksbill turtle, Samoan moorhen, and Samoan flying fox.

## **<sup>6</sup>POPULATION**

The population of Samoa in 2005 was estimated by the United Nations (UN) at 188,000, which placed it at number 173 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 41% of the population under 15 years of age. There were 108 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.4%, the highest growth rate in Polynesia and a rate the government viewed as too high. High emigration offsets the high birth rate. The projected population for the year 2025 was 193,000. The population density was 66 per sq km (171 per sq mi).

The UN estimated that 22% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 1.82%. The capital city, Apia, had a population of 40,000 in that year.

## **<sup>7</sup>MIGRATION**

Under German colonial rule, many Chinese laborers were imported to work on plantations. More recently, there has generally been a net annual loss of population through migration. Emigration occurs mainly through students going to New Zealand to continue their education and Samoans seeking work there. In addition, several thousand Samoans live in American Samoa and other parts of the United States. The migration rate in 2000 was -22.8 migrants per 1,000 population, falling to -11.73 in 2005.

## **<sup>8</sup>ETHNIC GROUPS**

Samoans compose about 92.6% of the total population. The Samoans are the second-largest branch of the Polynesians, a people occupying the scattered islands of the Pacific from Hawaii to New Zealand and from eastern Fiji to Easter Island. Most of the remaining Samoans are of mixed Samoan and European or Asian descent. Euronesians (persons of European and Polynesian descent) make up 7% of the total, and Europeans constitute 0.4%.

For many years, all inhabitants of Samoa were accorded a domestic status as Samoan or European. Residents are now officially classed as either citizens or foreigners. Among Samoan citizens,

however, the distinction between persons of Samoan or European status is still recognized. Most Samoans live in foreshore villages, while non-Samoans predominate in Apia and its environs.

## **<sup>9</sup>LANGUAGES**

Samoan is the universal language, but both Samoan and English are official. Some Chinese is also spoken. Most of the part-Samoans and many others speak English, and it is taught in the schools.

## **<sup>10</sup>RELIGIONS**

Over 99% of Samoans profess some form of Christianity, and religious observance is strong among all groups. The Congregational Christian Church of Western Samoa, a successor to the London Missionary Society, is self-supporting and the largest religious body in the country, representing about 34.8% of the population. The Roman Catholic (19.6%) and Methodist churches (15%) also have large followings. The Mormons (12.7%), Assemblies of God (6.6%), and Seventh-Day Adventists (3.5%) have grown in recent years. The country is home to one of seven Baha'i Houses of Worship in the world. There are a small number of Muslims.

The constitution provides for religious freedom but describes the state as "based on Christian principles and Samoan customs." Though the right to choose one's own faith is generally respected by the government, local village chiefs sometimes choose the religious denomination that is followed by their group; there have been cases where members of the village tribe who did not adhere to this designated faith were punished by tribal leaders or banished from the village.

## **<sup>11</sup>TRANSPORTATION**

The road system in 2002 totaled 836 km (519 mi), of which 267 km (166 mi) were paved. Most roads are on the northern coast of Upolu. Buses and taxis provide public transportation. In 2003, there were 6,400 passenger cars and 6,700 commercial vehicles.

Diesel-powered launches carry passengers and freight around the islands, and small motor vessels maintain service between Apia and Pago Pago in American Samoa. Fortnightly cargo and passenger connections are maintained with New Zealand, and scheduled transpacific services connect Samoa with Australian, Japanese, United Kingdom, and North American ports. Apia is the principal port. Asau, on Savai'i, was opened as a second deep-sea port in 1972. As of 2005, there was one cargo vessel of 1,000 GRT or more, totaling 7,091 GRT.

As of 2004, there were four airports, three of which (as of 2005) had a paved runway. Faleolo Airport, 35 km (22 mi) west of Apia, is the principal air terminal. Polynesian Airlines provides daily air connections with Pago Pago and regularly scheduled flights to other Pacific destinations; through Pago Pago there are connecting flights to New Zealand, Australia, and the United States. Air Samoa and Samoa Aviation provide internal air service between Upolu and Savai'i, and Hawaiian Airlines provides direct service between Honolulu and Faleolo and commuter service between Faleolo and Pago Pago. In 2001 (the latest year for which data was available), 173,500 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

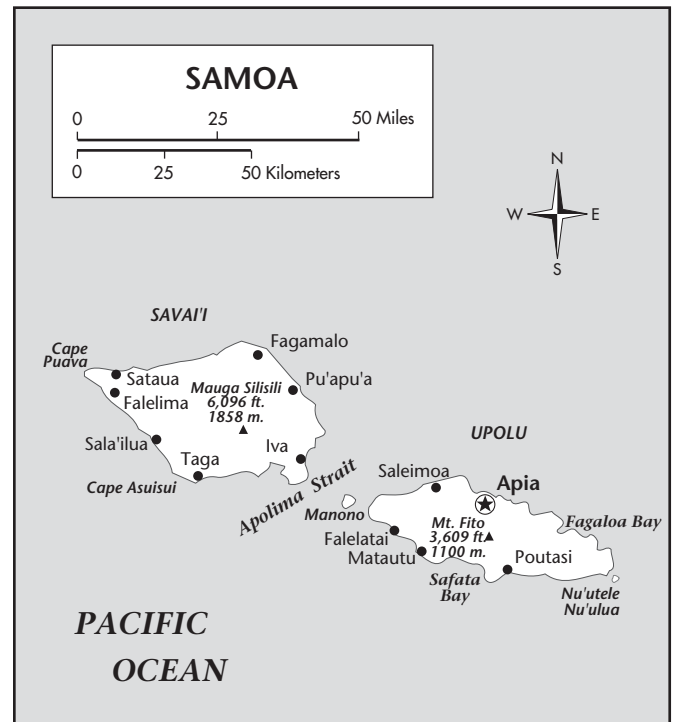
Archaeological evidence on Upolu indicates that Samoa was colonized by maritime traders of the Lapita culture at least as early as the 1st millennium BC. From the mid-13th century AD, genealogies, important titles, traditions, and legends give considerable information on the main political events. The first Europeans to sight the islands were the Dutch explorer Jacob Roggeveen in 1722 and the French navigator Louis de Bougainville in 1768. But the world knew little about Samoa until after the arrival of the missionary John Williams in 1830 and the establishment of the London Missionary Society.

Williams's arrival coincided with the victory of one group of chiefs over another, ending a series of violent internecine wars. Runaway sailors and other Europeans had already settled among the Samoans and assisted the chiefs in their campaigns. Whalers also visited the islands, and from time to time the warships of the great powers visited Apia to oversee the activities of whaling crews and settlers. Naval officers and missionaries began to consult with the dominant group of chiefs as if it represented a national government and treated its leader as a king. In time, semiofficial representatives of Great Britain and the United States were stationed in Apia. Between 1847 and 1861, the United States appointed a commercial agent, and Britain and the city of Hamburg appointed consuls.

Factional rivalries took a new turn as British, US, and German consular agents, aided sometimes by their countries' warships, aligned themselves with various paramount chiefs. Intrigues among the chiefs and jealousies among the representatives of the great powers culminated in civil war in 1889. In the Berlin Treaty, which followed, Britain, the United States, and Germany set up a neutral and independent government under King Malietoa Laupepe, and their consuls were authorized to constitute Apia as a separate municipality. The death of King Malietoa in 1898 led to a dispute over succession, and the three powers intervened once again. In 1899, they abolished the kingship, and in 1900, they signed a series of conventions that made Samoa a German protectorate. The German administration continued to experience difficulties, leading to the exile of several Samoan leaders and the suspension of others from office. With the outbreak of World War I in 1914, New Zealand military forces occupied Samoa, and from 1919 to 1946, New Zealand administered the islands as a mandate of the League of Nations.

In 1927, local opposition to the New Zealand administration among both the Samoan and the European communities resulted in the formation of a nationalistic organization known as the Mau, which embarked on a program of civil disobedience. Its members withdrew from political life, from schools, and from all contact with the government. The protests lasted in one form or another until 1936, when the leaders of the Mau reached an agreement with the administration and reentered the political life of the territory.

In 1946, a trusteeship agreement was approved by the United Nations (UN) General Assembly, and New Zealand formally committed itself to promoting the development of Samoa toward ultimate self-government. The passage of the Samoa Amendment Act of 1947 and a series of further amendments governed Samoa's subsequent evolution toward independence. An executive council was reconstituted in 1957, and the New Zealand high commis-



LOCATION: 13° to 15° S; 171° to 173° W. BOUNDARY LENGTHS: Savai'i 188 kilometers (117 miles); Upolu coastline, 183 kilometers (114 miles).  
TERRITORIAL SEA LIMIT: 12 miles.

sioner withdrew from the Legislative Assembly, which thenceforth was presided over by an elected speaker. In 1959, an executive cabinet was introduced, and in 1960, the constitution of the Independent State of Samoa was adopted. This was followed by a plebiscite under UN supervision in 1961, in which an overwhelming majority of voters approved the adoption of the constitution and supported independence.

On 1 January 1962, Samoa became an independent nation under the name of Western Samoa. Tupua Tamasese Meaoli and Malietoa Tanumafili II became joint heads of state. When the former died on 5 April 1963, the latter became the sole head of state. Fiaame Faumuina Mataafa was independent Western Samoa's first prime minister (1962–70) and served again in that post from 1973 until his death in 1975.

During the late 1970s and early 1980s, Western Samoa suffered from a worsening economy and growing political and social unrest. A divisive public-sector strike from 6 April to 2 July 1981 cut many essential services to a critical level. The leadership of Tupuola Taisi Efi, who later became head of the Christian Democratic Party (CDP) and was prime minister in 1976, was successfully challenged by the Human Rights Protection Party (HRPP), which won the February 1982 general election. Judicial rulings regarding electoral fraud subsequently nullified some of the election results, and Tupuola returned to power from September to December.

On 30 December 1982, however, a second HRPP government was formed, with Tofilau Eti, the new HRPP leader, as prime minister. Controversy erupted in 1982 over the signing of a protocol with New Zealand that substantially reduced the right of Western Samoans to New Zealand citizenship. Tofilau resigned in Decem-

ber 1985 after his budget failed to win approval, and Va'ai Kolone became prime minister in January 1986 as head of a new coalition government comprising 15 CDP members and 12 former HRPP members. Tupuola was named deputy prime minister of the new government. Tofilau Eti, leader of the HRPP, was reelected prime minister in April 1988 as a result of a contested election that was settled by a judge flown in from New Zealand. A gradual deterioration in the bilateral relationship between Samoa and New Zealand continued as the two nations disputed the special immigration quota applied to Samoans.

In October 1990, a referendum on the issue of universal suffrage narrowly passed. A proposal to establish an upper legislative chamber composed of traditional chiefs failed.

In 1991, in the first elections held under an arrangement of universal suffrage, the HRPP won 28 of 47 seats and Tofilau once again became prime minister. Among the new ministers appointed was Fiamē Naomi, the first female cabinet member, becoming minister of education, youth, sports and culture, and labor. In elections held 26 April 1996, Tofilau Eti retained his post as prime minister.

In July 1997, following an affirmative vote by the legislative assembly, the country officially changed its name from Western Samoa to Samoa. Tofilau Eti resigned due to poor health in November 1998 and died in March 1999 at the age of 74. He was succeeded by deputy prime minister Tuila'epa Sailele Malielegaoi. In elections held 2 March 2001, Tuila'epa retained his post as prime minister, with the HRPP taking 23 seats in the Fono. The Supreme Court ordered four by-elections, which were won by the HRPP, bringing its total to 30 of 49 parliamentary seats. The HRPP formed a government with the support of several independent members of parliament.

In June 2002, New Zealand prime minister Helen Clark issued an apology to the Samoans for injustices inflicted upon them during colonial times. During the time when New Zealand ruled the country (from 1919 to 1962), 22% of the population died as a result of an influenza virus introduced to the islands, and in 1929, New Zealand police fired upon and killed nine people during a rally for independence.

In the early 2000s, Samoa again faced economic concerns. Declining fish catches led the government in 2004 to appoint a committee to investigate the problem and to consider suspending fishermen's loan payments. In addition, the government banned scuba fishing with the hope of allowing the fish populations to rise. In 2005, Samoan doctors struck for higher wages and better working conditions. When their demands were not met, 25 hospital doctors resigned, while foreign doctors maintained a skeleton crew.

In December 2005, Samoa was still negotiating for membership in the World Trade Organization (WTO), for which it first applied in 1998. A key issue in the negotiations was the privatization of Samoan public services. Opponents of Samoa joining the WTO cited concerns that Samoa could lose control of its natural resources and find its markets saturated with cheap inferior goods from overseas.

### **13 GOVERNMENT**

Executive power is vested in the head of state. Although Malietoa Tanumafili II, head of state in 1962, had lifetime tenure, the con-

stitution took effect 1 January that year; it provided for his successors to be elected for a term of five years by the Fono, or legislative assembly. The powers and functions of the head of state are far-reaching. All legislation must have his assent before it becomes law. He also has power to grant pardons and reprieves and to suspend or commute any sentence by any court. Executive authority is administered by a cabinet consisting of a prime minister and 12 other ministers appointed by him. The head of state and the cabinet members make up the executive council.

The 49-member parliament consists of the head of state and the Fono. Forty-seven Samoan members are elected out of the approximately 20,000 matai—traditional chiefs or heads of families—in six two-seat and 35 single-seat constituencies. The election of the 47 Samoan members is by universal adult suffrage. Citizens of non-Samoan origin who qualify for registration on the individual voters' roll elect the two other members by universal suffrage.

The next elections are to be held no later than March 2011.

### **14 POLITICAL PARTIES**

Technically, candidates for public office campaign as individuals, but political parties are becoming increasingly important. The Human Rights Protection Party (HRPP) was founded in 1979 as an opposition party to the government of Prime Minister Tupuola Efi. Tupuola's followers, although not yet formally organized, had, in effect, constituted the ruling party; Tupuola later became the head of the Christian Deomocratic Party (CDP). Other parties winning seats in the 2001 elections were the Samoan National Development Party (SNDP), which took 13 seats, and the Samoa United People's Party (SUPP), which took one seat. Independent candidates won 11 seats. The next elections were to be held no later than March 2006.

### **15 LOCAL GOVERNMENT**

With the exception of the Apia area, local government is carried out by the village fono, or council of matai and orators, and where and when necessary, through meetings of matai and orators of a district. The main administrative link between the central government and the outside districts is provided by part-time officials in each village who act as government agents in such matters as the registration of vital statistics; local inspectors represent the various government departments.

### **16 JUDICIAL SYSTEM**

Court procedure is patterned after practices in British courts. Samoan custom is taken into consideration in certain cases. English is the official language of the court, but Samoan is also used. The Supreme Court has full civil and criminal jurisdiction over the administration of justice in Samoa. It is under the jurisdiction of the chief judge, who is appointed by the head of state, acting on the advice of the prime minister. The Court of Appeal consists of three judges, who may be judges of the Supreme Court or other persons with appropriate qualifications.

Magistrates' courts are subordinate courts with varying degrees of authority. The highest, presided over by the senior magistrate, may hear criminal cases involving imprisonment of up to three years or cases involving only fines. The Land and Titles Court has jurisdiction in disputes over Samoan land and succession to Samoan titles. Samoan assessors and associate judges possessing a

good knowledge of Samoan custom must be present at all sittings of the court. Lawyers are not permitted to appear in the Land and Titles Court; each party appoints its own leader, usually a chief or an orator. Court decisions are based largely on Samoan custom.

Some civil and criminal matters are handled by village *fonos* (traditional courts), which apply a considerably different procedure than that used in the official Western-style courts. The Village Fono Law of 1990 affords legal status to the decision of the village fono and allows the appeal of fono decisions to the Land and Titles Court and to the Supreme Court. In July 2000, the Supreme Court ruled that the Village Fono Law could not be used to infringe upon villagers' freedom of religion, speech, assembly, or association.

## 17 ARMED FORCES

Samoa has no armed forces and relies on its police force for internal security. The government foresees no military development because of financial considerations and the absence of threats from abroad. There are informal defense ties with New Zealand under the terms of the 1962 Treaty of Friendship.

## 18 INTERNATIONAL COOPERATION

Samoa became a member of the United Nations (UN) on 15 December 1976; it belongs to ESCAP and several nonregional specialized agencies, such as the FAO, the World Bank, UNCTAD, UNESCO, and WHO.

The nation also participates in the ACP Group, the Asian Development Bank, the Commonwealth of Nations, G-77, the South Pacific Commission, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Alliance of Small Island States (AOSIS), and the Pacific Island Forum. Samoa has observer status in the World Trade Organization.

An Inter-Samoa Consultative Committee, made up of representatives from Samoa and American Samoa, holds meetings alternately in both countries to discuss matters of mutual interest. By treaty, New Zealand is the exclusive representative of Samoa in the conduct of its foreign affairs outside the Pacific region. In environmental cooperation, Samoa is part of the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

The economy is based largely on agriculture, which, including fisheries, provides 50% of the gross domestic product (GDP) and employs two-thirds of the workforce, mostly in subsistence farming of food crops. In addition to agricultural exports, tourist revenues and remittances from overseas workers are also important sources of foreign exchange. Economic performance has suffered since 1990 due to the devastation to crops, tourism, and infrastructure caused by Cyclones Ofa and Val. In 1993–94 a fungal disease reduced taro production by 97%, threatening the island's basic food crop and causing negative growth in the economy. Samoa has the highest unemployment rate and the lowest wages in Oceania.

In 2004, the GDP growth rate was 1.9%, down from 3.5% in 2003. The inflation rate registered a sudden jump in 2004, to 16.4%, as a result of food shortages caused by hurricane damage early in

the year; by the middle of 2005 the inflation had been brought back down to 7.6%, and it was on a continued downward trend. Great hopes are set for the tourism industry, with visitor numbers expected to double by 2010. The main engine of this growth trend is a new airline—Polynesian Blue, which operates flights between Samoa, Australia, and New Zealand.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Samoa's gross domestic product (GDP) was estimated at \$1.0 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,600. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2001 was 4%. It was estimated that agriculture accounted for 14% of GDP, industry 23%, and services 63%.

According to the World Bank, in 2000, remittances from citizens working abroad totaled \$45 million, or about \$253 per capita, and accounted for approximately 19.5% of GDP.

## 21 LABOR

In 2000, there were approximately 90,000 workers in Samoa. The majority were engaged in agriculture, and cash crops are raised as supplements to subsistence crops. Agriculture, forestry, and fishing account for 65% of wage employment; services account for 30% and industry for 5%. Although there are no data on unemployment in Samoa, underemployment is known to be substantial.

There are only two trade unions in the country, representing workers at the three major banks and the country's only factory. Although small, a trade union movement has been established. Public employees are represented by the Public Service Association. Approximately 20% of the workforce is unionized. Over the years, thousands of skilled and semiskilled Samoans have left the islands, drawn away mainly by better economic opportunities in New Zealand, Australia, and the United States.

Labor is generally restricted to a 40-hour week. Payment is in cash, and in many cases rations are also supplied to workers, either as part of their wages or in addition to them. In most cases, living quarters are provided for plantation workers. The minimum hourly wage was \$0.47 in 2001. Samoan labor law provides for rudimentary safety and health standards, but these standards are not effectively enforced. Children may not work before the age of 15, but the law does not apply to service rendered to the matai, who sometimes require children to work on village farms. Moreover, increasing numbers of children work as street vendors in Apia.

## 22 AGRICULTURE

Tropical agriculture occupies 46% of the land area, employs about 34% of the labor force, and makes up about 12% of gross domestic product (GDP). Most Samoans grow food crops for home consumption and cash crops for export. Village agriculture, in which the family is the productive unit, involves the largest areas of land, occupies the preponderance of the labor force, and produces the major portion of food and cash crops. Coconut products, cocoa, taro, and bananas are produced for export, and bananas, taro, and taamu are grown for local sale. Village plantings are invariably

mixed, containing some or all of the following crops: coconuts, cocoa, bananas, taro, taamu, breadfruit, sugarcane, yams, manioc, and various fruits. Plantation agriculture has been controlled mainly by nonindigenous residents.

Exports of unprocessed copra have been largely replaced by coconut oil, coconut cream, and copra cake. In 2004, coconut production was estimated at 140,000 tons. Taro (coco yam) production in 2004 amounted to 17,000 tons. Taro production dropped 97% in 1993–94 due to leaf blight, and the government is working on methods to control the disease. Exports of cocoa have fallen in recent years, thereby discouraging production. Since 1991, no production over 1,000 tons has been reported. Banana exports fluctuate greatly from year to year. Exports of agricultural products in 2004 amounted to \$5.6 million, while agricultural imports totaled \$40.6 million that year.

### **2<sup>3</sup> ANIMAL HUSBANDRY**

Pigs and cattle form the bulk of the livestock. In 2005, pigs, which are common in the villages, were estimated to number 201,000 and cattle 29,000. A small number of cattle are kept for milk; the remainder are raised for beef. Nearly one-half of the cattle population is owned by Western Samoa Trust Estate Corporation (WSTEC), the most progressive cattle breeder. Other livestock in 2005 included an estimated 7,000 donkeys and 1,800 horses. Meat production in 2005 was 5,140 tons, 74% of it pork.

### **2<sup>4</sup> FISHING**

The government has sought to expand the fishing industry, but most fishing is still conducted along the reefs and coasts; deep-sea fishing, save for bonito and shark, is not developed. A \$3 million fish market and wharf, built with Japanese aid, was completed in Apia in 1982. The local fish catch, however, steadily fell from 4,020 tons in 1982 to 565 tons in 1991; by 2003, the catch rebounded to 10,267 tons, with tuna comprising about 40%.

### **2<sup>5</sup> FORESTRY**

The nation's forest area is estimated at 105,000 hectares (259,000 acres). Reforestation projects are concentrated on Savai'i, which accounts for 80% of the nation's forest area. A large-scale timber-milling enterprise, established on Savai'i in 1970, began to produce kiln-dried sawn timber and veneer sheets for export. Roundwood production in 2004 was 131,000 cu m (4.6 million cu ft), with 53% used as fuel wood. Timber imports were estimated at \$5.6 million in 2004.

### **2<sup>6</sup> MINING**

No minerals of commercial value were known to exist in Samoa.

### **2<sup>7</sup> ENERGY AND POWER**

Samoa formerly depended heavily on imported energy, but hydroelectric power, first available in 1985, has greatly increased its generating capacity. In 2002, net electricity generation was 0.111 billion kWh, of which 50.5% came from fossil fuels and 49.5% from hydropower. In the same year, consumption of electricity

totaled 0.103 million kWh. Total installed capacity in 2002 was 0.029 million kW.

Samoa has no reserves of oil, natural gas, or coal, nor any refining capacity. All fossil fuel needs were met by imports of refined petroleum products. In 2002, imports and demand each averaged 1,020 barrels per day. Gasoline and distillates made up the majority of those imports at 400 barrels per day and 450 barrels per day, respectively.

## **2<sup>8</sup> INDUSTRY**

The government has encouraged industrial growth, and manufacturing, geared mainly to processing primary products, is increasing steadily. Industries include food- and timber-processing facilities, a brewery, cigarette and match factories, and small individual enterprises for processing coffee and for manufacturing curios, soap, carbonated drinks, light metal products, garments, footwear, and other consumer products. A coconut oil mill, an additional coconut cream factory, a veneer mill, and a meat cannery began operations in the 1980s. In 1991, the Japanese Yazaki Samsa Co. began manufacturing automotive seat belts. The firm also produces electrical wiring systems.

In 2000, the industrial production growth rate was 2.8%, less than half the GDP growth rate in the same year and an indicator of an underperforming sector. In 2001, industry accounted for 23% of GDP; services were the main economic engine, with a 63% share. Although agriculture had only a 14% share in the economy, it employed two-thirds of the labor force and was responsible for 90% of total exports.

## **2<sup>9</sup> SCIENCE AND TECHNOLOGY**

New Zealand provides extensive scientific and technical aid to Samoa. Other donors include Japan, the Federal Republic of Germany (FRG), Australia, the United States, the United Kingdom, and the United Nations Development Program (UNDP). United Nations Educational, Scientific and Cultural Organisation (UNESCO) has an integrated field office in Apia to promote science in the Pacific States. The National University of Samoa, founded in 1988 at Apia, has a faculty of science. The University of the South Pacific, founded in 1977 at Apia, has a school of agriculture.

## **3<sup>0</sup> DOMESTIC TRADE**

Apia, the capital, is the center of commercial life. Many firms act as agents for shipping and airlines and for overseas commercial organizations generally. Outside Apia, trading stations, linked with the capital by launch and road transport, collect produce and distribute consumer goods. Several major firms operate about 200 stations in the outer districts and secure a large share of the total commercial business. There are also a number of smaller firms and independent traders. In Apia, various firms and small shops sell imported commodities and domestic products. Open markets sponsoring local produce vendors are a common food retailing situation for a nation where 65% of the workforce is employed in agriculture. The largest such market is Meketi Fou in Apia. Office hours are from 8 AM to noon and resume from 1 PM to 4:30 PM.

## **3<sup>1</sup> FOREIGN TRADE**

The fact that Samoa has a limited number of exports—principally agricultural and timber products—renders its economy extreme-

**Principal Trading Partners – Samoa (2003)**

(In millions of US dollars)

Country	Exports	Imports	Balance
World	87.1	150.5	-63.4
Australia	62.2	33.3	28.9
United States	11.4	20.9	-9.5
United Kingdom	3.9	1.3	2.6
Japan	2.8	7.8	-5.0
New Zealand	2.4	54.6	-52.2
Tokelau	1.2	...	1.2
New Caledonia	1.0	...	1.0
Italy-San Marino-Holy See	0.7	0.2	0.5
China, Hong Kong SAR	0.4	1.5	-1.1
Germany	0.3	0.2	0.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

ly vulnerable to weather conditions and market fluctuations. Imports consist chiefly of machinery and equipment, industrial supplies, and foodstuffs. The principal exports include fish, coconut oil and cream, copra, taro, garments, and beer. Foodstuffs and industrial supplies account for about 50% of the country's annual imports.

In 2004, exports totaled \$94 million (FOB—Free on Board), while imports grew to \$285 million. Most of the exports went to Australia (67.2%), the United States (5.7%), and Indonesia (5.3%). Imports included food and live animals, mineral fuels, crude nonfuel materials, beverages, and tobacco and primarily came from New Zealand (25.1%), Fiji (21.5%), Taiwan (9.1%), Australia (8.9%), Singapore (8.5%), Japan (7.5%), and the United States (4.7%).

**3<sup>2</sup> BALANCE OF PAYMENTS**

In the early 1970s, Samoa's heavy trade deficits were largely offset by tourism revenues, remittances from Samoans working abroad, and long-term investment capital. By the early 1980s, however, rising import costs and declining export earnings led to a critical balance-of-payments situation. By 1992, the external account deficit (excluding grants) had increased to about 28% of GDP. Samoa's external debt stood at \$192 million in 1999.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Samoa's exports was \$17 million, while imports totaled \$90 million, resulting in a trade deficit of \$73 million.

The International Monetary Fund (IMF) reported that in 1999 Samoa had exports of goods totaling \$20 million and imports totaling \$116 million. The services credit totaled \$61 million and debit \$25 million.

Exports of goods and services totaled \$98 million in 2004, up from \$86 million in 2003. Imports grew from \$154 million in 2003 to \$181 million in 2004. The resource balance was consequently negative and on a downward path—from -\$68 million in 2003 to -\$83 million in 2004. An opposite trend was registered for the current account balance, which improved from \$8 million in 2003 to \$15 million in 2004. Foreign exchange reserves (including gold)

**Balance of Payments – Samoa (1999)**

(In millions of US dollars)

<b>Current Account</b>		<b>18.2</b>
Balance on goods	-97.5	
Imports	-115.7	
Exports	20.3	
Balance on services	36.8	
Balance on income	0.4	
Current transfers	41.6	
<b>Capital Account</b>		<b>24.5</b>
<b>Financial Account</b>		<b>-0.7</b>
Direct investment abroad	...	
Direct investment in Samoa	...	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	...	
Other investment liabilities	-0.7	
<b>Net Errors and Omissions</b>		<b>2.1</b>
<b>Reserves and Related Items</b>		<b>-7.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

increased to \$204 million in 2004, covering more than six months of imports.

**3<sup>3</sup> BANKING AND SECURITIES**

Legislation in 1974 set up the Monetary Board to act as the central bank. The activities of the Monetary Board were taken over in May 1984 by the new Central Bank of Samoa. An Australian bank, ANZ, acquired the government's 25% stake in the Bank of Western Samoa (BWS), becoming its outright owner. The BWS is the largest bank in the country, with assets of about A\$16 million (us\$13 million). The government has sold its Post Office Savings Bank (POSB) to a consortium of local businesses. The bank, to be renamed the National Bank of Samoa, is the country's first locally owned commercial bank. The other banks are Pacific Commercial Bank (owned by Westpac, the Bank of Hawaii, and local shareholders) and the Development Bank of Western Samoa.

Parliament passed legislation in early 1988 to allow banks to set up offshore banking centers. More than 1,000 companies have registered in Apia under the new tax haven legislation, contributing substantially to the national budget. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$24.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$86.6 million.

**3<sup>4</sup> INSURANCE**

There is a private life insurance company in Apia, National Pacific Insurance Ltd., managed by the National Insurance Co. of New Zealand.

**3<sup>5</sup> PUBLIC FINANCE**

Samoa's financial year ends on 31 December. Government budgets commonly show deficits.

The US Central Intelligence Agency (CIA) estimated that in 2001–02 Samoa's central government took in revenues of approximately \$105 million and had expenditures of \$119 million. Revenues minus expenditures totaled approximately -\$14 million. Total external debt was \$197 million.

### **3<sup>6</sup>TAXATION**

Individuals and companies are liable for the payment of income tax. The basic nonresident corporate tax rate is 48%, and the resident corporate tax rate is 39%; rates for both domestic and foreign insurance companies are lower. Personal income tax rates range from 5–50%. There are also gift, inheritance, and stamp taxes.

### **3<sup>7</sup>CUSTOMS AND DUTIES**

Customs duties provide almost half of current government revenues and are levied on all imports except those specifically exempted. Preferential rates for imports from Commonwealth countries were abolished in 1975.

### **3<sup>8</sup>FOREIGN INVESTMENT**

The government actively promotes the establishment of industries financed by overseas companies. These include milling and logging operations by a US company on Savai'i and by a joint Japanese-Samoan enterprise on Upolu, and a US hotel resort center near Apia.

### **3<sup>9</sup>ECONOMIC DEVELOPMENT**

The government has consistently stressed diversification of agriculture. It has also sought to promote growth in manufacturing, forestry, fishing, hydroelectric power, and tourism, which received a boost when the Faleto Airport got a new terminal and runway extension in 1985. In 1989, an offshore banking center was launched. New Zealand, Australia, the United States, the Asian Development Bank, and the European Community are major sources of development aid, and Japan and Germany have provided technical and financial aid. Assistance from the UN family of organizations totaled us\$2.6 million in 1991. The country's fifth development plan (1985–87) called for an investment of ws\$146.9 million, ws\$114.2 million of it from external sources. Investment increased significantly in 1990 and 1992, mainly due to increased public capital expenditures. External aid has been a major source of public investment financing, providing approximately 68% of capital expenditures in 1991 and 47% in 1992.

The Samoan economy remains dependent on foreign aid, remittances from overseas, agriculture (it employs two-thirds of the labor force and accounts for 90% of total exports), and fishing. Tourism is a sector of increasing importance, and the government is implementing infrastructure changes (most notably, a new airline) that it hopes will double visitor arrivals by 2010.

### **4<sup>0</sup>SOCIAL DEVELOPMENT**

A social security system was established in 1972 under the Western Samoan National Provident Fund. It provides for employee retirement pensions, disability benefits, and death benefits. Employees contribute 5% of their earnings, and this amount is matched by their employers. Retirement is allowed at age 55. Workers'

compensation is funded by employers and is compulsory. This program covers reasonable medical expenses and is paid for entirely by employer contributions.

Domestic abuse is common and considered culturally acceptable, except in the most extreme cases. Police are rarely notified and domestic issues are resolved within the village structure. Universal suffrage was enacted in 1990, and the following year, a Women's Affairs Ministry was established. The government sponsors literacy programs to assist in integrating women into the economic mainstream.

Human rights are generally well respected in Samoa.

### **4<sup>1</sup>HEALTH**

The Department of Health oversees health care on the islands. The country is divided into 14 health districts, each under a medical officer. In 2004, there were an estimated 70 physicians, 202 nurses, and 18 dentists per 100,000 people. District nurses are stationed at strategic points throughout the islands. Child health clinics, particularly clinics for young children and infants, are a regular feature of their work. Approximately 91% of children were vaccinated against measles. A mobile dental clinic operates in the villages, while all schools in Apia are visited at regular intervals by a team of dental practitioners.

Diabetic retinopathy is common in Polynesian Samoans. The increase in diabetes has been linked to the Westernization of the Samoan diet. The life expectancy was estimated at 70.72 years as of 2005. During the same year, the infant mortality rate was an estimated 27.71 per 1,000 births. As of 2002, the crude birth rate and overall mortality rate were estimated at 15.5 and 6.4 per 1,000 people, respectively.

The immunization rates for children under age one were as follows: diphtheria, pertussis, and tetanus, 95%; polio, 95%; measles, 98%; and tuberculosis, 98%. Tuberculosis and AIDS are present but not considered major problems.

### **4<sup>2</sup>HOUSING**

Most Samoans live in villages in traditional Samoan houses called *fales*. A fale is usually round or oval, with pebble floors and a thatch roof. It has no walls, being supported on the sides by posts. Coconut-leaf blinds can be lowered to exclude wind and rain. In areas more affected by contact with Europeans, the fale may have a concrete floor, corrugated iron roof, and latticework walls. Another fused Samoan-European type, much used by chiefs and pastors, is an oblong concrete house with some walls, often with separate rooms in each corner; like the fale it is open at the sides. Fales are grouped around an open area in the center of the village and have separate cookhouses behind them.

More modern housing has been constructed since about the 1990s, primarily through international assistance. Solid wall structures with concrete foundations and iron roofs have been built to withstand the natural elements of harsh wind, rain, and cyclones. However, low-income families are not able to purchase or build such structures without assistance. The Housing Corporation of Samoa was established by the Housing Corporation Act of 1989 to offer loans and assistance for prospective homeowners. In 2001, there were about 23,059 households in Samoa; the average number of members per household was eight.

### 43 EDUCATION

Formal education is provided by the Department of Education and five religious missions. Government and mission schools have a uniform syllabus and common examinations. The government school system is more comprehensive, with almost all teachers holding Samoan teachers' certificates. Village schools provide four years of primary schooling. District schools draw the brighter pupils from village schools and educate them through the upper primary level. In the Apia area, urban schools provide a lower-through upper-primary curriculum. A major educational goal has been to make Samoans bilingual, with English as their second tongue. In the senior classes of the primary schools, all instruction is in English.

The government maintains secondary schools, in which the medium of instruction is English. Samoa College is patterned after a New Zealand secondary school; each year, 100 pupils from government and mission schools are selected for admission by competitive examination. Vaipouli High School, in Savai'i, provides a general secondary curriculum, and Avele College, in Apia, offers training in modern agricultural methods. In addition, the University of the South Pacific School of Agriculture maintains a campus at Alafua, on the outskirts of Apia. The medium of instruction in mission secondary schools is English, with curriculum and textbooks similar to those used in New Zealand.

In 2001, about 54% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 98% of age-eligible students. The same year, secondary school enrollment was about 62% of age-eligible students. It is estimated that nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 27:1 in 2003; the ratio for secondary school was about 21:1. In 2003, private schools accounted for about 16.6% of primary school enrollment and 31.7% of secondary enrollment.

Samoa was one of the founders of the regional University of the South Pacific. The National University, which was established in 1984, was upgraded and provided with a new campus in 1997. Other tertiary institutions include the College of Tropical Agriculture and a Trades Training College. In 2001, it was estimated that about 7% of the tertiary-age population was enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 98.7%.

As of 2003, public expenditures on education were estimated at 4.8% of GDP, or 14.6% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The Nelson Memorial Public Library in Apia has 90,000 volumes. The library of the University of the South Pacific has around 22,000 volumes, and the Legislative Assembly has a library with 6,000 volumes. A bookmobile service operates on Upolu and Savai'i. The National Museum and Culture Center in Apia, established in 1984, includes a local museum, library, and theater and

offers crafts workshops. Vailima is home to the Robert Louis Stevenson Museum, featuring the author's house and estate.

### 45 MEDIA

Internal and overseas wireless telegraph services are available. In 2002, there were 11,800 mainline phones and 2,700 mobile phones in use nationwide.

The government-controlled Samoan Broadcasting Service, in Apia, transmits radio programs on two stations in Samoan and English and provides direct broadcasts from the Fono. In 2004, there were five private radio stations and a satellite cable system available in parts of Apia. One of the two television stations was owned by the government. In 1997, there were 323 radios and 25 television sets in use per 1,000 population. In 2002, there were 4,000 Internet subscribers.

There are several bilingual weeklies, including *Le Samoa* and *Savali*, published in Samoan and English. There is one daily, the *Samoa Times*. The constitution provides for free speech and a free press, and the government is said to respect these provisions in practice.

### 46 ORGANIZATIONS

The Samoa Chamber of Commerce and Industry is based in Apia.

Youth clubs include the Boy's Brigade Samoa, University of South Pacific Student Association, and YMCA/YWCA. There are several sports associations representing such pastimes as squash, weightlifting, badminton, tae kwon do, and sailing. Many of these are affiliated with the national Olympic Committee and other international organizations.

Volunteer service organizations, such as the Lions Clubs International and the Calliope Lodge of Freemasons, are present. Women's organizations include Soroptimist International of Samoa, Mothers' Club, Federation of Women's Committees, and the South-East Asia and Pan-Pacific Women's Association. Mapusaga O Aiga Samoa is a national organization promoting public awareness of issues concerning child abuse and domestic violence. There are national chapters of the Red Cross Society and Habitat for Humanity.

### 47 TOURISM, TRAVEL, AND RECREATION

Until 1965, official policy in Samoa was opposed to tourism, but during 1966–67, there was a complete reversal of policy. The government hired international tourism consultants to advise it on long-term means of developing a tourism industry. Samoa joined the Pacific Area Travel Association, extended tax holidays and import-duty concessions to hotel builders, and appropriated money for the building of new hotels.

The major tourist attractions are the beaches and traditional villages. In Apia is Vailima, the residence of the head of state and once the home of Robert Louis Stevenson; Stevenson's grave is nearby. Pastimes include swimming, waterskiing, and fishing. Football (soccer), cricket, and rugby are popular local sports.

Travelers to Samoa must have a passport valid for at least six months, as well as an onward/return ticket. Visitors do not require

a visa or entry permit for stays of up to 60 days. In 2003, 92,313 tourists visited Samoa. Hotel rooms numbered 939, with 2,131 beds.

According to 2005 US State Department estimates, the daily cost of staying in Samoa was \$207 per day.

#### **48 FAMOUS SAMOANS**

The Scottish author Robert Louis Stevenson (1850–94) lived principally on Upolu from 1889 until his death. Samoans famous since independence include Malietoa Tanumafili II (b.1913), who was named head of state in 1962, and Fiame Faumuina Mataafa (d.1975), who served as prime minister from 1962 to 1970 and again from 1973 until his death. Tupuola Taisi Efi (b.1938) was prime minister from 1976 to 1982. Tofilau Eti (b.American Samoa, 1924–99) was prime minister from December 1982 to December 1985, when he resigned and was succeeded by Va'ai Kolone. Sailele Malielegaoi Tuila'epa (b.1945) has been prime minister and foreign minister since 1998 and was reelected in 2001.

#### **49 DEPENDENCIES**

Samoa has no territories or colonies.

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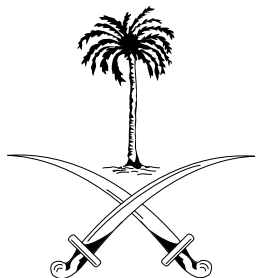
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# SAUDI ARABIA

Kingdom of Sa'udi Arabia

*Al-Mamlakah al-'Arabiyyah as-Sa'udiyah*

**CAPITAL:** Riyadh (Ar-Riyad)

**FLAG:** The national flag bears in white on a green field the inscription, in Arabic, "There is no god but Allah, and Mohammad is the messenger of Allah." There is a long white sword beneath the inscription; the sword handle is toward the fly.

**ANTHEM:** The National Anthem is a short instrumental selection.

**MONETARY UNIT:** The Saudi riyal (SR) is divided into 20 qursh (piasters), in turn divided into 5 halalah. There are coins of 1, 5, 10, 25, 50, and 100 halalah and notes of 1, 5, 10, 50, 100, and 500 riyals. SR1 = \$0.26667 (or \$1 = SR3.75) as of 2005.

**WEIGHTS AND MEASURES:** The metric system has been officially adopted.

**HOLIDAYS:** Muslim religious holidays include 1st of Muharram (Muslim New Year), 'Id al-Fitr, and 'Id al-'Adha.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Saudi Arabia constitutes about four-fifths of the Arabian Peninsula in Southwest Asia. Although Saudi Arabia is known to be the third-largest country in Asia, after China and India, its precise area is difficult to specify because several of its borders are incompletely demarcated. According to the United Nations (UN), the nation has an area of 1,960,582 sq km (756,985 sq mi); it extends 2,295 km (1,426 mi) ESE–WNW and 1,423 km (884 mi) NNE–SSW. Comparatively, the area occupied by Saudi Arabia is slightly less than one-fourth the size of the United States. Saudi Arabia is bounded on the N by Jordan and Iraq; on the NE by Kuwait; on the E by the Persian Gulf, Qatar, and the United Arab Emirates (UAE); on the SE by Oman; on the S and SW by Yemen; and on the W by the Red Sea and the Gulf of Aqaba, with a total estimated land boundary length of 4,431 km (2,753 mi) and a coastline of 2,640 km (1,640 mi).

The Farasān Islands, belonging to Saudi Arabia, include about 120 islands in the Red Sea, the largest of which is Farasān al Kabir, with an area of about 395 sq km (152 sq mi).

An agreement was reached in 1965 whereby the neutral zone separating Saudi Arabia from Kuwait was divided administratively between the two countries; however, Kuwait and Saudi Arabia continue to debate the maritime boundary with Iran. A dispute between Saudi Arabia and the newly formed UAE over control of the Buraymi oasis was settled in 1974, when they reached an accord fixing their common border; however, the details of this treaty had not been made public by late 2005.

Saudi Arabia's capital city, Riyadh, is located in the east-central part of the country.

## <sup>2</sup>TOPOGRAPHY

A narrow plain, the Tihamat ash-Sham, parallels the Red Sea coast, as do, farther north, the Hijaz Mountains (with elevations of 910–2,740 m/3,000–9,000 ft), which rise sharply from the sea. The highest mountains (over 2,740 m/9,000 ft) are in 'Asir in the south. 'Asir is a region extending about 370 km (230 mi) along the Red Sea and perhaps 290–320 km (180–200 mi) inland. East of the Hijaz, the slope is more gentle, and the mountains give way to the central uplands (Najd), a large plateau ranging in elevation from about 1,520 m (5,000 ft) in the west to about 610 m (2,000 ft) in the east. The Dahna, a desert with an average width of 56 km (35 mi) and an average altitude of 460 m (1,500 ft), separates Najd from the low plateau (Hasa) to the east (average width, 160 km/100 mi; average altitude, 240 m/800 ft). This, in turn, gives way to the low-lying Gulf region.

At least one-third of the total area is sandy desert. The largest of the deserts is the famed Ar-Rub' al-Khali in the south, with an area of roughly 647,500 sq km (250,000 sq mi). An-Nafud, its northern counterpart, has an area of about 57,000 sq km (22,000 sq mi). There are no lakes, and except for artesian wells in the eastern oases, there is no perennially flowing water.

## <sup>3</sup>CLIMATE

The climate is generally very dry and very hot; dust storms and sandstorms are frequent. Day and night temperatures vary greatly. From May to September, the hottest period, daytime temperatures reach 54°C (129°F) in the interior and are among the highest recorded anywhere in the world. Temperatures are slightly lower along the coasts, but humidity reaches 90%, especially in the east, which is noted for heavy fogs. From October through April, the climate is more moderate, with evening temperatures between 16°

and 21°C (61° and 70°F). Average annual rainfall is 9 cm (3.5 in), with most rain falling from November to May. Between 25 and 50 cm (10 and 20 in) of rain falls in the mountainous 'Asir area, where there is a summer monsoon. In late spring and early summer, a strong northwesterly wind known as the shamal produces sometimes severe sand and dust storms.

#### 4 FLORA AND FAUNA

Vegetation is sparse, owing to aridity and soil salinity. The date palm, mangrove, tamarisk, and acacia are prevalent. Wild mammals include the oryx, jerboa, fox, lynx, wildcat, monkey, panther, and jackal. The favorite game bird is the bustard. The camel and Arab stallion are renowned, as is the white donkey of Al-Ahsa. Fish abound in the coastal waters and insects, scorpions, lizards, and snakes are numerous. Some beaches of the Farasan Islands are nesting grounds for turtles. An annual gathering of harid parrotfish takes place on these islands, and the waters surrounding them are home to several types of dolphins, whales, and dugong (an aquatic mammal related to the manatee). As of 2002, there were at least 77 species of mammals, 125 species of birds, and over 2,000 species of plants throughout the country.

#### 5 ENVIRONMENT

The Saudi government has traditionally not given priority to environmental protection, but in recent years it has become concerned about the continuing encroachment of sand dunes on agricultural land, the preservation and development of water resources, and pollution and sanitation problems. Legislation enacted in May 1978 forbade the felling of trees and regulated the protection of forestland. In 2000, less than 1% of the total land area was forested.

Saudi Arabia's natural environment was threatened by the Persian Gulf War. The dumping of up to six million barrels of oil in the surrounding waters and the destruction of Kuwait's oil wells by fire polluted the nation's air and water. Saudi Arabia has about 2 cu km of renewable water resources, with 90% of annual withdrawals used for farming and 1% used for industrial purposes. Only about 64% of the nation's rural population has access to safe drinking water. At current rates of consumption, it has been estimated that the nation's water supply may be exhausted in 10–20 years. Saudi Arabia's cities produce an average of 4.8 million tons of solid waste per year.

The Directorate General for Environmental Protection is responsible for environmental protection measures and preservation of natural resources. In the late 1970s, the 'Asir Kingdom Park, in the southwest, was created to preserve the landforms, flora, and fauna of the 'Asir region, which forms part of the Great Rift Valley. Drakensberg Park became a UNESCO World Heritage Site in 2000.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 9 types of mammals, 17 species of birds, 2 types of reptiles, 9 species of fish, 1 species of invertebrate, and 3 species of plants. Threatened species in Saudi Arabia include the Asiatic cheetah (possibly extinct), South Arabian leopard, northern bald ibis, and two species of turtle (green sea and hawksbill). The Arabian gazelle, Queen of Sheba's gazelle, Saudi gazelle, and the Syrian wild ass have become extinct.

#### 6 POPULATION

The population of Saudi Arabia in 2005 was estimated by the United Nations (UN) at 24,573,000, which placed it at number 46 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 37% of the population under 15 years of age. There were 117 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 37,160,000. The overall population density was 12 per sq km (30 per sq mi), but much of the population is concentrated on the coasts or internal oases; desert regions are largely uninhabited.

The UN estimated that 86% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 2.95%. The capital city, Riyadh (Ar-Riyad), had a population of 5,126,000 in that year. Estimates of the population in other major metropolitan areas were as follows: Jeddah, the principal port, 3,807,000; and Mecca (Makkah), containing Islam's holiest shrine, 1,529,000. Other major cities include Medina (Al-Madinah), the second-holiest city of Islam, 1,044,000; Ad Dammam, 920,000; At Ta'if, 416,121; and Al Hufuf, 225,847.

#### 7 MIGRATION

Emigration is limited. Immigration of professionals, technicians, and others from the surrounding Arab states and growing numbers from outside the region have been spurred by the development of the oil industry and by the lack of adequately trained and educated Saudi personnel. Palestinian Arabs, displaced by the establishment of the state of Israel, are the chief immigrant group. In the early 1990s, there were significant numbers of expatriate workers from the United States, European countries, Turkey, Jordan, Syria, Jordan, Kuwait, Yemen, the Republic of Korea (ROK), Pakistan, India, Sri Lanka, and the Philippines. In 1990, when Iraq invaded Kuwait, Saudi Arabia reacted by expelling workers from Jordan, Yemen, and Palestine, for their countries' support of Iraq. The foreign population was 4,624,459 in 1992 (27% of the total population). After the Gulf War, 93,000 Iraqis were granted temporary asylum. Since then, 60,000 Iraqis have been returned under the prisoner of war exchange. By April 1997, 20,800 had resettled in 33 different countries, 3,010 had voluntarily repatriated, and 9,000 were still in camps in Saudi Arabia. The total number of noncitizens living in the country in 2000 was 5,255,000. In 2004, Human Rights Watch, concerned with the treatment of foreign workers, estimated that there were 1–1.5 million people each from Bangladesh, India, and Pakistan; another 900,000 each from Egypt, Sudan, and the Philippines; 500,000 workers from Indonesia; and another 350,000 from Sri Lanka. In 2005, the labor force was 6.76 million, with estimates that more than 35% of the population in the 15–64 age group is nonnational.

By the end of 2004, there were 240,722 refugees and asylum seekers in Saudi Arabia. With 170 asylum seekers that year, the primary origin of this groundswell of refugees was Palestine, a trend following the beginning of the Iraq War. In 2005, the net migration rate was an estimated -3.5 migrants per 1,000 population, down from a net migration rate in 2000 of 4.3 migrants per 1,000 population.

## <sup>8</sup>ETHNIC GROUPS

At least 90% of Saudis have a common Arabian ancestry, making the population fairly homogeneous in ethnicity, religion, and language. Divisions are based mainly on tribal affiliation or descent; the primary distinction is between groups with a tradition of being sedentary agriculturalists or traders, and the Bedouins, who have a tradition of nomadic pastoralism. The two groups traditionally have been antagonistic. There has been some loosening of tribal ties, however, caused by rapid economic development. Afro-Asians account for the remaining 10% of the population. Admixtures of Turks, Iranians, Indonesians, Pakistanis, Indians, various African groups, and other non-Arab Muslim peoples appear in the Hijaz, mostly descendants of pilgrims to Mecca. The foreign population stands between six and seven million, including Bangladeshis, Pakistanis, Filipinos, Egyptians, Palestinians, Lebanese, Sri Lankans, Eritreans, and Americans.

## <sup>9</sup>LANGUAGES

Arabic, the native language of the indigenous population, is a Semitic language related to Hebrew and Aramaic. Local variations in pronunciation do not prevent oral communication between people from opposite sections of the Arabian Peninsula. The language is written in a cursive script from right to left. The 28 letters of the alphabet have initial, medial, and terminal forms; short vowels are seldom indicated. Most businesspeople and merchants in oil-producing areas and commercial centers understand English. Government correspondence must be written in Arabic.

## <sup>10</sup>RELIGIONS

Islam is the state religion and all citizens must be Muslims. About 85% of the people of Saudi Arabia are Sunni Muslims; the dominant form is Wahhabism, a fundamentalist Muslim reform movement first preached by the 18th-century religious leader Muhammad bin 'Abd al-Wahhab. Most other Saudis are Shia Muslims. The holy city of Mecca is the center of Islam and the site of the sacred Ka'bah sanctuary, toward which all Muslims face at prayer. A pilgrimage to Mecca is one of the five basic obligations of Islam and is incumbent upon every Muslim who is physically and financially able to perform it.

There are several thousand foreign Christian employees—Arab, US, and European. Jews have not been allowed to enter the country since the establishment of the state of Israel in 1948, except under special circumstances.

There is no religious freedom within the country. The government claims that the Holy Koran (Quran) and the Sunna (tradition) of the Prophet are the country's constitution. As such, the government strictly controls all religious activities. The public worship of non-Muslim faiths is prohibited. While non-Muslim foreigners are theoretically permitted to worship privately, the guidelines that distinguish between public and private worship are ambiguous, leading to severe restrictions on non-Muslim worship. Proselytizing of non-Muslim religions is illegal and conversion of Muslims to other faiths is a capital offense.

## <sup>11</sup>TRANSPORTATION

Until recent decades, the camel was the chief means of transportation in Saudi Arabia, but enormous strides have been made since

the early 1970s. By 2002, there were 146,524 km (91,050 mi) of highway, of which 44,104 km (27,406 mi) were paved. Modern roads link Jeddah, Mecca, Medina, At Ta'if, and Riyadh. A new highway connects Saudi Arabia with Jordan, and a causeway completed in 1986 offers a direct connection with Bahrain. In 2003, there were 2,889,384 passenger cars and 1,720,910 commercial vehicles registered for use. Most within-country freight is hauled by truck. The Saudi Government Railroad, which operates between Ad Dammām and Riyadh over a length of 575 km (357 mi), was built by the Arabian American Oil Co. (ARAMCO) during the 1950s. As of 2004, railroad lines totaled 1,392 km (865 mi) of standard-gauge track.

In 2004, there were an estimated 201 airports. As of 2005, a total of 73 had paved runways, and there were also six heliports. Major airports include Dhahran International at Dhahran, King Abdul Aziz at Jeddah, and King Khaled International at Riyadh. The government-owned Saudi Arabian Airlines (Saudia) operates regular domestic and foreign flights to major cities. Because of the large distances that separate the main cities, air travel is preferred within the kingdom. In 2003, about 13.882 million passengers were carried on scheduled domestic and international flights.

Jeddah, on the Red Sea, is the chief port of entry for Muslim pilgrims going to Mecca. Saudi Arabia has the largest seaport network in the Near East, with eight major ports with 183 piers and three smaller ports. Ports include Ad Dammām, Yanbu' al-Bahr, Jizan, Duba, Jeddah, Jizan, Rabigh, Ra's al Khafji, Mishab, Ras Tanura, Madinat Yanbu' al Sinaiyah, and Jubail (Al-Jubayl). In 2005, there were 64 ships of 1,000 GRT or more, totaling 1,306,706 GRT in the merchant fleet. The traditional *dhow* is still used for coastal trade.

## <sup>12</sup>HISTORY

For several thousand years, Arabia has been inhabited by nomadic Semitic tribes. Towns were established at various oases and along caravan routes. During the 7th century AD, followers of Muhammad expanded beyond the Mecca-Medina region and within a century had conquered most of the Mediterranean region between Persia in the east and Spain in the west. Although Arabs were dominant in many parts of the Muslim world and there was a great medieval flowering of Arab civilization, the peninsula itself (except for the holy cities of Mecca and Medina) declined in importance and remained virtually isolated for almost a thousand years. Throughout this period, Arabia was barely more than a province of successive Islamic caliphates that established their capitals in Damascus, Baghdād, Cairo, and Constantinople (now Istanbul).

The foundations of the Kingdom of Saudi Arabia were laid in the 18th century by the fusion of the military power of the Sa'ud family and Wahhabism, an Islamic puritan doctrine preached by Muhammad bin 'Abd al-Wahhab. Muhammad ibn-Sa'ud (r.1744–65) and his son, 'Abd al-'Aziz (r.1765–1803), gave the religious reformer refuge at Ad-Dar'iyah, in central Arabia, and together they embarked on a program of religious reform and territorial expansion. By 1801, Najd and Al-Ahsa were occupied. 'Abd al-'Aziz's son and successor, Sa'ud (r.1803–14), brought the Hijaz under Saudi control and took the holy city of Mecca. The Ottoman Turks called on their governor of Egypt, Muhammad 'Ali, to put down the Saudis. A long struggle (1811–18) finally resulted in Saudi defeat.

During that time, Sa'ud died, and his son, 'Abdallah (r.1814–18), was captured and beheaded.

When international conditions forced Muhammad 'Ali to withdraw his occupation forces in 1840, the Saudis embarked upon a policy of reconquest. Under Faisal (Faysal, r.1843–67), Wahhabi control was reasserted over Najd, Al-Ahsa, and Oman, with Riyadh as the new capital. (Hijaz remained under the control of the sharifs of Mecca until 1925.) After Faisal's death, conflict between his sons led to a decline in the family's fortunes. Taking advantage of these quarrels, the Ibn-Rashids, a former Saudi vassal family, gained control of Najd and conquered Riyadh. The Saudi family fled to Kuwait in 1891.

In January 1902, 'Abd al-'Aziz, a grandson of Faisal, who was to gain fame under the name Ibn-Sa'ud, succeeded in driving the Ibn-Rashid garrison out of Riyadh. At a decisive battle in 1906, the Rashidi power was broken. In 1913, the Saudis again brought Al-Ahsa under their control, and in December 1915, Ibn-Sa'ud signed a treaty with the British that placed Saudi foreign relations under British control in return for a sizable subsidy.

Warfare broke out again in Arabia in 1919, when Hussein ibn-'Ali (Husayn ibn-'Ali), the sharif of Mecca, who had become an independent king, attacked the Saudis. Hussein was defeated, and Ibn-Sa'ud annexed 'Asir. In 1921, he finally rid Arabia of the Rashids, and by 1923, he had consolidated his kingdom by occupying the districts west and north of Ha'il. Hussein of Mecca provoked another conflict with Ibn-Sa'ud in March 1924 by proclaiming himself caliph. War broke out, and the Saudis captured At-Ta'if, Mecca, and Medina (December 1925). 'Ali ibn-Hussein ('Ali ibn-Husayn), who had replaced his father as king of Hijaz, then abdicated, and in November 1925, Ibn-Sa'ud entered Jeddah. This increase in Ibn-Sa'ud's territory was acknowledged by the British in a treaty of 20 May 1927 that annulled the 1915 agreement and recognized his independence. On 22 September 1932, the various parts of the realm were amalgamated into the Kingdom of Saudi Arabia, with much the same boundaries that exist today.

With the discovery of oil in the 1930s, the history of Saudi Arabia was irrevocably altered. Reserves have proved vast—about one-fourth of the world's total—and production, begun in earnest after World War II, has provided a huge income, much of it expended on infrastructure and social services. Saudi Arabia's petroleum-derived wealth has considerably enhanced the country's influence in world economic and political forums. Following the 1967 Arab-Israeli War, the Saudi government undertook a vast aid program in support of Egypt, Syria, and Jordan. Saudi Arabia joined the 1973 Arab boycott against the United States and the Netherlands and, as a key member of Organization of the Petroleum Exporting Countries (OPEC), lent its support to the huge rise in oil prices during the 1970s. This move had stunning consequences for the world economy and also caused a dramatic upsurge in Saudi Arabia's wealth and power. Since the 1980s, the government has regulated its petroleum production to stabilize the international oil market and has used its influence as the most powerful moderate member of OPEC to restrain the more radical members.

Political life in Saudi Arabia remained basically stable in the last third of the 20th century, despite several abrupt changes of leadership. In November 1964, Crown Prince Faisal (Faysal ibn 'Abd al-'Aziz as-Sa'ud), a son of Ibn-Sa'ud, became king and prime minister following the forced abdication of his brother, King Sa'ud. His first

act as prime minister was to announce a sweeping reorganization of the government, and his major social reform was the abolition of slavery. In March 1975, King Faisal was assassinated by a nephew in an apparently isolated act of revenge. Faisal was succeeded by Crown Prince Khaled (Khalid ibn-'Abd al-'Aziz as-Sa'ud), who embarked on an expanded development program. King Khaled died of a heart attack in June 1982, and his half-brother, Crown Prince Fahd ibn-'Abd al-'Aziz as-Sa'ud, ascended the throne. King Fahd encouraged continuing modernization while seeking to preserve the nation's social stability and Islamic heritage. King Fahd, who had been frail since suffering a debilitating stroke in 1995, died at the age of 82 on 1 August 2005. He had delegated the daily affairs of state to Crown Prince Abdullah bin Abd al-Aziz al Sa'ud, his half-brother, since his stroke. Upon Fahd's death, Abdullah became king.

As the custodian of the holy Muslim shrines at Mecca and Medina, the monarchy has been deeply embarrassed by several incidents: the seizure of the Grand Mosque in Mecca by about 500 Islamic militants in 1979, which led to the deaths of more than 160; a riot by Iranian pilgrims during the 1987 pilgrimage, which cost 400 lives; and the suffocation of over 1,400 pilgrims in a tunnel at the Grand Mosque in 1990. Misfortune continued in 1994, when a stampede in Mecca killed 270 pilgrims rushing toward a cavern for a symbolic stoning ritual, and in 1997, when as many as 300 pilgrims were killed in a fire at a campsite outside the holy city. In 2004, a stampede during the Hajj pilgrimage left 251 dead.

When Iraq invaded Kuwait in 1990, Saudi Arabia, fearing Iraqi aggression, radically altered its traditional policy to permit the stationing of foreign troops on its soil. (The government was criticized by senior Saudi religious scholars for taking this step.) Riyadh made substantial contributions of arms, oil, and funds to the allied victory. It also expelled workers from Jordan, Yemen, and members of the Palestine Liberation Organization (PLO) for giving support to Iraq in the period after the invasion. Saudi Arabia's wealth and selective generosity has given it great political influence throughout the world and especially in the Middle East. It suspended aid to Egypt after that country's peace talks with Israel at Camp David, Maryland, but renewed relations in 1987. It secretly made substantial funds available to US president Ronald Reagan's administration for combating Marxist regimes in Central America. The kingdom played a key role in creating the Gulf Cooperation Council (GCC) and in working for an end to the civil strife in Lebanon. It actively supported Iraq during the war with Iran and tried, in vain, to prevent the conflict with Kuwait.

Saudi Arabia and the United States consult closely on political, economic, commercial, and security matters. The United States, with the United Kingdom, is a major supplier of arms and offers training and other support to the kingdom's defenses. These supports grew more visible following the Gulf War and continued Iraqi intransigence in the face of increased US and international pressure to disarm. The increased US military presence in Saudi Arabia in 1993–94 caused considerable irritation among conservative elements of Saudi society, who felt that the US military presence was blasphemous to Islam. In 1995, seven people, including five Americans, were killed in a terrorist attack on a Saudi National Guard Training Center in Riyadh. In June 1996, a car bomb detonated in front of a housing complex for US military personnel, killing 19 US servicemen, causing considerable uproar



LOCATION: 16°23' to 32°14' N; 34°30' to 56°22' W. BOUNDARY LENGTHS: Jordan, 728 kilometers (455 miles); Iraq, 814 kilometers (505 miles); Kuwait, 222 kilometers (138 miles); Persian Gulf coastline, 751 kilometers (468 miles); Qatar, 60 kilometers (37 miles); United Arab Emirates, 457 kilometers (285 miles); Oman, 676 kilometers (420 miles); Yemen, 1,458 kilometers (906 miles); Red Sea coastline, 1,889 kilometers (1,170 miles). TERRITORIAL SEA LIMIT: 12 miles.

in the United States, and leading military planners to relocate US military bases to remote desert areas.

By the end of the 1990s, the Islamist backlash that followed Saudi-US cooperation in the Gulf War had been contained through the (mostly) temporary detention of hundreds of Islamic radicals and the long-term detention of their most prominent leaders. At the turn of the 21st century, much of the Saudis' attention was focused on unaccustomed economic pressures resulting from a 40% drop in oil prices in 1998. With almost half its GDP coming

from oil, the country's budget deficit had soared as export revenues plummeted. Crown Prince Abdullah was instrumental in pushing through the production cutbacks agreed to by the OPEC countries in March 1999.

At a summit held in Beirut in March 2002, the Arab League accepted a Saudi proposal for peace between Israel and the Palestinians, put forward by Crown Prince Abdullah. Known as the "Beirut Declaration," the plan offered Israel normalized relations with the Arab states and a guarantee of peace and security in ex-

change for a full Israeli withdrawal from the territories occupied by Israel after the 1967 Arab-Israeli War, a “just solution to the Palestinian refugee problem,” and Israeli recognition of a Palestinian state with its capital at East Jerusalem. The proposal was introduced against the backdrop of an escalation in violence in Israel and the occupied territories in spring 2002. In April, Crown Prince Abdullah met with US president George W. Bush, and presented him with an eight-point list of proposed agreements for immediate peace in the Middle East. After the peace plan was put forward, however, the violence in Israel and the West Bank and Gaza increased.

Because 15 of the 19 hijackers involved in the 11 September 2001 terrorist attacks on the United States were Saudis, in addition to al-Qaeda leader Osama bin Laden, the United States placed pressure on Saudi Arabia to undertake counterterrorism measures. In the run-up to the 2003 Iraq War, Saudi Arabia debated what degree of support it would offer the United States in the event of a war with Iraq. On 26 February 2003, Saudi Arabia stated that it would allow the use of the Prince Sultan Air Base, where most of the 5,000 US troops based in the kingdom were located, only for the enforcement of a “no-fly” zone over southern Iraq. It stated that it would not agree to allow US troops and planes based in the country to undertake a war with Iraq. The war began on 19 March 2003. In April, the United States announced it would pull nearly all of its military forces out of Saudi Arabia. Both countries stressed that they would remain allies.

Saudi Arabia's stability began to be seriously rocked in the early 2000s, with a series of suicide bombings and terrorist attacks aimed at Western and local targets. In May 2003, suicide bombers killed 35 people at housing compounds for Westerners in Riyadh. In November 2003, another suicide attack on a residential compound in Riyadh left 17 dead. During April 2004, four police officers and a security officer were killed in attacks near Riyadh, and a car bomb at a security forces' headquarters left four dead and 148 wounded. A group linked to the terrorist organization al-Qaeda claimed responsibility for the act. Al-Qaeda has long demanded that the Saudi regime sever its ties to the West and to America in particular. It also holds that the Saudi regime is corrupt. In May 2004, an attack at a petrochemical site in Yanbu killed five foreigners. That month, an attack and hostage taking at an oil company compound in Khobar left 22 people dead. In June 2004, three gun attacks in Riyadh resulted in the deaths of two Americans and a British cameraman. The same week, an American engineer was abducted and beheaded; his death, which was filmed, caused revulsion in the United States. Shortly thereafter, security forces killed a local al-Qaeda leader, Abdul Aziz al-Muqrin. An amnesty program for militants that followed had only a limited effect on the increasingly violent climate. In December 2004, an attack on the US consulate in Jeddah resulted in the deaths of five staff and four attackers. That month, two car bombs exploded in central Riyadh, and security forces killed seven suspects in a subsequent raid.

While the Saudi regime was being destabilized by terrorist attacks, calls for political reform caused concern among the rulers and pointed to a need to respond to such demands for change. In September 2003, 300 intellectuals, both men and women, signed a petition calling for far-reaching political reforms. In October, the police broke up an unprecedented rally for political reform

in the center of Riyadh; more than 270 people were arrested. In November 2003, King Fahd granted wider powers to the Majlis al Shura (Consultative Council), enabling it to propose legislation without his permission. From February to April 2005, the first-ever nationwide municipal elections were held, although women were not permitted to take part in the vote.

### <sup>13</sup> GOVERNMENT

Saudi Arabia is a religiously based monarchy in which the sovereign's dominant powers are regulated according to Muslim law (Shariah), tribal law, and custom.

There is no written constitution; laws must be compatible with Islamic law. In a decree of March 1992, the king was granted exclusive power to name the crown prince his successor. The Council of Ministers, first set up in 1953, is appointed by the king to advise on policy, originate legislation, and supervise the growing bureaucracy. The post of prime minister is reserved for the king and the crown prince is appointed first deputy prime minister. Most other important posts in the cabinet are reserved for members of the royal family.

In 1992, King Fahd announced the creation of the Majlis al Shura, or Consultative Council, an advisory body that would provide a forum for public debate. The king appointed 60 male citizens not belonging to the royal family to four-year terms on this body, which held its first meeting on 29 December 1992. In 1997, King Fahd increased the size of the Majlis to 90 members. In 2001, membership was increased to 120. In 2003, King Fahd expanded the powers of the Majlis al Shura. In 2005, nationwide municipal elections were held, although women did not participate.

### <sup>14</sup> POLITICAL PARTIES

Although there are no political parties in Saudi Arabia, various groups do function as blocs, contending for influence. Important among these groups are the conservative *‘ulama* (religious scholars) and the members of the royal family. Other alliances—among merchants, businessmen, professionals, and leading families—are concerned with economic matters. There is also a small but growing middle class that seems to want greater political participation and a less restrictive social environment. Each group brings its weight to bear on the policy-making bodies of the government and the king, whose leadership is upheld so long as he adheres to Islamic law, tradition, and the collective decisions of the *‘ulama*. In opposition to the royal family are small, strictly outlawed groups of prodemocracy activists and extremist Islamists, who have engaged in terrorist attacks, principally against signs of Western influence. Identified groups connected with Islamists include the Committee for the Defense of Legitimate Rights, the Reform Movement, and the Islamic Awakening.

### <sup>15</sup> LOCAL GOVERNMENT

The kingdom is divided into 13 emirates, each headed by a crown-appointed governor, often a prince or other member of the royal household or a member from an allied family. The provinces are subdivided into 103 governorates. Tribal and village leaders (sheikhs) report directly to provincial governors, giving the central government some control over outlying regions. Provincial governors, in turn, report to the minister of the interior. Each sheikh traditionally rules in consultation with a council. A large

segment of the population remains tribally organized: tribes, headed by paramount sheikhs, are divided into subtribes, headed by local sheikhs. Decisions are made by tribal sheikhs, emirs, or other chiefs and their councils (*majlis*).

## **<sup>16</sup>JUDICIAL SYSTEM**

The king acts as the highest court of appeal and has the power of pardon; access to the king and the right to petition him are well-established traditions. The judiciary consists of lower courts that handle misdemeanors and minor civil cases; high courts of Islamic law (Shariah); and courts of appeal. Islamic law of the Hanbali school prevails in Saudi Arabia, but justice is also based on tribal and customary law. Capital and corporal punishment are permitted; a 12-member Supreme Council of Justice reviews all sentences of execution, cutting, or stoning. A separate military justice system exercises jurisdiction over uniformed personnel and civilian government authorities.

There is no written constitution. The Justice Ministry is responsible for appointment and promotion of judges, who are confirmed by the Royal Court (Royal Diwan). Judges may be removed only by the Supreme Council of Justice or by royal decree. Although independence of the judiciary is guaranteed by law, courts are subject to the influence of royal family members. At the provincial level, governors also reportedly exercise influence over local judges.

Shariah summary courts have jurisdiction over common criminal cases and civil suits regarding marriage, divorce, child custody, and inheritance. While summary courts try cases involving small penalties, more serious crimes go to the Shariah courts of common pleas. Appeals from both courts are heard by the appeals courts in Mecca and Riyadh. There is also a Court of Cassation, as well as administrative tribunals that deal with proceedings involving claims against the government and enforcement of foreign judgments.

The military tribunals have jurisdiction over military personnel and civil servants charged with violation of military regulations.

## **<sup>17</sup>ARMED FORCES**

Saudi Arabia's armed forces totaled 199,500 active personnel in 2005, including the 75,000 members of the National Guard. The Army had 75,000 personnel and was equipped with 1,055 main battle tanks, 300 reconnaissance vehicles, over 970 armored infantry fighting vehicles, 3,190 armored personnel carriers, and 868 artillery pieces. The Army's aviation forces operated 12 attack helicopters. The Navy's active manpower totaled 15,500 personnel, including 3,000 Marines. The Navy was equipped with 7 frigates, 4 corvettes, 66 patrol/coastal craft, and 7 mine warfare vessels. The Navy's aviation wing operated 19 assault helicopters. The Air Force had 18,000 active personnel and was equipped with 291 combat-capable aircraft, including 191 fighters and 85 fighter ground attack aircraft. The National Guard was used chiefly for internal security and is an elite strategic reserve loyal to the royal family. Saudi Arabia also had a 10,500-member frontier force, a 4,500-member Coast Guard, and a 500-member Special Security Force. The armed forces were equipped with the most advanced weaponry, including five Airborne Warning and Control Systems (AWACS) aircraft, which were sold to Saudi Arabia by the United States in 1981, over Israel's strenuous objections, as part of an \$8.5 billion arms deal. In 2005, the defense budget for Saudi Arabia

totaled \$21.3 billion. The United States had a 300-member joint Army/Air Force training force in the country.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

Saudi Arabia is a charter member of the United Nations (UN), having joined on 24 October 1945, and participates in ESCWA and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, UNCTAD, the ILO, the World Bank, the IAEA, and the WHO. It is a founding member of the Arab League, OPEC, and OAPEC. Saudi Arabia is also a member of the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the African Development Bank, G-77, the Organization of the Islamic Conference (OIC), and the GCC. The nation has observer status with the OAS and the WTO.

Saudi Arabia has played a key role in promoting Israeli-Palestinian peace negotiations. Although supporting the Palestinian cause and the Arab League's boycott of Israel, the Saudi government in 1981 proposed that the Arab nations show willingness to extend diplomatic recognition to Israel in return for its withdrawal from lands occupied in the 1967 war (including the West Bank and East Jerusalem). Saudi Arabia supported international efforts against Iraq in the 1990–91 Gulf War and the 2003 Operation Iraqi Freedom. In February 2005, the Saudi government sponsored the first-ever Counterterrorism International Conference in Riyadh. Saudi Arabia is part of the Nonaligned Movement.

In environmental cooperation, Saudi Arabia is part of the Basel Convention, the Convention on Biological Diversity, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **<sup>19</sup>ECONOMY**

The economy is heavily dependent on oil production, which provides approximately 45% of gross domestic product (GDP), 90% of export value, and 75% of government revenues. The country has the largest reserves of petroleum in the world, 25% of the proven total, with its northern neighbor, Iraq, holding second place and two other Arab neighbors, the United Arab Emirates and Kuwait, third and fourth. Rapidly increasing oil income after the first oil shock, 1973–74, led by the Organization of Petroleum Exporting Countries (OPEC) cartel, was used to increase disposable income, defense expenditures, and economic development. OPEC was able to enforce a quadrupling of oil prices (from \$2.50/bbl to \$10/bbl) largely because of King Faisal's agreement to deploy the oil weapon in conjunction with the Yom Kippur War. Per capita income in current dollars peaked at \$15,700 in 1980 after the second oil shock, in 1978–79, in conjunction with the Iranian Islamic revolution, sent oil prices to all-time highs, peaking at just over \$40/bbl in September 1980 at the start of the Iran-Iraq War. From there, population growth (about 350% 1973 to 2003, from 6.76 million to 24.3 million, including an estimated 5 million nonnationals), a decreasing OPEC share of world oil production (from over 50% in 1973 to less than 30% in 1985 to about 40% in 2003), oil conservation efforts among consumers, and limited success in diversifying the economy combined to reduce per capita income to \$10,462 by 2004 (equivalent to \$11,804 in purchasing power parity terms). The contribution of the oil sector (crude oil and refined products)

to overall GDP, nevertheless, has substantially decreased, from 70% in 1980 to an estimated 45% in 2006.

The government has always made economic diversification a top priority, seeking to develop industries using petroleum, such as petrochemicals, as well as to finance industrialization. By 1989, the massive Jubail and Yanbu'al-Bahr industrial complexes, combining petrochemicals and steel production, had been largely completed. In the capital-intensive oil industry, the Saudis have relied heavily on foreign workers, who make up about 20% of the population. The kingdom's intolerance of democratic processes, labor unions, women's participation in the workplace, and foreign influences are impediments to development.

There are, however, mounting pressures for economic reform, including falling per capita income, attendant social frustrations, the emergence of government deficits, and a sizeable, though still manageable, external debt. In 1998, the government, led by Crown Prince (now King) Abdullah, embarked on a privatization strategy as a means of restoring per capita growth. In 1998, the Saudi Telecommunications Co. (STC) and the Saudi Electricity Co. (SEC) began privatizing telecommunications and electric power services.

Real growth of GDP averaged about 2.6% between 1988 and 1998. The economy shrank by 11% in 1998 due to low world oil prices but posted a 1% gain in 1999. Real GDP growth averaged 3.6% over the period 2000–04. Driven by high oil prices and rising production, economic growth was forecast to stay strong in 2006 and 2007, as oil revenues, though declining, are predicted to remain firm. Real GDP growth was projected to reach 3.7% in 2007, as oil output is expected to rise more firmly that year.

The economy remains dominated by large state-owned monopolies. For 2005, the private sector accounted for about 40% of GDP. The government is considering privatizing the national airline, petrochemical industries, the telecommunication sector, and electricity companies to foster diversification. The government encourages growth in agriculture as a means of reducing Saudi Arabia's reliance on food imports, but dramatic reductions in farm subsidies have resulted in a continuing decline in agricultural output.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Saudi Arabia's gross domestic product (GDP) was estimated at \$340.5 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$12,900. The annual growth rate of GDP was estimated at 6.4%. The average inflation rate in 2005 was 0.6%. It was estimated that agriculture accounted for 3.3% of GDP, industry 74.7%, and services 21.9%.

Foreign aid receipts amounted to \$22 million (about \$1 per capita) and accounted for approximately 0.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Saudi Arabia totaled \$71.160 billion (about \$3,163 per capita), based on a GDP of \$212.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures

of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

The total labor force in Saudi Arabia as of 2005 was estimated at 6.76 million. In 2002, the services sector accounted for 74.2% of the workforce, with industry at 21%, agriculture at 4.7%, and 0.1% in undefined occupations. Approximately 35% of the Saudi labor force between the ages of 15 and 64 were foreigners, working mostly in the oil and construction sector. Estimates of the unemployment rate in Saudi Arabia varied widely in 2004. Unemployment among males was estimated by a local bank at 13%, although other estimates go as high as 25%.

Labor unions are illegal and collective bargaining is forbidden as well. Workers have few protections against employers. This is especially true of foreign workers, who are often forced to work long hours and beyond the terms specified by their contracts. Foreign workers have little redress against Saudi employers, since the labor system usually sides with the latter and employers can delay cases until the workers have to return home. Saudi employers routinely prevent workers from obtaining exit visas. In 2001, the government allowed the formation of labor committees, which are permitted to make recommendations to employers.

By royal decree, an eight-hour day and 48-hour week are standard. It is reported that domestic workers labor up to 20 hours a day, seven days a week. Labor regulations require protection from hazard and disease for employees except farmers, herdsmen, domestic servants, and family-operated business employees. Labor outdoors is prohibited when the temperature exceeds 50°C (122°F). Foreign workers report that these regulations are seldom enforced. With the consent of parents, children may work as young as 13, and children rarely work in Saudi Arabia outside of family businesses. There is no minimum wage.

## 22 AGRICULTURE

Agriculture engages 10% of the economically active population and accounts for about 5% of GDP. Only about 1.8% of Saudi Arabia's land area is cultivated, although 40% is suitable for grazing. Small owner-operated farms characterize Saudi Arabia's land-tenure system. About 96% of the farm area is owned, and only 4% rented. Less than 3% of the agricultural holdings are of eight hectares (20 acres) or more, and 45% are 0.4 hectare (1 acre) or less in size. About two-thirds of the cropped land is used for cereals and the remainder for vegetables and fruit. Although Saudi Arabia has more than 18 million date palms and provides over 13% of the world's supply of dates (an estimated 900,500 tons in 2004), the growing of dates has declined in favor of wheat, corn, sorghum, tomatoes, onions, grapes, and a variety of other fruits and vegetables. Nevertheless, dates remain the only major staple food crop with production sufficient to meet local demand. Saudi Arabia is 85% self-sufficient for vegetables and 66% for fruit. Wheat output increased from an estimated 150,000 tons in the late 1970s to 1,700,000 tons in 1985, and the government claimed that it had met total domestic demand by 1986–87. Production of wheat totaled 2,358,000 tons in 2004; government subsidies have led to a recurring overproduction of wheat. In 1989, the government attempted to discourage production by cutting price supports, but

production is still several times higher than domestic demand. Barley production amounted to 138,400 tons in 2004.

Aquifers supply 80% of agriculture's water requirements but are not renewable. As of 2003, 43% of the arable land was irrigated. Agricultural irrigation accounts for 90% of total water needs, with wheat production alone using about one-third of the country's annual water supply.

### **23 ANIMAL HUSBANDRY**

As of 2005, Saudi Arabia had an estimated 7,000,000 sheep, 2,200,000 goats, 260,000 camels, 350,000 head of cattle, 100,000 donkeys, and 3,000 horses. As imports of animal foodstuffs have increased and as greater varieties of agricultural products have been produced locally, camels have declined steadily in importance as a source of food. Arabia has long been famed for its horses, but the importance of the Arabian horse as an export item is now virtually nil. Donkeys and mules are still valued as pack animals, and the white donkeys of Al-Ahsa are well known. Sheep are found in all parts of Saudi Arabia where pasturage is available; they are raised for milk, as well as for meat and wool. Goats are kept for milk; their hair is used in rugs and tents, and the skins serve as water bags. Traditional farmers account for 80% of the kingdom's sheep production. Overall sheep production is expected to increase significantly in the next few years as a result of expansion in existing farms and establishment of new sheep breeding and fattening projects. About seven million head of live sheep are imported every year. The import level is expected to remain about the same in upcoming years, partly as a result of the increasing number of pilgrims who come to Mecca for the Hajj. Beef has not been a significant part of the Saudi diet, and most beef and veal is consumed by expatriates, as traditional Saudis prefer camel meat. Concern over BSE (the so-called Mad Cow disease) in 1996 led the government to ban beef imports from Ireland, the United Kingdom, France, Switzerland, and Portugal.

The output of poultry and eggs doubled during 1975–80, and in 2005, Saudi Arabia had an estimated 141 million poultry. Saudi Arabia is self-sufficient in milk production—in 2005, 1,149,000 tons were produced. There is no hog raising, and importation of pork products is banned, as it is contrary to Islamic law.

### **24 FISHING**

Fishing provides employment and self-sufficiency to some communities on both Saudi coasts, although cash earnings are negligible. With rare exceptions, traditional fishing techniques are used. One of the few growth areas in this sector has been the export of Gulf shrimp. The fish catch was estimated at 64,753 tons in 2003.

### **25 FORESTRY**

The only forest growth is found in the mountainous area that extends from southern Hijaz to 'Asir, accounting for no more than 0.6% of the total area. The principal varieties—acacia, date, juniper, wild olive, sidr, tamarind, and tamarisk—are generally not useful for timber, but some wood from date palms is used for con-

struction. The trade deficit in forestry products was \$739 million in 2004.

### **26 MINING**

Oil continues to dominate Saudi Arabia's mining sector. The country supplied 12.8% of the world's crude oil output in 2003. Petroleum and petroleum products accounted for 90% of the country's export earnings in 2002 and 70% of government revenues. Crude oil and natural gas accounted for 42% of GDP; other minerals contributed 0.4% of GDP. Saudi Arabia has nevertheless diversified by expanding its gold production, as well as production of cement, fertilizer, petrochemicals, and steel. Cement production, construction, and fertilizer manufacturing ranked fourth, fifth, and sixth, respectively, among the country's leading industries in 2002.

Production of ore concentrate and bullion (metal content) in 2003 included copper, 800 metric tons (estimated); gold, 8,769 kg, and silver, 13,000 kg (estimated). In 2003, the country also produced lead, zinc, barite, basalt clays phosphatic fertilizer, granite crude gypsum, lime, limestone marble, nitrogen, nitrogenous fertilizers, pozzolan, salt, sand and gravel, silica sand, scoria, and sulfur. Mining operations continue at the ancient gold and silver underground mine Mahd adh-Dhahab (literally, "cradle of gold"), which is located southeast of Medina and probably dates from the time of King Solomon (10th century BC). Other gold producers are the open-pit silver and gold Amar Mine, southwest of Riyadh, which began operations in 2000, and the Sukhaybirat surface mine, northwest of Riyadh.

Feasibility studies at the Balghah Mine estimated resources to be 40 million tons at a grade of 1 grams per ton of gold. The remote Zabirah bauxite deposit has minable resources of 102 million tons. About 3,000 showings for at least 50 metallic and non-metallic minerals have been located. Substantial national reserves of gold, iron ore, silver, copper, zinc, lead, pyrites, phosphate, magnesite, barite, marble, and gypsum have been suspected. An intensive search was under way by Saudi and foreign companies.

All minerals, including petroleum and natural gas, are owned by the government. A modern mining code encourages foreign participation, although majority holdings by national interests have increasingly been stressed. The Foreign Investment Act of 2000 gave international investors the same rights and privileges as Saudi investors. The government was also considering a revised mineral policy to attract additional investment in the mining sector. In 2000, the government established the Supreme Council for Petroleum and Mineral Affairs. The state-owned Saudi Arabian Mining Co. (Ma'aden) was created in 1997 and participated actively in and promoted mineral exploration and mining activities throughout the kingdom. Several metal and industrial mineral mining projects were expected to come onstream within the next 10 years.

### **27 ENERGY AND POWER**

Saudi Arabia has one-fourth of the world's proven oil reserves and some of the lowest oil production costs. For the foreseeable future, Saudi Arabia will likely remain the largest net exporter of oil in

the world. It is also a member of the Organization of Petroleum Exporting Countries (OPEC).

As of 1 January 2005, Saudi Arabia had proven oil reserves estimated at 261.9 billion barrels, which includes 2.5 billion barrels, or half of the oil reserves in the Saudi-Kuwaiti divided, or neutral, zone. About two-thirds of the country's reserves are graded as "light" or "extra light," with the remainder in the "medium" or "heavy" grades. Saudi Arabia has around 80 oil and gas fields and more than 1,000 wells. However, more than 50% of the country's oil reserves are in only eight fields. This includes the Ghawar and the Safaniya fields. The former has estimated reserves of 70 billion barrels and is the world's largest oil field, while the latter is the world's largest offshore oil field, with reserves estimated at 35 billion barrels. Oil production in 2004 (including the neutral zone) was estimated at 10.4 million barrels per day, of which 9.6 million barrels per day consisted of crude oil, and 1.2 million barrels per day were natural gas liquids. As a member of OPEC, Saudi Arabia is subject to OPEC's production quotas. As of July 1, 2005, the quota was set at 9.099 million barrels per day. As of July 2005, Saudi Arabia's crude oil production capacity stood at 10.5 to 11 million barrels per day. Domestic oil consumption in 2005 was estimated at 1.9 million barrels per day.

Saudi Arabia has eight oil refineries. As of 1 January 2005, Saudi Arabia's crude oil refining capacity was estimated at 1.745 million barrels per day.

In addition to its vast oil reserves, Saudi Arabia also has proven natural gas reserves estimated as of 1 January 2005 at 235.0 trillion cu ft (including the neutral zone), which places the country fourth in the world behind Russia, Iran, and Qatar, respectively. About 60% of the country's natural gas reserves are associated or produced along with oil, and come from the Ghawar, Safaniya, and Zuluf fields. One-third of the country's natural gas reserves are in the Ghawar field alone. In 2002, Saudi Arabia's gross production of natural gas was 2,119.61 billion cu ft of natural gas, of which 8.12 billion cu ft was vented or flared; 3.18 billion cu ft reinjected; and 2,108.31 billion cu ft marketed. Of the marketed amount, 2,002.36 billion cu ft was consumed domestically.

As of 2005, two major pipelines operated actively in Saudi Arabia: the five million barrel per day Petrolina, used to transport crude oil to refineries in western Saudi Arabia and to the Red Sea for export, and the 290,000 barrel per day Abqaiq-Yanbu pipeline, which carries natural gas liquids to petrochemical plants in Yanbu. The IPSA pipeline had been closed indefinitely since Iraq invaded Kuwait in 1990.

Saudi Arabia has limited waterpower resources, and oil-powered diesel engines generate most of its electric power. Electrical service, which reached 2.2 million people in 1975, was extended to 4.2 million in 1979 and, by 1990, reached 92% of the population. Total installed generating capacity was estimated at 26.6 GW in 2003. Production of electricity in 2003 amounted to an estimated 145.1 billion kWh, of which 100% was from fossil fuels. As of 2002, demand for power was growing about 5% annually, and it was estimated that capacity would need to be nearly doubled by 2020 to meet the country's needs. In 2002, demand for electric power came to 127.310 billion kWh. Solar energy is becoming increasingly important as an alternative to diesel power, particularly for use in the desalination of seawater.

## 28 INDUSTRY

Although the Saudi economy has been virtually synonymous with crude oil, the country is attempting to diversify its manufacturing. Industrial products include cement, steel, glass, metal manufactures, automotive parts, and building materials, along with petroleum refinery products and petrochemicals (primarily methanol, ethylene, and polypropylene).

Industries producing consumer goods for the local market rely for the most part on imported raw materials. The most notable growth has occurred in food processing, such as meat-packing plants, flour mills, ice cream, yogurt, other dairy processing plants, and vegetable canneries. Other companies produce canvas cloth, surgical supplies, paper products, plastic pipes, electric appliances, paints, detergents, and pharmaceuticals.

## 29 SCIENCE AND TECHNOLOGY

The government encourages importation of high technology, especially in the oil industry, but its own commitment to national technological development has been limited. The Industrial Studies and Development Center is located in Riyadh, and the King Fahad University of Petroleum and Minerals, founded in 1963, is in Dhahran. Other institutions offering courses in basic and applied sciences include King Abdulaziz University, founded in 1967 at Jeddah; King Faisal University, founded in 1975 at Dammam and Al-Hassa; King Sa'ud University, founded in 1957 at Riyadh; and Yanbu Industrial College, founded in 1989 at Yanbu al-Sinaiyeh. In 1987-97, science and engineering students accounted for 17% of college and university enrollments. The King Abdul Aziz City for Science and Technology was founded in 1977 at Riyadh to formulate national policy for science and technology development and to draw up strategy and plans for its implementation.

## 30 DOMESTIC TRADE

Jeddah and Riyadh are the commercial and business centers of the country. Most major cities host large, modern supermarkets and specialty retail stores offering wide varieties of goods and services. Franchising has become popular with a wide range of goods and service-based establishments. Barter is the traditional means by which nomads and farmers obtain each other's products, and weekly markets are held in villages and small towns. However, the economy is being progressively monetized and is now completely so in the towns and cities. Newspapers, magazines, and billboards are the principal means of advertising.

Normal business hours vary in different provinces but are usually from 8 AM to 12 NOON and from 3 to 6 PM, Saturday through Wednesday. During the month of Ramadan, the workday is limited to six hours. Banks are generally open from 8 AM to 12 noon, Saturday through Wednesday. Government offices and private businesses are closed Thursdays and Fridays. Markets and shops are open until 9 PM. Most businesses, including stores and restaurants, take breaks at the designated Muslim prayer times, which occur five times throughout the day. These breaks generally last about a half hour each.

## 31 FOREIGN TRADE

Saudi Arabia's commodity exports are dominated by mineral fuels, which account for 13% of the world's mineral fuel exports.

Crude petroleum (79% of total exports, 16.3% of world crude petroleum exports) and refined petroleum products (12% and 7.1%, respectively) are the largest exports. Other exports include polymers (1.2%) and industrial alcohols (1.4%, accounting for 8.1% of the world's industrial alcohol exports).

Saudi Arabia's leading markets in 2004 were: the United States (18.5% of all exports), Japan (15.2%), South Korea (10.1%), and China (5.7%). The leading suppliers were the United States (9.3% of all imports), Germany (6.6%), Japan (6.5%), and the United Kingdom (5.3%).

In 2004, exports were valued at \$113 billion, and imports were valued at approximately \$36 billion, for a trade surplus of \$77 billion.

### 3<sup>2</sup> BALANCE OF PAYMENTS

In 2000, foreign worker remittances, approximately \$18 billion per year, continued to drain the current account. There are roughly six to seven million foreign workers and their families living in the country, and the remittances cause the currency to be subject to a mild devaluating pressure. Strong oil exports in the early 2000s, however, kept the current account in surplus.

In 2000, the current account recorded a \$14.3 billion surplus, which declined (in line with oil revenue) to \$9.4 billion in 2001, despite a significant fall in service debits. Higher oil prices and output in 2002 and 2003 saw the current account surplus widen again, to \$11.9 billion and \$28 billion, respectively. This surplus reached a record \$51.5 billion in 2004. Due to projected higher oil prices and rising production, trade-driven current account surpluses were expected to widen further in 2005, 2006, and 2007.

### 3<sup>3</sup> BANKING AND SECURITIES

Until the mid-20th century, Saudi Arabia had no formal money and banking system. To the degree that money was used, Saudis primarily used coins having a metallic content equal to their value

(full-bodied coins) for storing value and limited exchange transactions in urban areas. For centuries, foreign coins had served the local inhabitants' monetary needs. Development of banking was inhibited by the Quranic injunction against interest. A few banking functions existed, such as money changers (largely for pilgrims visiting Mecca), who had informal connections with international currency markets. A foreign bank was established in Jeddah in 1926, but its importance was minor. Foreign and domestic banks were formed as oil revenues began to increase. Their business consisted mostly of making short-term loans to finance imports, commercial trading, and businesses catering to pilgrims. Although lending at interest is prohibited by Islamic law, banking has flourished in Saudi Arabia as a conduit for the investment of oil money. The Saudi Arabian Monetary Agency (SAMA) was established by royal decree in 1952 to maintain the internal and external value of currency. The agency issues notes and coins with 100% cover in gold and convertible foreign exchange and regulates all banks and exchange dealers.

In 2002, there were 10 commercial banking houses, the largest of which was the National Commercial Bank. Cumulatively, the total size of the bank's balance sheets stood at over SR110 billion, with operating profits of SR2 billion in 2001. Eight of the 10 are joint-venture banks. The major foreign partners include Citibank, Arab Bank Ltd., Banque Indosuez, HSBC Holdings, and ABN Amro. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$48.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$88.4 billion.

SAMA runs a stock exchange in Saudi Arabia, created in 1990 as an over-the-counter market in which the commercial banks buy and sell shares by means of an electronic trading system. Although this system has facilitated easy access to transactions, the market remains relatively illiquid because of the small numbers of issuers and the narrow investor base. There are 76 companies listed on the exchange. The value of traded shares was \$22.2 billion in 2001, a turnover ratio of 31.7%. Total market capitalization was just over \$73 billion. The new IFCG Saudi Index closed up 7.4% in 2001, its fourth year of existence, after surging increases of 49% and 16.3% in 1999 and 2000, respectively. The market is closed to direct foreign investment, but foreigners can buy and trade shares of Saudi companies within a closed-end fund listed in the United Kingdom. As of 2004, a total of 73 companies were listed on the Tadwul Saudi Stock Market, which had a market capitalization of \$306.248 billion. In that same year, the TASI Index rose 84.9% to 8,206.2.

### 3<sup>4</sup> INSURANCE

There were at least 70 insurance firms operating in Saudi Arabia in 1998, offering all categories and classes of insurance. The National Company for Cooperative Insurance, founded by royal decree in 1985 and owned by three government agencies, has share capital of SR250 million. In all, insurance premiums amount to over \$760 million. Premiums covering oil facilities, major projects, marine and aviation represent over 44% of total premiums, motor insurance accounts for 23%, medical 18%, and fire 14%. Insurance organizations in Saudi Arabia are regulated by the Ministry of Commerce. One insurer is officially licensed by the kingdom,

#### Balance of Payments – Saudi Arabia (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>29,701.0</b>
Balance on goods	61,546.0	
Imports	-33,913.0	
Exports	95,369.0	
Balance on services	-15,453.0	
Balance on income	-1,285.0	
Current transfers	-15,016.0	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-28,093.0</b>
Direct investment abroad	...	
Direct investment in Saudi Arabia	-587.0	
Portfolio investment assets	-18,765.0	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-7,957.0	
Other investment liabilities	-784.0	
<b>Net Errors and Omissions</b>		<b>...</b>
<b>Reserves and Related Items</b>		<b>-1,608.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

the National Company for Cooperative Insurance, which is primarily owned by the government. Insurance companies operating in the country adhere to the tenets of Islam, which does not recognize insurance. For this reason, there are no insurance laws on the books, except those dealing with benefits for injured employees. In 2003, the value of all direct insurance premiums written totaled \$941 million, of which nonlife premiums accounted for \$902 million. There is no data available on the country's leading insurance companies.

### 35 PUBLIC FINANCE

Public expenditures typically have acted as the vanguard for economic growth and development since the early 1970s. After completing the infrastructure in the 1970s and early 1980s, the emphasis of development expenditures moved to education and training to encourage private enterprise. By 1987, 70% of non-oil GDP was coming from the private sector. Deficits have been common since 1983, as oil revenues have declined. Oil revenues typically account for nearly 75% of government revenues. Deep budget cuts over the past years; higher charges on energy, electricity, water, telephone, worker and visa fees; and reduced subsidies on fuels, utilities, and airline fares have combined to reduce the deficit. To finance the deficit, the government borrows from domestic financial markets. However, Saudi government finances are not transparent; a perennial uncertainty is the difference between the revenues received by the national oil company, Aramco, and what is turned over to the Ministry of Finance to fund government expenses. The difference goes to Aramco's operating expenses and numerous off-budget expenditures. Observers believe that one major use of the off-budget money has been to pay down arrears on contracts, amounting to an estimated \$30 billion in 1995. Estimates are that such arrears had been reduced to \$3 billion by 2000. With the exception of the year 2000, the Saudi government has run a deficit every year since 1982. Rising oil prices in 2000, recovering from near-record lows in 1999, helped produce a \$12 billion surplus as oil revenues came in 60% higher than expected. The accumulated domestic debt in 2000, however, was an estimated 105% of GDP, which has been financed by government pension funds and bonds held by banks and some companies. External debt from transactions in the privatized portions of the economy had reached nearly \$40 billion in 2001, but this represents a still manageable 21% of the annual GDP.

The US Central Intelligence Agency (CIA) estimated that in 2005 Saudi Arabia's central government took in revenues of approximately \$143.7 billion and had expenditures of \$89.6 billion. Revenues minus expenditures totaled approximately \$54 billion. Public debt in 2005 amounted to 56.7% of GDP. Total external debt was \$34.55 billion.

### 36 TAXATION

As of 30 July 2004, the corporate tax rate in Saudi Arabia for companies in the natural gas sector is 30%, with an 85% rate applied to businesses in the oil sector. Other companies are taxed at a flat rate of 20%. Generally, capital gains are treated as ordinary income and taxed the corporate rate of 20%. However, there is no capital gains tax if the shares sold by non-Saudi shareholders are traded on the Saudi stock exchange and were acquired after 30 July 2004. Gains derived from the sale of property, other than those assets used in

business activity, are also exempt. Dividends and interest are subject to a 5% withholding tax. Royalties are subject to a 15% withholding rate. Foreigners who are self-employed professionals or general partners in Saudi partnerships are subject to these taxes.

Saudi Arabia has a flat 20% individual income tax rate on income that is domestically sourced. However, this tax applies to foreign citizens. Citizens of Saudi Arabia and other Gulf Cooperation Council (GCC) members pay a religious tax called the Zakat, an Islamic tax derived from the Shariah, which is applied directly to equity, less fixed assets, at a rate of 2.5%. The income of members of the royal family is tax exempt. There is no value-added tax (VAT) or sales tax.

### 37 CUSTOMS AND DUTIES

Saudi Arabia has increasingly used the tariff to protect local industries. The general tariff rate is 5%; new Saudi industries are protected by a 20% tariff rate. Importation of liquor, firearms, ammunition, narcotics, and certain other items is strictly forbidden, as are all imports from Israel and South Africa. No import taxes are levied beyond import tariffs.

### 38 FOREIGN INVESTMENT

A small group of upper-class Saudis have traditionally held substantial investments overseas. These Saudis hold large demand deposits in US and Western European banks and considerable investments in commercial ventures, especially real estate, in Egypt and other Middle Eastern countries. Since the early 1970s, the Saudi government has vastly increased its overseas investments in the United States, Western Europe, and Japan.

The Saudi government generally encourages foreign direct investment, especially in the case of joint ventures with Saudi partners. The foreign capital investment code specifies that foreign investments (1) must be a "development project," (2) must generate technology transfer, and (3) must have a minimum of 25% Saudi-owned equity in the project. However, in 1999, the government began revising its laws on foreign investment in an effort to attract more overseas capital and to lure back the large private Saudi capital that is invested abroad. Principal foreign investors include the United States, Japan, the United Kingdom, Switzerland, France, and Germany.

In 2000, the government approved a new Foreign Direct Investment (FDI) Law, which allows 100% foreign ownership of investments, and established the General Investment Authority (SAGIA) to provide information and assistance for foreign investors. By the first quarter of 2005, SAGIA showed a dramatic increase in the number of licenses issued to international and domestic projects involving ventures valued at \$6.4 billion. That was an 800% increase over the same period in 2004. Saudi Arabia considers privatization to be a pathway to increased foreign investment.

There are different tax systems for Saudis and non-Saudis. Non-Saudi businesses are subject to a corporation tax of up to a maximum of 20% (with the exception of profits in the hydrocarbons sector, which are taxed on a sliding scale between 30% and 85%). Joint ventures between Saudis and non-Saudis are liable to tax on the non-Saudi portion of the profits.

### <sup>39</sup>ECONOMIC DEVELOPMENT

Saudi Arabia's first two development plans (1971–75 and 1976–80) stressed improvement of the country's economic infrastructure by expanding the highway system, port capacity, electric power output, water supply, and irrigated land. The third plan (1981–85), continuing the Saudi program of modernization without Westernization, aimed at diversifying and expanding the productive economic sectors of industry, mining, and agriculture. The government's long-term goal was to reduce the nation's dependence on oil exports and foreign labor. Expenditures for the 1981–85 plan were initially estimated (at current prices) at \$235.8 billion, compared with \$140 billion for the 1975–80 plan. At the end of the third development plan, most of the infrastructure had been put in place. The fourth development plan (1985–90) emphasized consolidation of the gains of the previous 15 years and rational planning of economic activity. From the plan's emphasis on cost reduction and improvement of economic performance, it was clear that it had been drawn up under the assumption that the days of huge surpluses in the oil sector were over. Planned expenditures for the fourth plan were reduced several times. The fifth plan (1990–95) followed the goals of the fourth plan closely. Stressing economic diversification, this plan supported industry, agriculture, finance, and business services. An important goal of the sixth plan (1995–2000) was to reduce water consumption by 2% annually over the plan's period. The seventh development plan (2000–05) was geared toward offering foreign investors opportunities to tap into sectors of the economy that had recently undergone privatization: health care, electrical power generation, and water desalination. In addition to privatization, the seventh development plan focused on diversification of national revenue resources, expansion of the production base, and the creation of more jobs for Saudis. During the five-year period, the government planned to create 817,000 new jobs for Saudi citizens (non-Saudi residents held 488,600 of those jobs at the time). The service sector was projected to realize the greatest increase in jobs. Funds were also devoted to the health care industry, including the construction of hospitals and medical colleges (some exclusively for women), and to education.

On 1 September 2005, the OPEC basket price of oil rose to \$61.37/barrel. This increase in oil prices reflected a strong increase in demand from China and other markets. The higher oil prices were forecast to boost Saudi Arabia's trade surplus in 2005 and 2006, implying that the current account surplus would also widen.

In 1999, Crown Prince (now King) Abdullah revitalized efforts to secure Saudi Arabia's acceptance in the WTO. In 2003, Saudi Arabia hired a Texas law firm to lobby on its behalf for accession to the WTO. In 2005, Saudi Arabia formally joined the WTO, winding up a 12-year negotiation process.

### <sup>40</sup>SOCIAL DEVELOPMENT

Social insurance provides health care, disability, death, old-age pension, and survivor benefits for workers and the self-employed, with some exclusions. There is a special system in place for government workers. Retirement is allowed at age 60. This system is funded by 9% payroll deductions from workers, 9% payroll contributions from employers, and some government funds. Firms

with 10 or more workers are required to provide 100% of wages for a month of sick leave and 75% of wages for two additional months.

The customs and regulations governing the behavior of women are strict even by the standards of the Islamic world. Despite the shortage of Saudi labor, the government is unsympathetic to the participation of women in the workplace: only 5% of the labor force is female. Extreme modesty of dress is required. Women wear the abaya, a long black garment, and they must also cover their face and hair. Women are not permitted to drive motor vehicles. Women must enter public buses through a rear door and sit in a segregated area. Women may not travel without a male member of the family. By law, women can only enter a hospital for treatment with the consent of a male relative. Domestic abuse is prevalent. As of 2004, there were no active women's rights groups.

The government does not recognize international standards on human rights. Rights of privacy, freedom of speech, the press, assembly, association, religion, and movement are strictly curtailed. Security forces commit human rights abuses with the acquiescence of the government, even though they are nominally illegal. Corporal punishment, including amputation of limbs, beheading, and stoning, are used. Executions are carried out for crimes including alcohol trafficking, armed robbery, adultery, and the practice of witchcraft. Most of those executed were foreigners.

### <sup>41</sup>HEALTH

The government budgeted SR63.9 billion for health and social services (of a total budget of SR497.6 billion). Targets included improving immunization coverage and achieving better regional coverage of health care provision (which remains inadequate). The public health care system is supplemented by a small but generally excellent private health sector. It is the government's intention to provide integrated health services free of charge, or at a nominal fee, to all citizens. The government also hopes to establish a local manufacturer of pharmaceuticals and medical equipment and supplies. As of 2004, there were an estimated 140 physicians, 17 dentists, 24 pharmacists, and 304 nurses per 100,000 people.

Despite recent advances, Saudi Arabia still suffers from severe health problems. A major cause of disease is malnutrition, leading to widespread scurvy, rickets, night blindness, and anemia, as well as low resistance to tuberculosis. Immunization rates for children up to one year old were tuberculosis, 93%; diphtheria, pertussis, and tetanus, 97%; polio, 97%; and measles, 94%. The rates for DPT and measles were 96% and 91%, respectively. Dysentery attacks all ages and classes and trachoma is common. A government campaign was successful in eradicating malaria. Typhoid is endemic, but acquired immunity prevents serious outbreaks of this disease. Approximately 95% of the population had access to safe drinking water and 100% adequate sanitation. The HIV/AIDS prevalence was 0.01 per 100 adults in 2003.

In 1960, life expectancy at birth was 43 years, but it averaged 75.46 years in 2005. During the same time period, infant mortality fell from 185 to 13.24 per 1,000 live births. It is estimated that the Bedouin account for about one-third of all infant deaths. The maternal mortality rate was 22 per 100,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at 37.2 and 5.9 per 1,000 people, respectively. Birth control was used by 21% of married women. Almost 97% of the population had ac-

cess to health care services. Total health care expenditures were estimated at 8% of GDP.

## 4<sup>2</sup> HOUSING

In 2000, there were about 3,427,670 occupied households in the country, serving about 20,846,884 people. About 32% of all occupied housing units were apartments, 29.8% were traditional single-family houses, and 20% were single-household villas. Most housing is constructed of concrete and brick. About 44.5% of all occupied housing is owner occupied.

The continuing influx of rural people to towns and cities, coupled with the rise in levels of expectation among the urban population, has created a serious housing problem; improvement in urban housing is one of Saudi Arabia's foremost economic needs. Some 506,800 dwelling units were built in the period 1974–85: 389,000 by the private sector, with the help of the Real Estate Development Fund, and 117,800 by the Deputy Ministry of Housing and other government agencies. In the oil districts, Aramco, through loans and other assistance, has encouraged construction of private homes and has built accommodations for its unmarried Saudi staff members. The Real Estate Development Fund, established in 1975, continues to provide interest-free loans for home construction to individuals as well as private companies.

## 4<sup>3</sup> EDUCATION

Until the mid-1950s, Saudi Arabia's educational system was primarily oriented toward religious schooling that stressed knowledge of the Quran (Koran) and Hadith (sayings of Muhammad and his companions). Except for basic arithmetic, reading, and writing, secular subjects were not taught in the schools. There was a highly developed oral culture, however. Nearly all of the students were boys; education of girls was virtually nonexistent and took place in the home, if at all. The first school for girls was built in 1964, and now girls' schools exist around the country. Schools continue to be segregated by gender. The General Presidency for Girls' Education administers girls' schools and colleges. By 1999, females accounted for 48% of primary enrollment and 46% of secondary enrollment.

Education is free at all levels, including college and postgraduate study. Elementary school covers six years of study. This is followed by three years of basic intermediate school. Students may then choose to attend either a three-year general secondary school or a three-year technical school (junior college) that offers vocational, commercial, and agricultural studies. The academic year runs from October to July.

In 2001, about 5% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 54% of age-eligible students. The same year, secondary school enrollment was about 53% of age-eligible students. It is estimated that about 74.8% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 12:1 in 2003; the ratio for secondary school was also about 12:1.

Higher education is offered in at least seven universities and 83 colleges. The principal universities are King Sa'ud University (formerly Riyadh University), founded in 1957, and King Abd al-'Aziz University of Jeddah, founded in 1967. In 2003, it was estimated that about 25% of the tertiary-age population was enrolled in ter-

tiary education programs. The adult literacy rate for 2004 was estimated at about 79.4%, with 87.1% for men and 69.3% for women.

As of 2003, public expenditures on education were estimated at 8.3% of GDP.

## 4<sup>4</sup> LIBRARIES AND MUSEUMS

The King Fahd National Library, founded in Riyadh in 1968, has 462,000 volumes. The largest library system is that of King Sa'ud University established in 1957, with 14 branches and a collection of more than 1.8 million volumes; the library at King 'Abd al-'Aziz University has 560,000 volumes. The library of the University of Petroleum and Minerals in Dhahran, with almost 335,000 volumes, is the nation's largest specialized collection. The largest public library, at Riyadh, contains 275,000 volumes.

There are 10,150 documented monuments and about a dozen museums in Saudi Arabia. The National Museum, originally opened at Riyadh in 1978, focuses on archaeology and ethnography. Major renovations were completed in 1999. Many of the other historic and cultural sites are religious in nature and the high figures for attendance reflect the huge numbers of Muslim pilgrims who visit the kingdom each year. Riyadh is also home to a local museum, an archaeological museum at King Sa'ud University, and a geological museum.

## 4<sup>5</sup> MEDIA

Postal, telephone, cable, and wireless services are regulated by the Ministry of Communications. Saudi Arabia is directly connected by radiotelephone to the United States, other Arab countries, and Western Europe, and automatic internal lines connect most of the major cities. In 2003, there were an estimated 155 mainline telephones for every 1,000 people; about 73,600 people were on a waiting list for telephone service installation. The same year, there were approximately 321 mobile phones in use for every 1,000 people.

The Broadcasting Service of the Kingdom of Saudi Arabia (BSKSA) is owned and operated by the state, sponsoring four television networks. Private broadcasters are not allowed in the country. However, there are millions of satellite dishes in the country receiving foreign broadcasts. The Ministry of Culture and Information oversees radio and television broadcasts, with the right to censor any references to religions other than Islam, politics, sex, alcohol, and pigs or pork. In 2003, there were an estimated 326 radios and 265 television sets for every 1,000 people. The same year, there were 130 personal computers for every 1,000 people and three of every 1,000 people had access to the Internet. There were 57 secure Internet servers in the country in 2004. All Internet servers are monitored by the government.

The first newspaper in what is now Saudi Arabia was *Al-Qiblah*, the official publication of King Hussein of Hijaz, founded in 1915. With the end of the short-lived Hijaz Kingdom in 1925, a Saudi-sponsored paper, called *Umm al-Qura* (*The Mother of Towns*, Mecca), was established. Newspapers are privately owned, but self-censorship is widely employed. The Ministry of Culture and Information appoints all editors-in-chief. Criticism of the fundamental principles of Islam and of basic national institutions, including the royal family, is not permitted. The largest Arabic daily papers (with 2002 circulations) are *Al-Asharq Al-Awsat* (*The Middle East*, 224,990); *Al-Riyadh* (150,000); *Okaz* (107,600); and *Al-*

*Jazirah* (*The Peninsula*, 94,000). Leading English-language dailies are the *Arab News* (110,000) and *Saudi Gazette* (50,000).

The government is said to severely limit freedom of speech and the press, punishing any criticism of Islam, the ruling family, or the government with detention and arrest.

#### 46 ORGANIZATIONS

Saudi social tradition, which emphasizes the exclusiveness of family, clan, and tribe, generally militates against the formation of other social organizations. The absence of political and economic organizations is also a result of the prevalence of tradition. However, there are chambers of commerce in Ad Dammām, Jeddah, Mecca, Medina, and Riyadh. The umbrella organization of the Council of Saudi Chambers of Commerce and Industry is in Riyadh.

There are several professional associations, particularly in medical and health care fields. Many of these, such as the Saudi Pediatric Association, promote public education and research while also serving as a professional networking organization. The King Faisal Center for Research and Islamic Studies serves as a multinational cultural and educational organization.

National youth organizations include the Saudi Arabian Assembly of Muslim Youth and the Saudi Arabian Boy Scouts Association. The World Assembly of Muslim Youth, based in Riyadh, offers a variety of camping, recreational, and educational programs for youth. There are a number of national and multinational sports associations based in the country, representing such pastimes as cricket, tennis, tae kwon do, and horse racing. Several sports associations are affiliated with the national Olympic Committee.

The Muslim World League works for the welfare of women and children. The Red Crescent Society and UNICEF are active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Saudi Arabia was once one of the hardest places in the world to visit due to heavy restrictions on tourism. In 2000, the government opened up the country and added tourist visas; the Tourism Higher Authority was also created to expand the tourism facilities. Every year, however, there is a great influx of pilgrims to Mecca and Medina. In 2004, almost two million pilgrims traveled to Mecca.

All visitors, including pilgrims, are required to have a passport valid for at least six months and an onward/return ticket. Visitors in transit or from a Gulf Cooperation Council country are not required to have a visa. Women must have proof of accommodations for their stay, and if they arrive alone, their sponsor or husband must pick them up at the airport. Women visitors are also not allowed to drive cars. Pilgrims who travel to Mecca are required to have the meningococcal vaccine. Precautions against typhoid, malaria, hepatitis, and meningitis are recommended for all who travel to Saudi Arabia.

There were 7,332,233 visitors who arrived in Saudi Arabia in 2003, 53% from the Middle East. Hotel rooms numbered 81,197, with an occupancy rate of 42%. The average length of stay that year was three nights.

Traditional sports include hunting with salukis, falconry, and horse and camel racing. Modern sports facilities include the Riyadh Stadium, complete with Olympic-standard running tracks and football (soccer) fields.

In 2004, the US Department of State estimated the daily cost of staying in Riyadh at \$250; in Jeddah, \$175; and other areas, \$186.

#### 48 FAMOUS SAUDIS

Although Saudi Arabia has a relatively short history as a nation-state, it is heir to an Islamic civilization that developed from the teachings of Muhammad (570–632), born of the tribe of Quraysh in Mecca. The branch of Islam that claims most contemporary Saudis is that preached by Muhammad bin ‘Abd al-Wahhab (1703?–91), a fundamentalist reformer.

The Saudi who has gained greatest renown outside the modern kingdom of Saudi Arabia is ‘Abd al-‘Aziz ibn ‘Abd ar-Rahman al-Faysal as-Sa‘ud, better known as Ibn-Sa‘ud (1880–1953), the father of his country. Forced into exile with his family at a young age, he reconquered his patrimony and left behind him the state of Saudi Arabia.

In 1964, Faisal (Faysal ibn-‘Abd al-‘Aziz as-Sa‘ud, 1906–75) was proclaimed king. In his role as prime minister, Faisal instituted many economic and social reforms, including the abolition of slavery. Upon his assassination in March 1975, he was succeeded as king and prime minister by Khaled (Khalid ibn-‘Abd al-‘Aziz, 1913–82). Together with Crown Prince Fahd ibn-‘Abd al-‘Aziz (1923–2005), King Khaled broadened the country’s development policies.

After Khaled’s death, Fahd became king; he pursued the same cautious program of modernization as his two predecessors. Abdullah bin Abdulaziz al-Saud (b.1924), Fahd’s half-brother and de facto ruler of the country since Fahd became incapacitated from a stroke in 1995, became king upon Fahd’s death in 2005. Ahmad Zaki Yamani (b.1930), a former minister of petroleum and mineral resources, gained an international reputation as a spokesman for the oil-exporting countries.

#### 49 DEPENDENCIES

Saudi Arabia has no territories or colonies.

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# SINGAPORE

Republic of Singapore

**CAPITAL:** Singapore

**FLAG:** The flag consists of a red stripe at the top and a white stripe on the bottom. On the red stripe, at the hoist, are a white crescent opening to the fly and five white stars.

**ANTHEM:** *Long Live Singapore.*

**MONETARY UNIT:** The Singapore dollar (s\$) of 100 cents is a freely convertible currency. There are coins of 1, 5, 10, 20, and 50 cents and 1 dollar and notes of 2, 5, 10, 20, 50, 100, 500, 1,000, and 10,000 dollars. s\$1 = us\$0.60606 (or us\$1 = s\$1.65) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is in force, but some local measures are used.

**HOLIDAYS:** Major Western, Chinese, Malay, and Muslim holidays are celebrated, some of which fall on annually variable dates because of the calendars used. Major holidays include New Year's Day, 1 January; Chinese New Year; Good Friday; Vesak Day (Buddhist festival); Labor Day, 1 May; Hari Raya Puasa (Muslim festival); National Day, 9 August; Hari Raya Haji (Malay Muslim festival); Dewali; Christmas, 25 December.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Republic of Singapore, the second-smallest country in Asia, consists of Singapore Island and several smaller adjacent islets. Situated in the Indian Ocean off the southern tip of the Malay Peninsula, Singapore has an area of 693 sq km (268 sq mi). Comparatively, the area occupied by Singapore is slightly more than 3.5 times the size of Washington, D.C. Singapore Island extends 41.8 km (26 mi) ENE–WSW and 22.5 km (14 mi) SSE–NNW and has a coastline of 193 km (120 mi), including about 84 km (52 mi) along the water channel between the island and the Malay Peninsula. Singapore is connected to the nearby western portion of Malaysia by a causeway 1,056 m (3,465 ft) in length across the narrow Johore Strait. Singapore's position at the eastern end of the Strait of Malacca, which separates western Malaysia and the Indonesian island of Sumatra, has given it economic and strategic importance out of proportion to its small size. Singapore's capital city, Singapore, is located on the country's southern coast.

## <sup>2</sup>TOPOGRAPHY

Singapore Island is mostly low-lying, green, undulating country with a small range of hills at the center. The highest point of the island is Bukit Timah (166 m/545 ft). There are sections of rain forest in the center and large mangrove swamps along the coast, which has many inlets, particularly in the north and west. Singapore's harbor is wide, deep, and well protected. The longest river, the Seletar, is only 14 km (9 mi) long.

## <sup>3</sup>CLIMATE

The climate is tropical, with heavy rainfall and high humidity. The range of temperature is slight; the average annual maximum is 31°C (88°F), and the average minimum 24°C (75°F). The annual

rainfall of 237 cm (93 in) is distributed fairly evenly throughout the year, ranging from 39 cm (15 in) in December to 28 cm (11 in) in May. It rains about one day in two.

## <sup>4</sup>FLORA AND FAUNA

Singapore Island is mostly denuded, the dense tropical forest that originally covered it being mostly cleared. There is some rain forest in the central area of the island, however, as well as extensive mangrove swamps along the coast. The greatest concentration of plant life can be found in the Bukit Timah Nature Reserve, one of the largest areas of primary rain forest in the country. Urban development has limited animal life. As of 2002, there were at least 85 species of mammals, 142 species of birds, and over 2,200 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Environmental responsibility for Singapore is vested in the Ministry of the Environment and its Anti-Pollution Unit. Air quality is protected by the Clean Air Act, as adopted in 1971 and amended in 1975 and 1980, and by the Clean Air (Standards) Regulations of 1975. Regulations limiting the lead content of gasoline were imposed in 1981, and emissions standards for motor vehicles were tightened in 1986. Air pollution from transportation vehicles is a problem in the nation's growing urban areas. In 1992, Singapore was among 50 nations with the world's highest levels of industrial carbon dioxide emissions, which totaled 49.8 million metric tons, a per capita level of 17.99 metric tons. In 2000, the total of carbon dioxide emissions was at 59 million metric tons.

Water quality is regulated through the Water Pollution Control and Drainage Act of 1975 and the Trade Effluent Regulations of 1976. Singapore does not have enough water to support the needs of its people. In total, the nation about has about 0.1 cu mi of wa-

ter. Four percent of the annual withdrawal is used for farming and 51% for industrial purposes. Pollution from the nation's oil industry is also a significant problem, and the cities produce about 0.9 million tons of solid waste per year. Wastewater is treated and recycled to conserve water supplies.

In 2003, only about 4.9% of the total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 3 types of mammals, 10 species of birds, 4 types of reptiles, 13 species of fish, 1 species of invertebrate, and 54 species of plants. Threatened species in Singapore include the Ridley's leaf-nosed bat, Chinese egret, yellow-crested cockatoo, batagur, tigers, and the Singapore roundleaf horseshoe bat.

## 6 POPULATION

The population of Singapore in 2005 was estimated by the United Nations (UN) at 4,296,000, which placed it at number 119 in population among the 193 nations of the world. In 2005, approximately 8% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.6%, a rate the government viewed as too low. The projected population for the year 2025 was 5,108,000. The population density was 6,929 per sq km (17,946 per sq mi). Singapore is virtually a city-state, and the entire population (100%) is considered urban.

## 7 MIGRATION

Singapore had only a few Malay fishermen as inhabitants at the time of its founding as a British trading post in 1819. It was subsequently and quite rapidly populated by immigrant peoples, primarily Chinese but also Malays (from Sumatra as well as adjacent Malaya) and Indians (who took advantage of common British governance to migrate to Singapore in search of better employment). Thus immigration, rather than natural increase, was the major factor in Singapore's fast population growth through the mid-20th century.

In November 1965, following separation from Malaysia, Singapore's newly independent government introduced measures to restrict the flow of Malaysians entering the country in search of work. These immigrants, who averaged 10,000 a year up to 1964, had to establish residence for several years to qualify for citizenship. In addition, all noncitizens were required to apply for a work permit or employment pass. Immigration is now generally restricted to those with capital or with special skills. There were 1,352,000 migrants living in Singapore in 2000. The number of foreign workers in Singapore jumped from 70,000 in 1975 to 600,000 in 2003. The share of foreigners in the workforce rose from 7% in 1975 to 25% in 2003. In 2004, there was a single refugee in Singapore and there were three asylum seekers.

In 2000, the net migration rate was 19.6 migrants per 1,000 population. This rate was significantly reduced by 2005 to an estimated 10.3 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The people of Singapore are predominantly of Chinese origin, with the ethnic Chinese accounting for about 76.8% of the popu-

lation. About 15% are Malays and 8% are Indians (including Pakistanis, Bangladeshis, and Sri Lankans).

## 9 LANGUAGES

There are four official languages in Singapore: Chinese (Mandarin dialect), Malay, English, and Tamil. English is the principal medium of government and is widely used in commerce; it is spoken by about 23% of the population. In 1987, under a government mandate, English was made the primary language of the school system. Mandarin is the most widely known language, spoken by about 35% of the population. Malay is spoken by 14% and Tamil by 3%. Other languages include Hokkien (11%), Cantonese (6%), and Teochew (5%).

## 10 RELIGIONS

The Chinese adhere in varying degrees to Buddhism, Taoism, and Confucianism. According to a 2000 census, these faiths, as well as traditional ancestor worship, were practiced by about 51% of the population. Malays and persons with origins in the Pakistani and Bangladeshi portions of the Indian subcontinent are almost exclusively Muslim. About 15% of the total population practices Islam. About 15% of the population is Christian, with Protestants outnumbering Roman Catholics by about two to one. Most of the Indian minority (4%) are Hindus. There are also small Sikh, Jewish, Zoroastrian, and Jain communities.

There is complete separation of state and religion in Singapore and freedom of religion is constitutionally guaranteed. However, all religious groups must be registered under the Societies Act, and the government has maintained a ban on the registration of Jehovah's Witnesses and the Unification Church. The government also has a semiofficial relationship with the Islamic Religious Council. One holiday from each of the nation's major religions (Islam, Christianity, Hinduism, and Buddhism) is recognized as a national holiday.

## 11 TRANSPORTATION

Singapore's history is partly the history of the island country's important regional role as a transportation link between East and West and between the mainland and insular portions of Southeast Asia. As long ago as 1822—only three years after the establishment of a British colonial presence on the island—1,575 ships called at the new port of Singapore from nearby islands, Europe, India, and China. With a natural deepwater harbor that is open year-round, Singapore now ranks as the largest container port in the world, with anchorage facilities that can accommodate supertankers. Ships of some 600 shipping lines, flying the flags of nearly all the maritime nations of the world regularly call at Singapore. In 2005, Singapore's merchant fleet comprised 923 ships of 1,000 GRT or more, totaling 23,065,290 GRT.

Commercial air service was inaugurated in Singapore in 1930. In 2004, there were 10 airports, 9 of which had paved runways as of 2005. The two principal air facilities are Changi International and Seletar Airport. Singapore's own carrier is Singapore Airlines. In 2003, about 14.737 million passengers were carried on scheduled domestic and international flights.

There were 3,130 km (1,947 mi) of roadways in 2002, all of which were paved, including 150 km (93 mi) of expressways. In 2003, there were 600,550 motor vehicles, of which 414,300 were

automobiles and 186,250 were commercial vehicles. Singapore's sole rail facility is a 38.6-km (24-mi) section of the Malayan Railways, which links Singapore to Kuala Lumpur. There is also an 83-km (52-mi) mass transit system with 48 stations.

## 12 HISTORY

Some historians believe a town was founded on the Singapore Island as early as the 7th century, while other sources claim that "Singapura" (Lion City) was established by an Indian prince in 1299. Historians believe that during the 13th and 14th centuries, a thriving trading center existed until it was devastated by a Javanese attack in 1377. Singapore, however, was virtually uninhabited when Sir Stamford Raffles, in 1819, established a trading station of the British East India Company on the island. In 1824, the island was ceded outright to the company by the Sultan of Johore, the Malay state at the extreme southern end of the peninsula. In 1826, it was incorporated with Malacca (Melaka, Malaysia) and Penang (Pinang, Malaysia) to form the Straits Settlements, a British Crown colony until World War II. The trading center grew into the city of Singapore and attracted large numbers of Chinese, many of whom became merchants.

With its excellent harbor, Singapore also became a flourishing commercial center and the leading seaport of Southeast Asia, handling the vast export trade in tin and rubber from British-ruled Malaya. In 1938, the British completed construction of a large naval base on the island, which the Japanese captured in February 1942 during World War II, following a land-based attack from the Malay Peninsula to the north.

Recaptured by the United Kingdom in 1945, Singapore was detached from the Straits Settlements to become a separate Crown colony in 1946. Under a new constitution, on 3 June 1959, Singapore became a self-governing state, and on 16 September 1963, it joined the new Federation of Malaysia (formed by bringing together the previously independent Malaya and Singapore and the formerly British-ruled northern Borneo territories of Sarawak and Sabah). However, Singapore, with its predominantly urban Chinese population and highly commercial economy, began to find itself at odds with the Malay-dominated central government of Malaysia. Frictions mounted, and on 9 August 1965, Singapore separated from Malaysia to become wholly independent as the Republic of Singapore. Harry Lee Kuan Yew, a major figure in the move toward independence, served as the country's prime minister from 1959 until 1990. Singapore, Indonesia, Malaysia, the Philippines, and Thailand formed the Association of South-East Asian Nations (ASEAN) in 1967.

The People's Action Party (PAP), founded in 1954, has been the dominant political party, winning every general election since 1959. The PAP's popular support rested on law-and-order policies buttressed by economic growth and improved standards of living. Although the PAP regularly carried 60–75% of the popular vote, it managed to capture virtually all seats repeatedly in the National Assembly. The PAP won all parliamentary seats in the general elections from 1968 to 1980. In the 1981 by-election, J. B. Jeyaretnam, secretary-general of the Workers' Party, won a seat; he maintained it in the 1984 general election. Chiam See Tong, leader of the Singapore Democratic Party (SDP), won another seat for the opposition in the same election. In March 1985, the third state president, Devan Nair, former trade unionist and member of



LOCATION: 1°9' to 1°29' N; 103°38' to 104°6' E. TERRITORIAL SEA LIMIT: 3 miles.

the Singapore's "old guard," resigned from office under allegations related to alcoholism. The new president, Wee Kim Wee, took office in August. In May and June 1987, the government detained 22 persons under the Internal Security Act (ISA) for alleged involvement in a "Marxist conspiracy." These detentions triggered international protests by those critical of the government's abuse of human rights, including detention without trial and allegations of torture. Most of the alleged conspirators were released by December, but eight were rearrested in April 1988 after issuing a joint press statement regarding the circumstances of their detention. Two of the eight remained in custody until June 1990.

The September 1988 general election took place under an altered electoral system that increased the total seats in parliament from 79 to 81. The new constituencies consisted of 42 single-member districts and the reorganization of the other 39 seats into 13 group representation constituencies (GRCs). Teams of three representatives for each party contested the GRCs, at least one of which must be from an ethnic minority, i.e., non-Chinese. Ostensibly, these changes were to ensure minority participation, but at the same time small and/or resource-poor opposition parties were handicapped by the requirement to field three candidates.

In November 1992, the media announced that Deputy Prime Minister Lee Hsien Loong (son of Lee Kuan Yew) and Ong Teng Cheong had been diagnosed with cancer. (The former was pronounced fully cured in 1994 but has been little seen in political

circles.) On 28 November 1990, Lee Kuan Yew, prime minister of Singapore for over 31 years, transferred power to Goh Chok Tong, the former first deputy prime minister. Lee remained in the cabinet as senior minister to the prime minister's office and retained the position of secretary-general of the PAP. Singapore's first direct presidential elections were held on 28 August 1993, with Ong Teng Cheong becoming the first elected president.

An incident that garnered worldwide attention was the Singapore government's October 1993 arrest of nine foreign youths charged with vandalism involving the spray painting of some 70 cars. Michael Fay, an 18-year-old American student and the oldest in the group, was suspected to be the leader. Under police interrogation Fay admitted his guilt and pleaded guilty in court to two counts of vandalism and one count of receiving stolen property. In March 1994, Fay was sentenced to four months in prison, a fine of US\$2,230, and six strokes of the cane. On 7 March 1994, President Bill Clinton urged Singapore to reconsider the flogging of Fay amid a failed appeal. A plea to the Singaporean president for clemency was rejected, but as a "goodwill gesture towards President Clinton," the sentence of caning was reduced from six strokes to four. The sentence was carried out on 5 May 1994.

In 1994, Singapore made international news when the government sued the *International Herald Tribune* for libel over an editorial the paper published suggesting that Prime Minister Goh was simply a figurehead and that ultimate power rested, as it always had, with Senior Minister and former Prime Minister Lee. The Singapore High Court, in a move that halted critical comments from the press, ruled in favor of the government and ordered the *Herald Tribune* to pay \$667,000 in damages to Goh, Lee, and Deputy Prime Minister Lee. In 1995, the government was again criticized in the international press, this time in the *New York Times*, in which columnist William Safire called the country a dictatorship. Singaporean leaders took center stage in the international arena and proclaimed their right to reject Western values. They claimed that Asian values eschewed the precedence of individual liberty over social stability and that these values promoted an increasingly wealthy, clean, and hospitable city-state devoid of social pathologies that plagued both the West and other large Asian cities. The subsequent sentencing, on 1 December 1995 of Nick Leeson, an investment banker who single-handedly destroyed Barings through speculative investments in the Japanese stock market, seemed to confirm the bankruptcy of individual greed.

Parliamentary elections were held in 1997 and, unsurprisingly, the PAP retained its vast majority—opposition parties won only 2 of 83 seats. One seat, that won by Tang Liang Hong, remained vacant in 1997 as Tang fled the country fearing government persecution—including lawsuits, freezing of bank accounts, and restrictions on travel—which began in earnest after his election. Tang's victory was seen as especially threatening to the rigid regime of the PAP because during the campaign, Tang had suggested that the English-speaking section of the ruling class monopolized power and that the Chinese needed to assert more control. These statements branded Tang as a Chinese chauvinist, an inflammatory label in the ethnically divided country.

From 1998 to 2005, an international piracy wave disturbed shipping in the Malacca Straits and Singapore Straits. Vulnerable small "feeder" ships that ferry cargo from massive container vessels too large to visit many ports were subjected to an increased

number of incidents, an increase in violence, and the death of crew members.

In 2000, while some tax cuts were rescinded, Singapore announced positive economic growth, coming after two years of budgetary uncertainty related to the Asian economic crisis. The government also announced a budget surplus. However, other directives were exerted in 2000 when the government controlled media banned an episode of an American television show in which the lead female character kisses another woman. Broadcasters' responsibilities extended to taking "action against overtly sexy or alternative themes."

On 28 April 2001, an unprecedented antigovernment rally was held, the first legally sanctioned demonstration outside of an election campaign. Over 2,000 people gathered in support of opposition leader J. B. Jeyaretnam, who faced bankruptcy and thus expulsion from parliament. Jeyaretnam owed hundreds of thousands of dollars in defamation lawsuits brought by senior government officials and their supporters.

In September 2001, Malaysia and Singapore came to a series of agreements over issues that had strained relations between them for years. Largely prodded by concern over the growing influence of Islam in Malaysian politics, Singapore agreed to a Malaysian proposal that the causeway linking the two countries be demolished and replaced by a bridge and undersea tunnel after 2007. Malaysia agreed to supply water to Singapore after two water agreements expire in 2011 and 2061. Also discussed were disputes over the use of Malaysian-owned railway land in Singapore, and requests by Singapore to use Malaysian airspace.

On 3 November 2001, parliamentary elections were held in which the PAP won 82 out of 84 seats. Opposition candidates contested only 29 of the seats. The next elections were to be held 25 June 2007.

Following the 11 September 2001 terrorist attacks on the United States, the United States urged countries around the world to increase antiterrorist measures. Southeast Asia was a primary focus of attention. In May 2002, the 10 members of ASEAN pledged to form a united antiterror front and to set up a strong regional security framework. The steps included introducing national laws to govern the arrest, investigation, prosecution, and extradition of suspects. As well, they agreed to exchange intelligence information and to establish joint training programs, such as bomb detection and airport security. As of December 2002, five of the ASEAN nations (Indonesia, the Philippines, Malaysia, Cambodia and Thailand) had acceded to the Agreement on Information Exchange and Establishment of Communication Procedures to fight terrorism and other transnational crime. Singapore said it was not ready to join the pact.

In December 2001, Singapore arrested 15 individuals believed to be part of a terrorist cell with links to Osama bin Laden's al-Qaeda network. Two suspects were released, but the others belonged to Jemaah Islamiya (JI), an Islamic organization with cells in Singapore, Malaysia, and Indonesia. The cell's plot was to destroy key buildings in Singapore, including the American Embassy. JI's ambition was initially to create an Islamic Indonesia. However, the group expanded its goals to include an Islamic archipelago, Dauliah Islam Nusantara, to include Malaysia, the southern Philippines, and Singapore in a larger Islamic Indonesia. In August 2002, Singapore arrested 21 terrorist suspects who had allegedly

carried out “reconnaissance and surveys” of potential terrorist attack targets in Singapore. They were purportedly members of Jamaah Islamiyah.

In 2003, Singapore was shaken medically and financially by SARS, or severe acute respiratory syndrome. As the disease was identified, Singapore took stringent precautions—closing markets, screening air passengers with thermal imaging, and establishing quarantines. About 33 people in Singapore died from SARS. A sharp economic contraction occurred as the illness also hit the economy hard. The service sector was worst hit as tourists stayed away and local people stayed home. Also in 2003, an unprecedented medical procedure to separate two adult Iranian sisters joined at the head was undertaken in Singapore by an international team of neurosurgeons. These efforts ended in failure, as the sisters died within one and a half hours of each other postoperatively as their circulation failed.

Also in 2003, subsequent to Singapore’s support of US policies on the war on terror and in Iraq, Prime Minister Goh Chok Tong signed a free trade agreement with the United States. Depicted as the “gold standard” for free trade agreements, it helped Singapore fix its position as a leading financial and trading nation in the region, especially after the Asian financial crisis of 1997 and 1998 and the effect of SARS in the region. Linked to Singapore’s economic recovery from SARS, Prime Minister Goh Chok Tong announced he would step down after the recovery. He also named his successor, Lee Hsien Loong, the elder son of Singapore’s founding father, Lee Kuan Yew. On 12 August 2004, Lee Hsien Loong took office as prime minister of Singapore in this planned handover of power. In this shuffle, Goh Chok Tong became senior minister and Lee Kuan Yew filled the newly created post of minister mentor, overseeing the cabinet.

Indonesia and Singapore pledged in 2005 to finalize their 1973 maritime boundary agreement by defining unresolved areas north of Batam Island. In August 2005, a prominent Hong Kong journalist, chief China correspondent for the *Straits Times* newspaper of Singapore, was formally charged by China for spying.

In a continuing effort to promote tourism, in April 2005, a controversial plan to legalize casino gambling was approved, paving the way for the construction of two multi-billion dollar casino resorts. As an added attraction, Singapore announced plans to build a giant Ferris wheel, the Singapore Flyer, 558 feet tall, towering over the 450-foot London Eye.

On 1 September 2005, Singapore’s President S.R. Nathan was sworn in for his second term of office without running for reelection because Singapore’s Presidential Election Committee had ruled that he was the only candidate fit for presidency. Three rivals had submitted candidacy papers to the committee, but they were disqualified as ineligible, thus canceling elections that would have been held on 27 August.

### 13 GOVERNMENT

The constitution of the Republic of Singapore, as amended in 1965, provides for a unicameral parliamentary form of government, with a president who, prior to 1991, served as titular head of state. Singapore practices universal suffrage, and voting has been compulsory for all citizens over 21 since 1959.

In 1993, the unicameral legislature consisted of an 81 elected-member parliament and six nominated members (NMPs) ap-

pointed by the president. The maximum term for parliamentary sessions is five years, although elections may be called at any time within that period. A general election is held within three months of dissolution. The number of parliamentary seats has increased with each general election since the seating of Singapore’s first parliament, from 58 seats (1968) to 60 seats (1972), 69 seats (1976), 75 seats (1980), 79 seats (1984), 81 seats (1988), and 84 seats (2002).

Until the 1988 election, all constituencies were single-member constituencies. In 1988, 60 of the original 81 constituencies (out of the increased number for 1988, i.e., from 79 in 1984 to 81 in 1988) were reorganized into 13 group representation constituencies (GRCs). In each GRC teams of three candidates must be fielded, one of who must be from a minority community, i.e., of an ethnic minority group, Malay, Indian, or an “Other” (all persons other than Chinese, Malay, or Indian). A 1984 constitutional amendment allowed for the presence of at least three opposition representatives as nonconstituency (nominated) members of parliament (NMPs), and in 1990, a law increasing their number was passed. Accordingly, up to six NMPs could be appointed from among opposition candidates who were unsuccessful in an election; these NMPs are given limited voting rights.

In the 1991 general election, 60 members were elected from the 15 four-member GRCs, 21 from single-member constituencies, and the president appointed 6 nominated members of parliament. Changes to the electoral procedures included the increase to a minimum of four candidates to contest a GRC and the maintenance of minority qualification for the one person representing the minority community.

The prime minister, who commands the confidence of a majority of parliament, acts as effective head of government. The prime minister appoints a cabinet that, in 1993, consisted of a senior minister, two deputy prime ministers, and 11 other ministers. Prior to 29 November 1991, the president of the republic was elected by parliament to a four-year term. Since 1991, under an amendment to the constitution passed by parliament, the president is no longer elected by parliament but by the electorate, and has custodial powers over the country’s reserves, as well as a major role in deciding key appointments to the judiciary, civil service, and statutory boards. The president is elected for a term of six years. The first direct presidential elections were held on 28 August 1993, electing Ong Teng Cheong. In July 1999, as his wife was dying of cancer, Ong announced he was not seeking a second term. Ong himself had been diagnosed with lymphoma in 1992, when he was deputy prime minister. He underwent treatment but the illness recurred in July 1998. Sellapan Rama (S. R.) Nathan was elected president unopposed on 28 August 1999. Ong died 7 February 2002. On 17 August 2005 Singapore’s President Nathan was formally reelected for a second term as president without a ballot cast. Similar to 1999, election officials disqualified other potential candidates on a range of technicalities.

Several constitutional reforms were enacted in 1996 and 1997. In 1996, parliament enacted governmental reforms limiting the power of the president, curtailing his veto power—only granted in 1991. Under the new rules, parliament can call a referendum if the president vetoes constitutional changes or other measures. In 1997, the number of nominated members of parliament increased from six to nine. However, the government also moved to tighten

control over the political process in 1999 with the PAP filing a petition to close the Workers Party for failure to pay damages and costs associated with a defamation case. Earlier in 1998, the government banned all political parties from producing videos and appearing on television to discuss politics.

For the scheduled 17 August 2005 presidential elections, the Singapore Malay National Organization called for a Malay president. The only Malay president, Yusof Ishak, held the office from 1965 to 1970. The elected presidency replaced a rotational process in 1993. Strict qualification rules make it difficult for many to qualify.

## <sup>14</sup>POLITICAL PARTIES

Singapore in the late 1980s was effectively a single-party state. The ruling People's Action Party (PAP) of former prime minister Lee Kuan Yew has dominated the country since 1959. In 1961, the radical wing of the PAP split from Lee's majority faction to form a new party, the Socialist Front (SF), also known as the Barisan Socialis. In 1966, 11 SF members resigned their seats in parliament, and 2 others joined the underground opposition to the Lee government, leaving the PAP as the sole party represented in parliament. In the general elections of 1972, 1976, and 1980, the PAP won all seats in parliament but carried a declining percentage of the total votes: 65 seats (84.4%); 69 seats (72.4%); and 75 seats (75.5%) (Far Eastern Economic Review—FEER, 77.7%), respectively. The Workers' Party (WP), the strongest opposition party, won its first parliamentary seat in a 1981 by-election; under its leader, Joshua B. Jeyaretnam, the WP has been critical of undemocratic practices within the PAP government. In the 1984 general elections, the PAP won 77 of the 79 seats, even though it captured only 62.9% of the popular vote, compared with 75.5% in 1980.

In the 1984, 1988, and 1991 general elections, opposition parties gained small ground, and the PAP continued to garner a declining percentage of the total votes: 77 seats (62.9%) PAP [FEER 64.8%], 1 seat Workers Party (WP), 1 seat Singapore Democratic Party (SDP); 80 seats (61.7%) PAP [FEER 63.2%], 1 seat SDP; 77 (61%) PAP [FEER 61%], 1 seat WP, 3 seats SDP, respectively. In the 1991 elections, Chiam See Tong was again the winner for the SDP, along with Ling How Doong and Cheo Chai Chen. The Workers' Party MP was Low Thai Khiang.

The two other seats went to J. B. Jeyaretnam (WP) and to Chiam See Tong of the Singapore Democratic Party (SDP), the two main opposition parties, which are tolerated but subject to almost continual harassment by the government. For instance, in 1984, Jeyaretnam was accused of making false statements involving irregularities in the collection of the WP's funds; he was acquitted of two of three charges and fined. In 1986, the government appealed the case and the higher court set aside the initial judgment; Jeyaretnam was again fined and jailed for one month, enough to disqualify him from parliament and ban him from contesting elections for five years. On the basis of his criminal convictions he was disbarred and denied a pardon. He was refused permission to appeal against the conviction and sentence that resulted in his disqualification as an MP. But on appeal to the Privy Council against the decision to disbar him, he was vindicated and allowed to practice law again. In October 1991, Jeyaretnam avoided bankruptcy by paying legal costs in a defamation suit he lost, filed by Lee Kuan Yew over remarks made by Jeyaretnam in a 1988 election rally.

On 10 November 1991, the ban on Jeyaretnam standing election expired. By avoiding bankruptcy, he would be able to contest the by-elections that Prime Minister Goh had promised to hold in the next 12–18 months. However, the WP failed to field the four required candidates for a group represented constituency (GRC).

Then, in March 1993, Dr. Chee Soon Juan, an opposition politician from the SDP who ran against Prime Minister Goh Chok Tong in the 1992 by-election, was expelled from his post as lecturer in the Department of Social Work and Psychology at the National University of Singapore (NUS) based on claims of "dishonest conduct" for using us\$138 out of his research grant to courier his wife's doctoral thesis to a US university. In the end, Dr. Chee ended up losing his case to be reinstated.

The main opposition parties are the SDP and the WP. Smaller minority parties are the United People's Front, which is also critical of antidemocratic aspects of the government rule and pro-Malaysian; the Singapore Malays' National Organization; and the Singapore Solidarity Party, formed in 1986 by three former leaders of the SDP. There were 22 registered political parties at the beginning of 1993: The Singapore Chinese Party; Persatuan Melayu Singapura; Partai Rakyat, Singapore State Division; Angkatan Islam; The Workers' Party; Pertubohan Kebangsaan Melayu Singapura; People's Action Party (PAP); United People's Party; Barisan Socialis (BS), Socialist Front (SF); Parti Kesatuan Ra'ayat (United Democratic Party); Singapore Indian Congress; Alliance Party Singapura; United National Front; National Party of Singapore; People's Front; Justice Party, Singapore; Democratic Progressive Party; People's Republican Party; United People's Front; Singapore Democratic Party (SDP); National Solidarity Party (NSP); Singapore National Front. The Malay Communist Party and the underground Malaysian National Liberation Front are illegal.

In 1997, parliamentary elections were held and, again, the PAP maintained its virtual monopoly of seats. Of 83 seats up for election, the long-ruling party captured 81, with 47 unopposed. The opposition leaders Jeyaretnam and Tang Liang Hong, both with the WP, won seats. After the election, in a move that has been commonplace in Singapore, leaders of the PAP, including Prime Minister Goh and Senior Minister (and longtime leader) Lee, sued Tang for defamation. Tang promptly fled the country, saying he feared for his safety as the government froze his assets and imposed travel restrictions on his family. Jeyaretnam continued to face bankruptcy and the loss of his parliamentary seat as well, from a defamation payment awarded against him for allegedly defaming a PAP parliamentarian and nine other members of the Tamil community in an article written by a colleague in 1995. In the 1997 elections, the SDP lost all three seats it had won in the 1991 round.

In parliamentary elections held on 3 November 2001, the PAP won 82 out of 84 seats with 75.3% of the vote. Opposition candidates contested only 29 of the seats. The WP took one seat, as did the Singapore Democratic Alliance (SDA), which includes the Singapore People's Party (SPP), Singapore Democratic Party (SDP), National Solidarity Party, Singapore Justice Party, and Singapore Malay National Organization. The opposition parties complained that constituency changes and a range of regulations imposed by the PAP made it more difficult for them to win votes. The Parliamentary Elections Act was amended, curbing the use of the Internet for political campaigning and banning the publication of

opinion polls during elections. The next parliamentary elections were to be held 25 June 2007.

## **<sup>15</sup>LOCAL GOVERNMENT**

Singapore, veritably a city-state, has no local government divisions. When the People's Action Party (PAP) came to power in 1959, the postcolonial city council was abolished. The former city council and rural board were integrated into departments of the central government. The Town Councils Act, enacted in June 1988, reintroduced a local organizational structure. Town councils were formed to take over the management and maintenance of the common properties of housing estates within towns. As of 1 March 1991, 27 town councils had been formed. After the general elections of August 1991, five town councils were dissolved and three new town councils were established, bringing the number of town councils to 25. In 1997, the number of town councils was reduced to 16.

Prime Minister Goh announced the creation of Community Development Councils (CDCs) in 1996. Set up after the 1997 general election as social parallels to the town councils, the CDCs were established to improve community bonding and to manage a spectrum of social services, from child care centers to public welfare assistance. Originally nine CDCs were established; in November 2001, their number was reduced to five. They are South West, North West, Central Singapore, South East, and North East. They are managed by a council comprising a mayor and between 12 and 80 council members.

In 2005, a Campaign Against Dengue was launched in Singapore, with town councils playing a major oversight role. Town councils stepped up checks for mosquitoes, as dengue cases soared to 9,540 cases by mid-September, already surpassing the 2004 total of 9,459.

## **<sup>16</sup>JUDICIAL SYSTEM**

Singapore's legal system is based on British common law. The judiciary includes the Supreme Court as well as subordinate courts. The subordinate courts include the magistrates' courts, trying civil and criminal offenses with maximum penalties of three years' imprisonment or a fine of \$60,000; the district courts, trying cases with maximum penalties of 10 years' imprisonment or a fine of \$250,000; the juvenile courts, for offenders below the age of 16; the coroners' courts; and the small claims courts, which hear civil and commercial claims for sums of less than \$10,000. The Supreme Court is headed by a chief justice and is divided into the High Court, the Court of Appeal, and the Court of Criminal Appeal. The High Court has unlimited original jurisdiction in both criminal and civil cases but ordinarily chooses to exercise such jurisdictional authority only in major cases. In its appellate jurisdiction, the High Court hears criminal and civil appeals from the magistrates' and district courts. Appeal in a civil case heard by the High Court in its original jurisdiction goes to the Court of Appeal, and in a criminal case, to the Court of Criminal Appeal.

In 1993, the former Court of Appeal (for civil cases) and the Court of Criminal Appeal were combined to form a single Court of Appeal. This reform was part of an overall plan for the eventual elimination of referrals to the Privy Council in London. All appeals to the Privy Council in London were eliminated in 1994.

The president appoints judges of the Supreme Court on the recommendation of the prime minister after consultation with the chief justice. A Legal Service Commission supervises and assigns the placement of the subordinate court judges and magistrates who have the status of civil servants; however, the president appoints subordinate courts judges on the recommendation of the chief justice. While the constitution provides for an independent judiciary and the judicial system provides a fair and efficient judicial process, the Internal Security Act allows the government to arrest, detain, and prosecute those who are deemed to threaten national security. Defendants have the right to be present at the trials, to have an attorney, and to confront witnesses against them.

## **<sup>17</sup>ARMED FORCES**

In 2005, Singapore's armed forces numbered 72,500 active personnel, supported by 312,500 reservists. The Army had 50,000 personnel, including a single Rapid Deployment division and three combined arms divisions. Equipment included 100 main battle tanks, 350 light tanks, 294 armored infantry fighting vehicles, over 1,280 armored personnel carriers, and more than 286 artillery pieces. The Navy had 4,000 active personnel. The fleet's major units included three tactical submarines, six corvettes, and 17 patrol/coastal vessels. The Air Force totaled 13,500 personnel with 111 combat-capable aircraft that included 43 fighters, 44 fighter ground attack aircraft, and 28 attack helicopters. Paramilitary forces numbered 93,800 active members and included the Singapore Police Force (12,000), an 81,800-member civil defense force, and a 1,500-man contingent of gorkha troops. The 2005 defense budget totaled \$5.57 billion.

## **<sup>18</sup>INTERNATIONAL COOPERATION**

Having joined the United Nations (UN) on 21 September 1965, Singapore participates in ESCAP and several nonregional specialized agencies, such as the IAEA, the World Bank, ILO, UNCTAD, and the WHO. Singapore served on the UN Security Council in 2001–02. It is a participant in APEC, the Asian Development Bank, the Colombo Plan, the WTO, the Commonwealth of Nations, the Alliance of Small Island States (AOSIS), and G-77. Probably its most important international association is its membership—along with Cambodia, Laos, Myanmar, Vietnam, Indonesia, Malaysia, Thailand, the Philippines, and Brunei—in ASEAN, the Association of South-East Asian Nations. Singapore has played a leading part in this important regional grouping, which has sought to maximize economic cooperation among its member states, to regularize political consultation on the part of the constituent governments, and to limit foreign political and military interference in the area. Singapore is part of the Nonaligned Movement.

In environmental cooperation, Singapore is part of the Basel Convention, the Convention on Biological Diversity, CITES, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## **<sup>19</sup>ECONOMY**

Historically, Singapore's economy was based primarily on its role as an entrepôt for neighboring countries due to its strategic geographic location at the entrance to the Strait of Malacca. It did not have minerals or other primary products of its own to export,

but it served a major economic function by processing and transshipping the goods of nearby lands. Its most significant natural resource is a deep water harbor. As a result of these circumstances, Singapore became highly active in shipbuilding and repair, tin smelting, and rubber and copra milling. Until about 1960, however, its economy was frequently shaken by major fluctuations in its export earnings (particularly from rubber and tin) as a consequence of often adverse commodity and price trends. Since the early 1960s, Singapore has attempted to break away from this economic pattern. Its government embarked on an ambitious and largely successful program of promoting industrial investment (both from abroad and locally), developing industrial estates, and providing industrial financing and technical services.

By the early 1980s, Singapore had built a much stronger and diversified economy, which gave it an economic importance in Southeast Asia out of proportion to its small size. Government plans during the first half of the 1980s called for realigning industrial activities from traditional labor-intensive, low-wage activities to capital-intensive, high-wage and high-technology activities, notably the electronic industries and oil refining. In 1985, however, Singapore's economy declined for the first time in 20 years. One of the reasons for the decline was high wages, which made Singaporean products less competitive on the world market. Other reasons for the economic downturn included a slumping demand for oil and electronic products and the economic woes of Malaysia, Indonesia, and other important trading partners.

By the late 1980s, Singapore had begun to further diversify its economy, making it capable of providing manufacturing, financial, and communications facilities for multinational firms. In the late 1980s, one of the fastest-growing sectors of Singapore's economy was international banking and finance, accounting for some 25% of GDP. It ranked behind Tokyo and Hong Kong among financial service centers in the Southeast Asia region. In 1989, earnings from manufacturing accounted for 30% of GDP. Manufacturing accounted for 24.3% of GDP in 2002.

In the 1990s, productivity increased, as did labor costs. Export growth in high-technology manufactured goods signaled Singapore's success in shifting to higher value added production. The electronics industry accounted for the largest share of value-added in manufacturing. Manufacturing was dominated by the production of computer peripherals and oil processing. Between 1992 and 1995, property prices doubled, reaching their peak in 1996. In the five years 1993 to 1997, GDP growth averaged 8.84%. In June 1997, Hong Kong reverted to Chinese rule, which was one trigger for the Asian financial crisis. In Singapore, GDP growth dropped to 1.5% in 1998 and residential property prices fell 40%. Singapore's sensitivity to the external economic environment, with trade running 300% of GDP, is extreme. Nevertheless, Singapore weathered the crisis without a contraction, and in 1999, growth recovered to 5.4%. Driven by the worldwide boom in information technology (IT) demand and robust recoveries in domestic consumption and investment, GDP growth soared to 9.9% in 2000. However, the dot.com bust in 2001 led to the economy's first yearly contraction since 1985, 2%. Recovery began in the second quarter of 2002, and though weak because of continued low export demand, growth was a positive 2.2% for the year. GDP growth in 2003 was a sluggish 0.8%, but in 2004 it soared to an estimated 8.4%, thanks to the recovery of the tourism sector, double-digit

retail sales gains, rising investment rates, increased manufacturing production, and the construction industry's recovery from a two-year slump, among other factors. Real GDP growth was estimated at a more moderate 4.9% in 2005, due to a global electronics downturn and a slowdown of the US economy. GDP growth was forecast to average 4.5% a year in 2006–07. GDP growth averaged 3.1% over the 2001–05 period.

Constraints on Singapore's economic performance are labor shortages, rising labor costs, and declines in productivity. Singapore maintains one of the most liberal trading regimes in the world, and has regularly been ranked one of the least corrupt and most competitive countries. The government is a major and active player in the economy, owning substantial productive assets (land and capital). The government directs and targets the economy through laws, regulations, and incentives and participates in business ventures through Singapore's unique hybrid, the government-linked company (GLC). Unemployment rose to 4.7% in 2001 and remained above 4% throughout 2002, a high level for Singapore. Unemployment stood at 4.8% in 2003 and was estimated at 3.4% in 2004. Inflation over the 2001–05 period averaged 0.6%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Singapore's gross domestic product (GDP) was estimated at \$131.3 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$29,700. The annual growth rate of GDP was estimated at 4.5%. The average inflation rate in 2005 was 0.3%. It was estimated that agriculture accounted for 0% of GDP, industry 33.6%, and services 66.4%.

Foreign aid receipts amounted to \$7 million (about \$2 per capita) and accounted for approximately 0.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Singapore totaled \$39.41 billion (about \$9,272 per capita) based on a GDP of \$92.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003, household consumption grew at an average annual rate of 5.4%. Approximately 15% of household consumption was spent on food, 5% on fuel, 3% on health care, and 14% on education.

## 21 LABOR

In 2005, Singapore's workforce was estimated at 2.19 million. In 2003, manufacturing accounted for 18%; construction 6%; transportation and communication 11%; financial, business, and other services 49%; and other undefined occupations at 16%. About 24% of the labor force consists of some 600,000 foreign workers. The unemployment rate was estimated at 3.4% in 2005.

In 2001, there were 72 registered trade unions in Singapore, with some 350,000 members. All but nine were affiliated with Singapore's National Trade Unions Congress (which represents, as a result, about 99% of the country's organized workers). The government generally asserts a strong influence over trade policies.

Workers have the right to strike but rarely do so. Collective bargaining is utilized.

The standard legal workweek is 44 hours, with one day off each week. An annual bonus equal to at least one month's salary is customarily paid. Minors as young as 12 may work with the permission of the commissioner of labor, but there are few applications for such permission and one has never been granted. In practice, the minimum working age is 14 and violations of this regulation are very rare. The government has set minimum workplace health and safety regulations that are effectively enforced. There is no minimum wage.

## 22 AGRICULTURE

Urbanization and industrialization have taken ever larger amounts of land away from agricultural activity in post-World War II Singapore. (World War II was fought 1939–45.) Many of the rubber and coconut plantations that dominated Singapore's landscape before the war have disappeared altogether. Housing for a growing population—and factories for its employment—stand where rubber and coconut trees used to grow. Nonetheless, agriculture remains part of Singapore's total economic activity. Growing methods on the island are the most intensive in all of Southeast Asia.

About 3% of the land area is used for farming, and vegetables remain a significant source of income. Remarkably, through the decades of the 1960s and 1970s and into the 1980s, Singapore was able to increase its primary produce annually through intensification. In 2004, production of fresh vegetables totaled 5,000 tons, resulting in a decreased need to rely on foreign produce imports. Singapore's trade deficit in agricultural products was us\$1.36 billion in 2004. Orchids are grown for export.

## 23 ANIMAL HUSBANDRY

Singapore has been self-sufficient (or nearly so) in the production of pork, poultry, and eggs since 1964, a notable achievement considering the modest amount of land available and the demands of growing urbanization and industrialization. The bird flu virus, which has affected a number of chicken-producing countries in East Asia since 2004, has created an atmosphere of uncertainty for chicken traders in Singapore. Hog and poultry farming together constitute Singapore's largest primary products industry. However, hog farming is being phased out because of environmental pollution; domestic pork requirements are increasingly being met by imports. In 2005, the livestock population included two million chickens and 200,000 pigs. That year, about 22,000 tons of eggs were produced.

The Pig and Poultry Research and Training Institute and Lim Chu Kang Veterinary Experimental Station conduct research on feeding, housing, breeding, management, and disease control.

## 24 FISHING

Local fishermen operate chiefly in inshore waters, but some venture into the South China Sea and the Indian Ocean. Traditional fishing methods are in use along coastal waters, but there is a trend toward mechanization in both offshore and deep-sea fishing. In 2003, Singapore's fishermen caught 7,109 tons of fish (71% aquaculture).

All fresh fish are auctioned at the Jurong Central Fish Market or at the Punggol Fishing Port and Wholesale Fish Market. The Ju-

rong facility provides modern shore-support assistance and processing plants. Aquaculture concentrates on the breeding of grouper, sea bass, mussels, and prawns. A marine fish-farming scheme to encourage aquaculture in designated coastal waters was implemented in 1981; by the end of 1985, 60 marine fish farms were in operation. In 2003, exports of fish products were valued at us\$315 million.

## 25 FORESTRY

In 2000, about 3.3% of Singapore's land area was classified as forest. There is little productive forestry left on the island, but Singapore continues to have a fairly sizable sawmilling industry, processing timber imported largely from Malaysia (with some additional imports from Indonesia). Both Malaysia and Indonesia are expanding their processing capacities, however, and the industry is declining in Singapore in the face of the government's policy shift to high-technology industries. Roundwood imports totaled 34,900 cu m (1,232,000 cu ft) in 2004. Imports of forestry products totaled us\$533.1 million, while exports amounted to us\$451.3 million.

## 26 MINING

There is no mining in Singapore. However, although the city-state has limited natural resources, it is one of the most important shipping centers in the world. Singapore has the world's third-largest oil-refining center, behind Houston and Rotterdam, and the major oil and metal futures trading market in Asia. The production of chemicals was the second leading industry in 2002, and the manufacture of oil drilling equipment and petroleum refining ranked fourth and fifth, respectively. Chemicals, mineral fuels, and petroleum products ranked among the top five export commodities. Singapore has no integrated cement plant and local operations ground imported clinker to produce cement.

## 27 ENERGY AND POWER

Singapore's total electrical generating capacity in 2002 was estimated at 7.657 million kW. All power was generated thermally, largely from imported mineral fuels. Production of electricity generated in 2002 totaled 32.585 billion kWh, with demand put at 30.304 billion kWh. Three subsidiaries of Singapore Power (PowerSeraya, Senoko Power and Tuas Power) generate 90% of Singapore's power. Another subsidiary of Singapore Power (PowerGrid) operates and maintains the country's electric power distribution and transmission system.

Although Singapore must import all the oil and natural gas it consumes, the country is a major petroleum-refining center. As of 1 January 2005, Singapore's crude oil refining capacity was estimated at 1.3 million barrels per day. In 2002, refined oil product output averaged 814,100 barrels per day. All petroleum product imports in 2002 averaged 1,619,810 barrels per day, of which 813,210 barrels per day were crude oil. Exports of refined petroleum products in 2002 averaged 917,900 barrels per day. Domestic demand for refined oil products averaged 698,050 barrels per day. Consumption and imports of natural gas in 2002 each totaled 41.67 billion cu ft. Imports of coal in 2002 totaled 11,000 short tons.

## 28 INDUSTRY

Singapore's major industries were once rubber milling and tin smelting. The modern industrialization of Singapore began in 1961 with the creation of the Economic Development Board to formulate and implement an ambitious manufacturing scheme. Most of the first factories set up under this program were of an import-substitute nature requiring tariff protection, but many such protective tariffs were subsequently withdrawn. Large-scale foreign manufacturing operations in Singapore commenced in 1967 with the establishment of plants by several major multinational electronics corporations. The Jurong Town Corporation was established under the Jurong Town Corporation Act of 1968 to develop and manage industrial estates and sites in Singapore. The emphasis was on upgrading facilities to attract high-technology and skill-intensive industries. The manufacturing sector grew by an average annual rate of about 20% during the 1962–74 period, and it registered an average annual increase of over 10% from 1975 to 1981.

Industry's share of GDP rose from 12% in 1960 to 29% in 1981. Such dramatic achievements were in large measure made possible by the existence of one of the most developed economic infrastructures in Southeast Asia, as well as by government efforts to provide a skilled, disciplined, and highly motivated workforce. Labor-intensive operations are encouraged to move offshore by the government, and service and high-technology industries are encouraged. Major industries are electronics, financial services, oil-drilling equipment, petroleum refining, rubber processing and rubber products, processed food and beverages, ship repair, and biotechnology. The most important manufacturing sector is electronics. During the 1990s, Singapore was the world's leading producer of computer disk drives, and as of the mid-2000s, there has been significant investments in wafer-fabrication plants. However, this dependence upon electronics can have negative consequences as well as positive ones: When world demand for electronics declines, Singapore is hard hit. In 1998, industry accounted for 35% of GDP, and manufacturing for 22%. In 2001, industry contributed 33% of GDP and employed about 33% of the labor force. In 2004, industry contributed 36.2% of GDP and employed about 24% of the labor force. Of the components of the industrial sector, manufacturing contributes about 25% to GDP and construction about 6.8%. Within manufacturing, electronics account for about half of manufactured output, with chemicals second. The electronics sector accounts for about 48% of investment in manufacturing; chemicals about 24%; engineering, 17%; and the biomedical sector about 9%.

Petroleum refining is a well-established industry in Singapore. After Rotterdam and Houston, Singapore is the world's third-largest refining center. Production capacity from its three main refineries (capable of processing 40 different types of crude oil) was 1.3 million barrels per day in 2005. The petrochemical industry has grown rapidly as a direct result of Singapore's refinery capacity. A large project to reclaim seven islands to form a 12-sq mi petrochemical complex on Jurong Island was due to be completed in mid-2006. A \$200 million synthetic gas plant has been built on Jurong Island by the Messer Group of Germany and Texaco of the United States. Also, Singapore's second naphtha cracking plant was launched in 2002 by the Petrochemical Corporation of Singapore and its partners, Phillips Petroleum, the Polyolefin Co., Hoechst,

and Seraya Chemicals. The Petrochemical Corporation of Singapore is a government-linked company (GLC). GLCs are majority government owned but operate commercially, unlike traditional parastatals. GLCs account for more than 60% of Singapore's GDP. Industrial GLCs include Singapore Technologies (aerospace and electronics manufacturer); Keppel Corporation (oil drilling and related equipment manufacturer); Sembawang Corporation (construction and environmental engineering); Chartered Semiconductor Manufacturing; Singapore Telecom Petrochemical Corporation of Singapore; and Singapore Refining Corporation.

## 29 SCIENCE AND TECHNOLOGY

The Science Council, established in 1967, advises the minister for trade and industry on scientific and technological matters relating to research and development (R&D) and to the training and utilization of manpower. The Singapore National Academy of Science promotes the advancement of science and technology, and the Singapore Association for the Advancement of Science, founded in 1976, disseminates science and technology. Other major scientific and technical learned societies and research facilities include an academy of medicine, an institute of physics, an institute of technical education, botanical gardens, a mathematical society, and a medical association. Scientific education is stressed at the university level and supported by training programs for more than 20,000 students (1990) in the nation's technical and vocational institutes. Special centers have been established for research on cancer, human reproduction, viruses, and immunology. Two new research institutions were established in 1985: the Institute of Systems Science, which does research in the area of information technology, and the Institute of Molecular and Cell Biology, a center for biotechnological research. The Singapore Science Park, located near the National University of Singapore, was developed in 1987. In 1993, the National Computer Board announced an effort to create an "intelligent island" through an information infrastructure linking all of Singapore.

In 2002, there were 4,352 scientists and engineers and 381 technicians engaged in R&D per million people. In that same year, high-technology exports were valued at \$63.792 billion and accounted for 60% of the country's manufactured exports.

In 1991, the government announced a \$250 million spending program to create science and high-technology parks. Expenditures for R&D in 2002 totaled \$2,188.905 million, or 2.19% of GDP. Of that amount, the business sector accounted for the largest portion at 49.9%, followed by the government at 41.8%. Higher education, private nonprofit organizations, and foreign sources accounted for 0.7%, 0.5%, and 7.2%, respectively.

Courses in basic and applied sciences are offered at Nanyang Technical University (founded in 1981), the National University of Singapore (founded in 1980 by merger), Ngee Ann Polytechnic (founded in 1963), Singapore Polytechnic (founded in 1954), and Temasek Polytechnic (founded in 1990).

## 30 DOMESTIC TRADE

Marketing has always been an activity in which Singapore's Chinese, Indian and Arab merchants have played a major role. Their participation has increased in recent years as local branches of European firms have become less important. Warehousing, packag-

ing, freight forwarding, and related services are of a high standard. A wide range of consumer goods, such as luxury, electronic, hand-icraft, and food items, are available in Singapore from international department stores, brand name specialty stores, local department store chains, and neighborhood shops and markets. Prices are fixed in most larger retail establishments; however, haggling is still common in smaller shops. Within the industrial sector, prices are inflated to account for bargaining.

Advertising is done by radio and television, outdoor displays, slides in motion picture theaters, and newspapers. There are several advertising agencies. Consumers are highly brand conscious, and advertising concentrates considerably on product trademarks.

Usual business hours are 9 AM to 5 PM, with many businesses closed from 1 PM to 2 PM. Most major enterprises and foreign firms operate Monday through Friday and are open a half day on Saturday. A number of Chinese and Indian businesses maintain longer hours, with some open seven days a week. Bank hours are 9:30 AM to 3 PM, Monday through Friday, and Saturday from 9:30 AM to 1 PM. Government offices are open from 8 AM to 5 PM Monday through Friday, and 8 AM to 1 PM on Saturday. Retail stores are open from 10 AM to 9 PM Monday through Saturday, with most shops also open on Sunday.

### 3<sup>1</sup> FOREIGN TRADE

Since World War II, Singapore has changed from an entrepôt center for the incoming and outgoing traffic of its neighbors in Southeast Asia to an exporting power in its own right. The leading exports of the mid-1960s—rubber, coffee, pepper, and palm oil—were replaced in the early 1980s by a variety of capital-intensive manufactures. Except for an occasional slowdown, annual levels of trade regularly record double-digit expansion. During the late 1990s, expansion in the high-end manufacturing and services sectors began replacing capital-intensive production. The total value of trade in goods (exports and imports) was equivalent to 273% of GDP in 2002. This figure included a large volume of re-export trade, which is encouraged by Singapore's favorable location in the Strait of Malacca and its excellent port facilities. Re-exports accounted for 47% of total exports in 2002. Exports reached

#### Principal Trading Partners – Singapore (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	144,194.7	127,935.4	16,259.3
Malaysia	22,782.3	21,547.9	1,234.4
United States	20,559.5	17,982.7	2,576.8
China, Hong Kong SAR	14,423.3	3,089.1	11,334.2
China	10,129.0	11,068.2	-939.2
Japan	9,690.9	15,393.0	-5,702.1
Other Asia nes	6,897.9	6,467.1	430.8
Thailand	6,150.8	5,504.8	646.0
Korea, Republic of	6,058.6	4,959.5	1,099.1
Australia	4,679.1	2,184.8	2,494.3
Netherlands	4,618.6	1,089.8	3,528.8

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Singapore (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>28,187.0</b>
Balance on goods		29,319.0
Imports	-128,490.0	
Exports	157,809.0	
Balance on services		1,137.0
Balance on income		-1,125.0
Current transfers		-1,144.0
<b>Capital Account</b>		<b>-168.0</b>
<b>Financial Account</b>		<b>-25,110.0</b>
Direct investment abroad	-5,536.0	
Direct investment in Singapore	11,409.0	
Portfolio investment assets	-11,265.0	
Portfolio investment liabilities	363.0	
Financial derivatives	...	
Other investment assets	-18,792.0	
Other investment liabilities	-1,289.0	
<b>Net Errors and Omissions</b>		<b>3,770.0</b>
<b>Reserves and Related Items</b>		<b>-6,679.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

168% of GDP in 2004. (Exports can count for more than 100% of GDP because most of the components used to produce them are imported.)

Most of the advanced electronics that Singapore exports also make up a substantial percentage of the world export market. Because electronics are vulnerable to the vagaries of world demand, however, Singapore has taken steps to revive domestic consumption.

Singapore's main trading partners are the ASEAN group—principally Malaysia—the United States, China and Hong Kong, and Japan.

Singapore's main exports in 2004 were electronics (22.7% of total exports); oil (11.1%); petroleum products (9.4%); and telecommunications apparatus (1.6%). Major imports in 2004 included machinery and equipment (58.6% of total imports); oil (15%); manufactured goods (6.7%); and chemicals and chemical products (6.5%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

The traditional current account surplus is largely due to demand for non-oil exports (especially electronics) from the United States, Japan, and regional countries with electronics production facilities. The account also benefits from high net investment income receipts. Total official reserves are estimated to be equal to 8.8 months of imports. A sharp contraction of imports in 1998 due to the financial crisis caused a high current account surplus, while the devalued currency caused an even larger outflow of cash from the financial accounts. Singapore's balance of payments weakened in 2001, largely due to that year's decline in trade. Singapore's recorded trade surplus in 2003 was \$28.1 billion. Exports totaled \$158.4 billion, and imports stood at \$130.3 billion. The current account surplus averaged 22.8% of GDP over the 2001–05 period. The current account surplus stood at an estimated \$8.8 billion in 2004.

### 3<sup>3</sup> BANKING AND SECURITIES

Singapore was founded as a trading outpost by Sir Thomas Stamford Bingley Raffles of the East India Co. in 1819. The country's rigid development was closely linked to the government's efficient financial management. Conservative fiscal and monetary policies generated high savings, which, along with high levels of foreign investment, allowed growth without the accumulation of external debt. The banking system was opened to foreign banks in the late 1960s. In 1988, Singapore had foreign reserves worth about \$533 billion, which, per capita, put it ahead of Switzerland, Saudi Arabia, and Taiwan. Many sources of finance are available to organizations doing business in Singapore. The Monetary Authority of Singapore (MAS) requires banks to observe its policy of discouraging the internalization of the Singapore dollar. The MAS performs the functions of a central bank, except for the issuing of currency. The Board of Commissioners of Currency deals with currency issues. The MAS seeks to strike a balance between supervision on the one hand, and development of the financial markets on the other.

Singapore has not encouraged the freewheeling financial services culture of Hong Kong, nor has it resorted to a *divigiste* approach, as in South Korea or Taiwan. Until quite recently, Singapore has tried to enjoy the best of both worlds. This is now starting to change, as Singapore's own major banks, long regarded as complacent due to their domestic oligopoly, are beginning to venture overseas. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$20.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$101.0 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 1.99%. As of 1999, Singapore had more than 700 financial institutions, including approximately 230 commercial and merchant banks, 142 of them commercial banks. Some 9 of the 31 banks with full banking licenses were locally incorporated; the remainder were branches of various overseas banks. Since 1971, the government has sought to attract representation by a variety of foreign banks in terms of countries and geographical regions. Most of the new foreign banks allowed into Singapore have been offshore banks that concentrated on foreign exchange transactions. The Post Office Savings Bank (POSBank) is the national savings bank (est. 1877). Thirteen commercial banks have restricted licenses, and 98 banks operate offshore. Singapore's four largest banks—DBS Bank, United Overseas Bank (UOB), OCBC Bank, and Overseas Union Bank Ltd. (OUB)—had a 90% jump in profits in 1999 over 1998, recovering from the financial crisis quickly.

In October 1992, the Kuala Lumpur Stock Exchange severed all links with the Singapore Stock Exchange. All the Singapore stocks moved to the Singapore exchange and the Malaysian companies moved to the Kuala Lumpur Stock Exchange. As of 2004, a total of 489 companies were listed on the Singapore Stock Exchange, which had a market capitalization of \$171.555 billion. In that same year, the STI index rose 17.1% to 2,066.1.

The Singapore International Monetary Exchange (SIMEX) opened in 1984. SIMEX traded, as of the end of 1985, futures contracts in gold, eurodollar time deposit interest rates, and US/deutschemark and US/yen currency exchanges. Trading in Japanese stock index and sterling futures began in 1986. In 1989, SI-

MEX also became Asia's first energy market with the introduction of the High-Sulphur Fuel Oil futures, the world's most active contract of its kind. In 1999, SIMEX achieved its second-highest annual volume of 25.8 million contracts. It was voted International Exchange of the Year in 1989, 1992, 1993, and 1998.

### 3<sup>4</sup> INSURANCE

Most insurance firms are branches or agencies of UK (or other Commonwealth), European, and US companies, although local participation in insurance, particularly business insurance, is increasing. Marine and warehouse insurance constitutes most of the business insurance, but almost all types of commercial insurance are available. Workers' compensation, third-party automobile liability, and professional liability are all compulsory insurance in Singapore, and must be placed with local companies.

The regulatory authority is the insurance commissioner of the Monetary Authority of Singapore. In 1998, total insurance premiums amounted to s\$7.8 billion. As of 30 June 1999, there were a total of 160 registered insurers. In 2003, the value of all direct insurance premiums written totaled \$8.898 billion, of which \$5.561 billion was accounted for by life insurance premiums. In that same year, the top nonlife insurer was NTUC Income, with gross written nonlife premiums (including personal accident and health-care) of \$208.1 million, while the nation's leading life insurer was AIA, with gross written life insurance premiums of \$1,042.5.

### 3<sup>5</sup> PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2005 Singapore's central government took in revenues of approximately us\$18.6 billion and had expenditures of us\$18.2 billion. Revenues minus expenditures totaled approximately us\$460 million. Public debt in 2005 amounted to 102% of GDP. Total external debt was us\$24.67 billion.

The International Monetary Fund (IMF) reported that in 2002, the most recent year for which it had data, central government

#### Public Finance – Singapore (2002)

(In millions of Singapore dollars, central government figures)

<b>Revenue and Grants</b>	<b>35,100</b>	<b>100.0%</b>
Tax revenue	21,025	59.9%
Social contributions	...	...
Grants	...	...
Other revenue	14,075	40.1%
<b>Expenditures</b>	<b>29,741</b>	<b>100.0%</b>
General public services	2,618	8.8%
Defense	8,485	28.5%
Public order and safety	1,767	5.9%
Economic affairs	3,656	12.3%
Environmental protection	...	...
Housing and community amenities	3,199	10.8%
Health	1,662	5.6%
Recreational, culture, and religion	1,090	3.7%
Education	6,952	23.4%
Social protection	1,242	4.2%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

revenues in millions of Singapore dollars were 35,100 and expenditures were 29,741. The value of revenues in millions of US dollars was \$19,602 and expenditures \$17,129, based on a market exchange rate for 2002 of 1.7906 as reported by the IMF. Government outlays by function were as follows: general public services, 8.8%; defense, 28.5%; public order and safety, 5.9%; economic affairs, 12.3%; housing and community amenities, 10.8%; health, 5.6%; recreation, culture, and religion, 3.7%; education, 23.4%; and social protection, 4.2%.

### 3<sup>6</sup>TAXATION

Individual and commercial incomes are taxed whether derived in Singapore or from outside sources. Types of direct taxation include income, property, estate duty, and payroll taxes; the Inland Revenue Department is responsible for the assessment and collection of all such levies. As of 2006, the top marginal personal tax rate was 21%. In 2007, the top personal rate is to be reduced to 20%. As of 1 January 2004, foreign income received by a resident individual was exempted from Singapore's personal income tax. However, foreign income received via a partnership in Singapore is taxed. Also, nonresidents working in Singapore more than 60 days but less than 183 days in a calendar year are taxed at a 15% rate on gross employment income or taxed on employment income as a resident, whichever is higher.

As of 2005, Singapore had a standard corporate income tax rate of 20%. Industrial establishments, companies, and various other businesses are eligible to deduct from their gross profits varying and usually generous depreciation allowances for building, plants, and machinery. There are tax holidays of 5 to 15 years on qualifying profits for approved "pioneer" industries. Companies whose "pioneer" status has expired or who do not qualify, but still engage in high value operations, can receive a reduced rate of 5% for a period of 10 years and with extensions, up to 25 years. Other taxes include a goods and services tax (GST) at a rate of 5%, a stamp tax, and a property tax.

### 3<sup>7</sup>CUSTOMS AND DUTIES

Prior to the 1960s, Singapore was essentially a free port, with import duties levied only on alcoholic beverages, tobacco and tobacco products, petroleum products, and certain soaps. In 1959, however, a law was passed empowering the government to levy import duties on other products to protect local industries. In the 1960s, many new tariffs were established with the primary aim of helping to support development of local manufacturing firms. In the early 1970s, many items were withdrawn from the tariff list, and by 1982 there were only 176 items on the list, compared with 349 in 1972. In 1985, excise duties on sugar and sugar substitutes and import and excise duties on fuel oil were lifted. By 1993, there were almost no import tariffs except for duties on alcoholic beverages, tobacco products, petroleum products, and a few other items. Duties ranged from 5–45%. There are no export duties. As of 2002, the average tariff in Singapore was below 1%, as more than 99% of goods entered duty free. In 2000, duties were levied on tobacco products, alcoholic beverages, gasoline, automobiles (31%), and motorcycles (12%).

Singapore has six free trade zones, five for seaborne cargo (in the five gateways of the port) and one for air cargo. The GST (goods

and service tax) of 5%, which is levied on all imports, is not levied on goods stored in the free trade zones.

### 3<sup>8</sup>FOREIGN INVESTMENT

Legislation to attract new foreign investments, the Economic Incentives Act, was passed in 1967; it granted exemption from taxation for a five-year period to investors for export development and provided inducements and guarantees with respect to repatriation of profits and capital. Overseas offices were set up to promote such foreign investment in New York, Chicago, San Francisco, London, Paris, Frankfurt, Zürich, Tokyo, Hong Kong, Stockholm, and Melbourne. The Capital Participation Scheme, adopted in 1973, permitted high-technology industries to set up branches in Singapore with 50% equity participation by the government. With changes in Singapore's industrial development, there have also been alterations in incentives. In the early 1980s, the main criteria for granting tax incentives were capital investment ratios (including training costs) per worker, value added per worker, and the ratio of technical personnel and skilled workers to the total workforce. Major investment activity focused on petroleum refining, general manufacturing, electronics, and hotel construction, as well as on traditional endeavors.

Since the mid-1980s the government's incentive policies have broadened to include Singapore's development as a total international business center, an international air-sea cargo center, a location for the regional operational headquarters of multinational corporations, and a major exporter of services. Investment in the manufacturing sector is encouraged in areas of medium-range or higher technology, or the design and production of higher value-added products. Singapore does not require that foreign investors take on private-sector or government joint-venture partners.

In 2000, foreign companies' net investment commitments in manufacturing were \$4.2 billion, somewhat ahead of the \$4.016 billion reached in 1997 before the Asian financial crisis, and \$1 billion more than the level in 1998. US companies accounted for 51% of the total; European companies, 23.8%; Japan, 21%; and all other countries, 4.26%. As of 1999, cumulative foreign investment in Singapore was a little over \$31 billion, of which \$12.2 billion (39%) was from US companies; 31.6% from Japanese companies; and 25% from Europe. Foreign investments account for about one-quarter of cumulative gross fixed assets in the manufacturing sector.

In 2002, the total stock of foreign direct investment (FDI) stood at approximately \$137.4 billion, or 1.51% of GDP. Some \$49.9 billion of that figure was invested in the manufacturing sector. The United States, Japan, and the United Kingdom were the primary investors.

### 3<sup>9</sup>ECONOMIC DEVELOPMENT

Technological change and political considerations in the post-World War II period—not least of all the nationalism that accompanied the quest for independence among the region's European colonies—have combined to alter dramatically the economic self-perception and public policies of this diminutive island state. By the late 1950s, it was obvious that prospects for economic growth would be severely limited if Singapore remained bound by its old economic role as *entrepôt*. The decision to industrialize—and to do so rapidly—was deliberate policy. The initial emphasis in the

government's economic development program was on employment. The increasing trend toward economic self-sufficiency in neighboring Indonesia and Malaysia—and the steady retreat of the United Kingdom from defense responsibilities in the region as a whole (centered on its large Singapore naval and air facilities)—prompted the government to focus completely on finding alternative employment for the island's highly skilled and disciplined workforce. By the end of the 1960s, this problem was effectively solved, with Singapore boasting one of the lowest unemployment rates in all of Asia.

Emphasis in the mid-1970s was on labor skills and technology, especially as these were identified with such modern industries as machine tools, petrochemicals, electronics, and other precision work. A high level of participation by private foreign capital provided an important cornerstone to this development. In 1979, the government abandoned its earlier policy of stimulating low-wage industries and adopted a policy of encouraging capital-intensive and technologically sophisticated industries. Especially targeted for investment promotion in the 1980s were computers, computer peripherals, electronic medical instruments, automotive components, specialty chemicals and pharmaceuticals, and optical and photocopying equipment. Following the recession of 1985–86, the government concentrated on developing new markets and on turning Singapore into a manufacturing, financial, and communications center for multinational corporations.

In the 1990s, the economic development strategy emphasized both the manufacturing and service sectors. The Economic Development Board (EDB), formed in 1961, has guided Singapore's industrialization. Early emphasis was placed on promoting investment in manufacturing. The Strategic Economic Plan (SEP), announced in 1991, focused on education and human resources to enhance export competitiveness. Emphasis on developing the service sector has been supported and enhanced by the Operational Headquarters (OHQ) program, encouraging companies to use Singapore as regional headquarters or as a central distribution center. The Creative Business Program promotes investment in the film, media, publishing, arts and entertainment, textile, fashion and design sectors. The EDB works toward Singapore's vision of its future as a developed country through the promotion of business. Singapore's globalization strategy hinges on making a transformation from a production-driven economy to an innovation-driven one. Other key elements of this strategy are the reversal of downward trends in productivity, and sustaining foreign investment in Singapore's capital investment. Singapore initiated the formation of a growth triangle, linking Johor, Malaysia, Singapore, and Indonesia's Riau Province, focusing on Batam Island. Singapore benefits by tapping into a supply of low-wage workers and offshore land to sustain its more labor-intensive industries.

The Asian financial crisis was only a temporary setback for the healthy economy of Singapore. Roadblocks to further economic development include rising labor costs, which have threatened investment in Singapore's industrial sector, causing the government to implement strategies to cut costs and increase productivity. The rise of Singapore's currency also prompted the dispersion of new industrial enterprises from the country, which the government answered by promoting the development of high-capital industries.

The collapse of the dot.com bubble in 2001 presented a more serious challenge, particularly as subsequent events—the 11 Sep-

tember 2001 terrorist attacks on the United States and global uncertainties attending the war with Iraq—resulted in continued low export demand.

As of the end of 2005, the Singapore economy was growing at a healthy clip of around 5%. At that point, Singapore's central bank (the Monetary Authority of Singapore) stated that its policy of allowing the Singapore dollar to strengthen against a basket of currencies would be maintained. This effective monetary tightening reflected continued confidence in the health of the local economy. The government is seeking to encourage innovation and to diversify the economy toward new services and consumer industries. Singapore wants to foster the development of a knowledge-based economy. Protected sectors, such as financial services, were in the process of being liberalized in 2006, in an effort to increase overall efficiency. Certain bilateral free-trade agreements, including one with the United States, which came into force in 2004, were negotiated in order to improve market access and encourage foreign investment inflows.

#### 40 SOCIAL DEVELOPMENT

The provident fund system was updated in 2004, and covers most employed persons and the self-employed. It provides benefits for old age, disability, death, sickness, and maternity. Retirement is at age 55 subject to conditions. Employee contributions are based on income; employers pay 10% of monthly earnings. There is a special system for public employees, and employers may choose a private plan if approved. Employers also fund workers' compensation benefits for job-related injuries. In addition, employers are required to provide 14 days of paid sick leave and eight weeks of paid maternity leave to their employees.

Women's legal rights are equal to those of men in most areas, including civil liberties, employment, business, and education. Women comprise 42% of the labor force and are well represented in the professions. Despite the legal principle of equal pay for equal work, women earn approximately less than men. This is due in part to the fact that most women work in lower-paying administrative jobs. In 2004, the constitution was amended to remove the inequality that a female citizen could not automatically convey citizenship to her children, but a man could. Spousal abuse and domestic violence are not widespread problems and the laws provide protection to women.

Prison conditions are considered to be good, but there are reports of the mistreatment of detainees. Caning is a common form of punishment for many different offenses. Cases of police abuse are generally investigated by the government and reported in the media. Freedom of assembly and association are restricted.

#### 41 HEALTH

Singapore's population enjoys one of the highest health levels in all of Southeast Asia. This achievement is largely attributed to good housing, sanitation, and water supply, as well as the best hospitals and other medical facilities in the region. Fully 100% of the population had access to safe drinking water and 99% had adequate sanitation in 1994–95. Nutritional standards are among the highest in Asia. Singapore is financing medical care with a combination of personal contribution and government assistance. In 1984, Singapore initiated a Medisave scheme, a compulsory savings plan for medical expenses. About half the population pays hospital bills

through this plan, although as of 1990, the plan did not cover outpatient expenses. Workers must contribute 3–4% of their earnings to a medical savings account to be used for medical expenses. The contribution of workers is matched by employers. Total health care expenditures were estimated at 3.2% of GDP.

There are 19 hospitals, five of which were administered by the government, and five were “government restructured.” The remaining nine hospitals are privately run. The main multidisciplinary hospitals are Alexandra Hospital, Changi Hospital, and Tan Tock Hospital (all government run), and National University Hospital, Singapore General Hospital, and Toa Payoh Hospital (all government restructured). In 2004, there were an estimated 140 physicians, 26 dentists, and 424 nurses per 100,000 people.

An estimated 74% of married women (ages 15 to 49) used contraception. The fertility rate was 1.5 children per woman during her childbearing years. As of 2002, the crude birth rate and overall mortality rate were estimated at 12.8 and 4.3 per 1,000 people, respectively. Life expectancy in 2005 was 81.62 years. That year, the infant mortality was 2.29 per 1,000 live births, the lowest in the world. The entire population has access to health care services.

Leading causes of death per were communicable diseases and maternal/perinatal causes, noncommunicable diseases, and injuries. Vaccination rates for children up to one year old were as follows: tuberculosis, 97%; diphtheria, pertussis, and tetanus, 95%; polio, 93%; measles, 88%; and hepatitis B, 91%. Rates for DPT and measles were 94% and 93%, respectively.

The slow growth of the HIV epidemic in Singapore may be attributed to general awareness and programs promoting condom use at STD clinics. The HIV/AIDS prevalence was 0.20 per 100 adults in 2003. As of 2004, there were approximately 4,100 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

## 42 HOUSING

Sustained rapid population growth in the years preceding and following World War II provided Singapore with an acute housing shortage. In 1947, a housing committee determined that, with a squatter problem worsening each year, 250,000 persons required immediate housing, while another 250,000 people would need new housing by the late 1950s. In 1960, the Housing and Development Board was established by the new PAP government. During its first five-year building program (1960–65), the board spent s\$230 million to construct 53,000 dwelling units for more than 250,000 people. It was in this period that Queens Town, Singapore’s first satellite community, was developed. By the mid-1970s, Queens Town had a total of 27,000 living units in seven neighborhood complexes, housing upwards of 150,000 people.

In the second five-year building program (1966–70), 67,000 additional units, accommodating 350,000 persons and costing s\$305 million, were built. About 113,000 more units were erected by the board in the third building program (1971–75), and over 130,000 in the fourth building program (1976–80). Another 100,000 units were constructed in the fifth building program (1981–85), and 160,000 were planned for the sixth building program (1986–90). In 1985, as a result of these government-sponsored efforts, 2,148,720 persons—or 84% of the total population of Singapore—lived in 551,767 apartments under the management of the Housing and Development Board. Some 397,180 units were sold to the public.

As of the 2000 census, there were about 964,138 occupied housing units nationwide. About 79% of all dwellings were built by the Housing and Development Board. About 93% of all dwellings were owner occupied. As of 2003, about 84% of the population resided in flats constructed through Housing and Development Board programs. The demand for purchase of home ownership flats was at about 13,846 units.

## 43 EDUCATION

All children who are citizens are entitled to free primary education. Primary schooling is available in all four official languages. Primary school is compulsory and covers a six-year program of study. Secondary school lasts for four years. Based on their primary school final examinations, students are placed in secondary school for general or technical studies. Students eligible to consider university studies enter a three-year preparatory program to complete their secondary education.

In 1996, there were 269,668 students 198 primary schools, with 10,618 teachers. The student-to-teacher ratio stood at 25 to 1, where it remained as of 1999. In 1996, secondary schools had 207,719 students and 10,354 teachers. Fifteen vocational institutes offered training courses in the metalworking, woodworking, electrical, electronic, and building trades.

The National University of Singapore was established on 8 August 1980, through the merger of the University of Singapore and Nanyang University. In addition, there are the Singapore Technical Institute, Ngee Ann Polytechnic, Singapore Polytechnic, Temasek Polytechnic, Republic Polytechnic, and Nanyang Polytechnic. In 1996, all institutions of higher education had 6,689 teaching staff and enrolled a total of 92,140 students. The adult literacy rate for 2004 was estimated at about 92.5%, with 96.6% for men and 88.6% for women.

As of 2003, public expenditures on education were estimated at 3.7% of GDP.

## 44 LIBRARIES AND MUSEUMS

The National Library of Singapore (founded in 1844 and known, until 1960, as Raffles National Library) contains 5.6 million volumes, including books in the four official languages. The National Library houses the government archives and serves as a repository for official publications printed in Singapore since 1946. The library has nine full-time branches, and a mobile library service for rural portions of the island. The National University of Singapore Library contains almost 2.2 million volumes, including extensive medical and science/technology collections. (The National University of Singapore was formed in 1980 with the merger of the former University of Singapore and Nanyang University.) Singapore Polytechnic holds 196,000 volumes, and the Institute of Southeast Asian Studies holds 140,000. The National Library Board, established in 1995, maintains a three-tiered public library network that includes 3 regional libraries, 19 community libraries, and 18 community children’s libraries. The Lee Kong Chian Reference Library, also sponsored by the National Library Board, has a collection of about 530,000 materials.

The National Museum (formerly Raffles Museum), established in 1849, has collections of natural history, ethnology, and archaeology. Since 1965, it has also specialized in the art, culture, and way of life of Singapore’s multiracial communities. The National

Art Gallery, established in 1976, features works by the peoples of Southeast Asia, and is a part of the National Museum. The Art Museum and Exhibition Gallery of the National University of Singapore includes in its collections Asian art objects and contemporary Singaporean and Malaysian painting and textiles. The new Singapore Art Museum opened in 1996 with a permanent collection of more than 3,000 contemporary paintings and sculptures from Southeast Asian artists. The Asian Civilizations Museum, concerning ethnology, at Empress Place, opened in 2003 and is the largest museum in Singapore. The Lee Kong Chian Art Museum, the Centre of Fine Arts, and Singapore Science Center are also found in the city-state.

#### **45 MEDIA**

Postal, telephone, and telegraph services in Singapore are among the most efficient in Southeast Asia. National and international telecommunications services are administered by the Telecommunication Authority of Singapore. Service is available on a 24-hour basis for worldwide telegraph, telephone, and telex communication. In 2003, there were an estimated 450 mainline telephones for every 1,000 people. The same year, there were approximately 852 mobile phones in use for every 1,000 people.

Virtually all broadcasting services are operated by the government-linked MediaCorp. Radio and television broadcasts are available in Mandarin, Malay, Chinese, and English. In 2004, the only independent radio station was sponsored by British Broadcasting Corporation World Service. As of 2003, there were nine FM radio stations and seven television stations. In 2003, there were an estimated 672 radios and 303 television sets for every 1,000 people. The same year, there were 622 personal computers for every 1,000 people and 509 of every 1,000 people had access to the Internet. There were 981 secure Internet servers in the country in 2004.

Singapore Press Holdings, a corporation linked to the ruling party, controls most of the press. There are English, Chinese, Malay, and Tamil daily newspapers. Foreign publications reporting on Southeast Asian political and social affairs must obtain an annual permit to distribute more than 300 copies of each edition in Singapore. Singapore has 10 daily newspapers, with at least one printed in each of the four official languages. The oldest and most widely circulated daily is the English-language *Straits Times*, founded in 1845.

In 2002, Singapore's largest newspapers, with their language of publication and estimated daily circulations, were as follows: *Straits Times*, Chinese/Malay/English, 392,600; *Lianhe Zaobao*, Chinese, 205,160; *The New Paper*, English, 121,000; *Shin Min Daily News*, Chinese, 120,130; *Lianhe Wanbao*, Chinese/English, 85,500; *Berita Harian*, Malay/English, 60,000; *Business Times*, Chinese/English, 36,000; and *Tamil Murasu*, Tamil, 14,000. *The Sunday Times*, published in all four of the major languages, had a weekly circulation of 387,000 in 2002.

Although freedom of the press is guaranteed by law, the International Press Institute has on various occasions cited Singapore for interference with press freedom. Magazines, motion pictures, and plays are censored for sexual content and presentation of ethnically sensitive matters.

#### **46 ORGANIZATIONS**

There are Chinese, Indian, and Malay chambers of commerce and a multicomunal Singapore chamber of commerce. There is also an active National Trades Union Congress. The Consumers' Association of Singapore was founded in 1971. There are several professional associations covering a variety of fields.

In 1960, the government established the People's Association to organize and promote mass participation in social, cultural, educational, and recreational activities. In Singapore, there is a comprehensive network of about 133 community centers throughout the country set up by the People's Association. Management, women's, youth, and senior citizen subcommittees exist as active units of the association.

National youth organizations include the Singapore Scout Association, Singapore Girl Guides, Youth for Christ, Student Christian Movement of Singapore, the Association of Singapore Students in Economics and Commerce, YMCA/YWCA, Junior Chamber, and the Singapore Boy's Brigade and Girl's Brigade. Women's organizations include the Association of Women for Action and Research, Singapore Council of Women's Organizations, and the Singapore International Foundation.

Culture and arts organizations are represented by the Indian Fine Arts Society and the Singapore Art Society. There are several sports associations and clubs available, as well as clubs for hobbyists and games enthusiasts, such as the Photo Art Association of Singapore and the Othello Association Singapore.

The Academy of Medicine, the Singapore National Academy of Science, and the Institute of Physics serve to promote public interest and education as well as professional advancement in various branches of science. There are several other associations dedicated to research and education for specific fields of medicine and particular diseases and conditions.

The National Council of Social Service assists in coordinating volunteer services through member service organizations, professional associations, retirement homes, and children's homes. There are service clubs belonging to international associations, such as national chapters of Lions Clubs, Kiwanis International, the Red Cross, and Habitat for Humanity.

#### **47 TOURISM, TRAVEL, AND RECREATION**

The tradition of bargaining makes shopping in Singapore a major tourist attraction. Points of interest include the Van Kleef Aquarium at Fort Canning Park, the Singapore Zoological and Botanical Gardens, and the resort island of Sentosa. Singapore has a number of other attractions, including an amusement park at Haw Par Village, site of historic Chinese statues, and the restoration of the Alkaff Mansion.

Singapore has many sports clubs and associations, notably in the areas of badminton (in which Singaporeans have distinguished themselves internationally), basketball, boxing, cricket, cycling, golf, hockey, horse racing, motoring, polo, swimming, tennis, and yachting.

All visitors to Singapore must carry a passport valid for at least six months upon entry. Proof of sufficient funds and an onward/return ticket are also necessary and checked by the Immigration and Checkpoints Authority (ICA). Visas are required for nationals of 32 countries, including Russia, Egypt, and Iraq. A vaccina-

tion against yellow fever is required if traveling from an infected country.

In 2003, about 6.1 million visitors arrived in Singapore, mostly from East Asia and the Pacific. There were a total of 35,930 hotel rooms, filled to 76% of capacity. The average visit was three nights.

According to 2005 US Department of State estimates, the cost of staying in Singapore was approximately us\$210 per day.

#### 48 FAMOUS SINGAPOREANS

Sir Thomas Stamford Bingley Raffles (1781–1826) played a major role in the establishment of a British presence on Singapore Island in 1819; he introduced policies that greatly enhanced Singapore's wealth, and he suppressed the slave trade. Raffles also distinguished himself as a collector of historical and scientific information. The English writer and educator Cyril Northcote Parkinson (1909–93), formerly a professor at the University of Singapore, became internationally known as the originator of Parkinson's Law. Singapore's dominant contemporary figure is Lee Kuan Yew (b.1923), prime minister of the Republic of Singapore from 1965 to 1990. His son, Lee Hsien Loong (b.1952), became the nation's third prime minister and second from the same family in 2004.

#### 49 DEPENDENCIES

Singapore has no territories or colonies.

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# SOLOMON ISLANDS

**CAPITAL:** Honiara

**FLAG:** The flag consists of two triangles, the upper one blue, the lower one green, separated by a diagonal gold stripe; on the blue triangle are five white, five-pointed stars.

**ANTHEM:** *God Save the Queen.*

**MONETARY UNIT:** The Solomon Islands dollar (SI\$), a paper currency of 100 cents, was introduced in 1977, replacing the Australian dollar, and became the sole legal tender in 1978. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1 dollar, and notes of 2, 5, 10, 20, and 50 dollars. SI\$1 = US\$0.13361 (or US\$1 = SI\$7.4847) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; Queen's Birthday, celebrated as a movable holiday in June; Independence Day, 7 July; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Whitmonday.

**TIME:** 11 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Solomon Islands consist of a chain of six large and numerous small islands situated in the South Pacific, some 1,900 km (1,200 mi) NE of Australia and about 485 km (300 mi) E of Papua New Guinea. Extending 1,688 km (1,049 mi) ESE–WNW and 468 km (291 mi) NNE–SSW, the Solomon Islands have an area of 28,450 sq km (10,985 sq mi). Comparatively, the area occupied by the Solomon Islands is slightly smaller than the state of Maryland. The largest island is Guadalcanal, covering 5,302 sq km (2,047 sq mi); other major islands are Makira (formerly Malaita), San Cristobal, Vella Lavella, Choiseul, Rennell, New Georgia, and the Santa Cruz group. The total coastline of the Solomon Islands is 5,313 km (3,301 mi).

The capital city of the Solomon Islands, Honiara, is located on the island of Guadalcanal.

## <sup>2</sup>TOPOGRAPHY

The topography varies from the volcanic peaks of Guadalcanal to low-lying coral atolls. Densely forested mountain ranges are intersected by precipitous, narrow valleys. The highest peak is Mt. Makarakomburu, at 2,447 m (8,127 ft), on Guadalcanal, an island that also contains the country's most extensive alluvial grass plains. Rivers are narrow and impassable except by canoe. Extensive coral reefs and lagoons surround the island coasts.

The Solomon Islands are located in a seismically active region. However, though recent quakes have been measured in ranges considered to be strong to major, there have been few fatalities and injuries and damage reports have been minimal. On 20 January 2003, a 7.3-magnitude quake occurred at a location about 80 mi (130 km) west of Kira Kira. On 8 October 2004, a 6.8 magnitude quake hit at about 95 mi (155 km) southeast of Kira Kira. Another

6.9-magnitude quake hit around the same region on 9 November 2004, followed by a 6.7 quake on 11 November.

## <sup>3</sup>CLIMATE

The climate is tropical. From December to March, northwest equatorial winds bring hot weather and heavy rainfall; from April to November, the islands are cooled by drier southeast trade winds. Damaging cyclones occasionally strike during the rainy season. The annual mean temperature is 27°C (81°F); annual rainfall averages 305 cm (120 in), and humidity is about 80%.

## <sup>4</sup>FLORA AND FAUNA

Dense rain forest covers about 90% of the islands, with extensive mangrove swamps and coconut palms along the coasts. Other tree species include teak, African and Honduras mahogany balsa, and Queensland maple. The islands abound in small reptiles (about 61 species), birds (163 breeding species), and mammals (53 species), as well as insect life. There are over 230 varieties of orchids and other tropical flowers.

## <sup>5</sup>ENVIRONMENT

Most of the coral reefs surrounding the islands are dead or dying. As an island nation, the Solomon Islands are concerned with the effects of global warming and rising sea levels. Deforestation is another significant environmental problem. The related problem of soil erosion threatens the country's agricultural productivity. Sources of water pollution include sewage, pesticides, and mining by-products.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species includes 20 types of mammals, 21 species of birds, 4 types of reptiles, 2 species of amphibians, 5 species of fish,

2 types of mollusks, 4 species of other invertebrates, and 16 species of plants. Threatened species include the gizo white-eye and the hawksbill, green sea, and leatherback turtles. The Solomon Islands' crowned pigeon, the emperor rat, and the Nendo tube-nosed fruit bat have become extinct.

## 6 POPULATION

The population of the Solomon Islands in 2005 was estimated by the United Nations (UN) at 472,000, which placed it at number 162 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 107 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.6%, a rate the government viewed as too high. Despite declines in fertility rate since the mid-1990s, at 4.7 births per woman, it remains one of the highest among Pacific Island nations. The projected population for the year 2025 was 700,000. The overall population density was 16 per sq km (42 per sq mi), but there are significant variations from island to island. The most populous islands are Malaita and Guadalcanal. Moreover, most mountainous and heavily wooded areas are inaccessible (except to tribal groups of the interior), and most of the population is concentrated in the coastal regions.

The UN estimated that 16% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 4.48%. The capital city, Honiara, had a population of 56,000 in that year. Honiara, on Guadalcanal, is the largest town and chief port.

## 7 MIGRATION

Since 1955, immigrants from the Gilbert Islands (now Kiribati) have settled in underpopulated areas. Movements from the countryside to Honiara and northern Guadalcanal have created problems of overcrowding. The resentment engendered by those who moved from the heavily populated island of Malaita to Guadalcanal resulted in violence in 1999. In 2000, the total number of migrants was 4,000. The net migration rate for 1999 and 2005 was zero. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Melanesians account for about 94.5% of the total population. Polynesians make up about 3% and Micronesians account for about 1.2%. Europeans and Chinese each account for less than 1% of the population. Melanesians live mainly on the larger islands; Polynesians tend to inhabit the smaller islands and atolls.

## 9 LANGUAGES

English is the official language but is only spoken by approximately 1–2% of the population. Melanesian pidgin is the lingua franca. Some 120 indigenous languages and dialects are spoken, each within a very restricted geographical area.

## 10 RELIGIONS

Christianity, introduced by missionaries in the 19th and early 20th centuries, is the principal organized religion. The primary denominations are Anglican, Roman Catholic, Methodist, and Seventh-Day Adventist. Indigenous churches that are offshoots of other established Christian churches are attended by about 2% of

the population. Other groups represented are Jehovah's Witnesses, Mormons, and Baha'is. The most recent census reported 12 Muslims in the country.

The Department of Home and Cultural Affairs has a policy-making role in religious affairs; however, this regulation is only meant as a precaution for maintaining public order, and there have been no reports of major restrictions on religious groups. The constitution provides for freedom of religion. Christianity is taught in public schools, but the course is not required.

## 11 TRANSPORTATION

In 2002, there were an estimated 1,360 km (845 mi) of roads in the Solomons, of which only 34 km (21 mi) were paved. Of the 1,326 km (824 mi) of unpaved roads, about 800 km (497 mi) belong to private plantations. Shipping services link the Solomons with other Pacific islands, Australia, Japan, and Europe. Honiara is the principal port, followed by Ringi Cove. A fleet of government vessels provides interisland connections and handles about one-third of total tonnage carried. There were an estimated 33 airports in 2004, but only two (as of 2005), had paved runways. Henderson's Field, on the northern coast of Guadalcanal, is the site of Honiara's civil airport. Solomon Airlines provides regular flights between islands and to nearby Papua New Guinea and Vanuatu. In 1997 (the latest year for which data was available), Solomon Airlines carried about 94,000 passengers on domestic and international flights.

## 12 HISTORY

The islands now known as the Solomons are thought to have been originally inhabited by Melanesians, whose language has affinities with Malay but whose precise origin has not been determined. The first European contact with the Solomons, in 1567, was the sighting of Santa Isabel Island by the Spanish explorer Alvaro de Mendaña; the following year, Mendaña and another Spaniard, Pedro de Queirós, explored some of the islands. Mendaña named the islands Islas de Salomon, thinking that the gold source for King Solomon's riches was located there.

European contact with the Solomons was cut off for nearly two centuries until they were visited by the English navigator Philip Carteret in 1767. Following Carteret's visit, the British navy began to make periodic calls at the islands. During the period 1845–93, the Solomons were frequently visited by missionaries and traders. Indigenous peoples were also subjected to exploitation by "black-birders," who impressed their captives into forced labor, often on colonial sugar plantations in Fiji, Hawaii, Tahiti, or Queensland. The brutality of the kidnappers provoked reprisals by the islanders, resulting in mass slayings of both Europeans and local peoples.

In 1893, the British government stepped in and established a protectorate over certain islands in the southern Solomons, including Guadalcanal, Malaita (now Makira), San Cristobal, and the New Georgia group. The remainder of the Solomons had by this time fallen under German dominion; some of these, including Choiseul and Santa Isabel, were transferred by treaty to the United Kingdom in 1900. The British Solomon Islands Protectorate, as the entire group came to be known, was initially under the jurisdiction of the Office of the British High Commissioner for the Western Pacific.

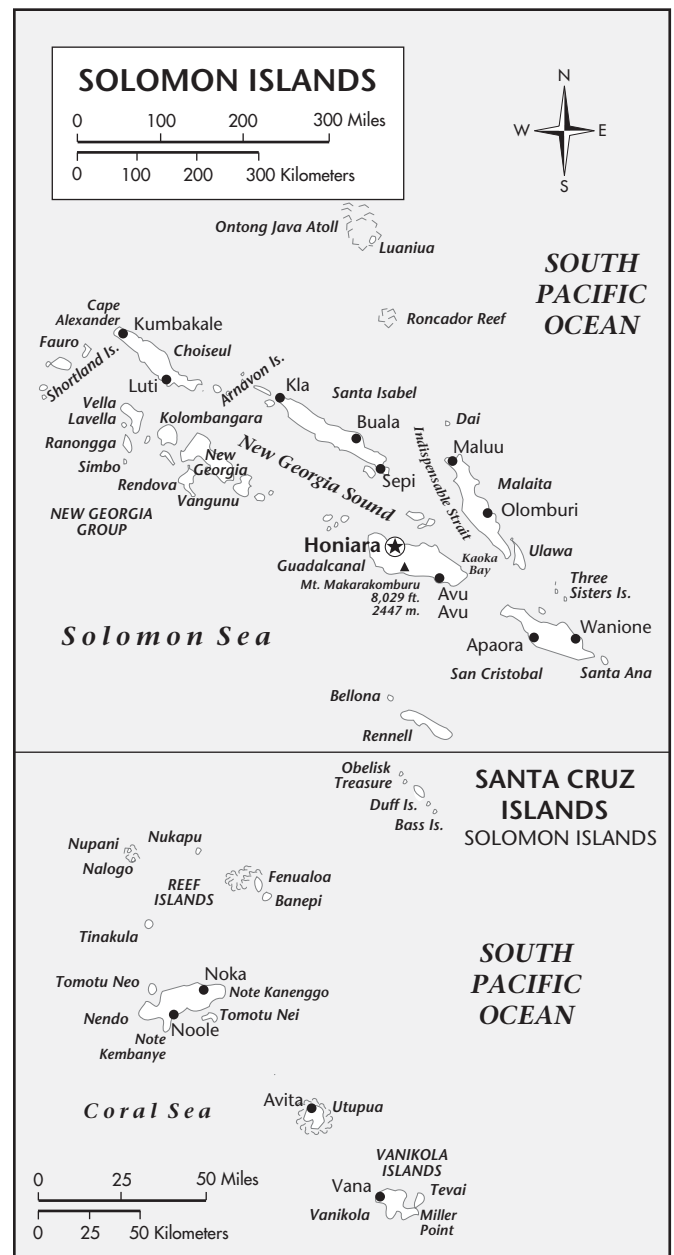
During World War II, the Solomons provided the theater for some of the most bitter fighting of the Pacific war after Japanese

troops invaded and occupied Guadalcanal in 1942. A Japanese airfield on the island's northern coast—later known as Henderson's Field—was captured by US Marines on 7 August 1942, the opening foray in the Battle of Guadalcanal, which cost the lives of about 1,500 US soldiers and 20,000 Japanese. Guadalcanal was evacuated by Japan in February 1943, although Japanese forces remained elsewhere in the Solomons until 1945. Widespread destruction and loss of life were visited on the local peoples during the war, and the legacy of social dislocation gave impetus to the development of a pro-independence nationalist movement in Malaita known as the Marching Rule.

In 1953, local advisory councils were set up in Malaita, eventually spreading to other islands of the protectorate. In 1960, the territorial government appointed executive and legislative councils, which were granted their first elected minority in 1964. A new constitution promulgated in April 1970 provided for replacement of the two councils by a unitary Governing Council, the majority of whose members were to be elected. During May and June, the Solomon Islands' first general election was held, with voters selecting 17 of the council's 26 members. On 21 August 1974, a new constitution introduced a ministerial system of government headed by a Council of Ministers. A Legislative Assembly subsequently chose Solomon Mamaloni as the Solomons' first chief minister. In May 1975, a delegation from the Solomon Islands, led by Mamaloni, met with UK officials in London and set up a timetable for internal self-government and full independence. On 22 June 1975, the territory's name was officially changed from the British Solomon Islands Protectorate to the Solomon Islands.

The islands achieved internal self-government in 1976 and became an independent member of the Commonwealth of Nations on 7 July 1978. Peter Kenilorea was prime minister until his coalition government collapsed in August 1981, after which Mamaloni returned to power. In October 1984, Sir Peter Kenilorea (as he had become) was reelected prime minister, but he resigned in November 1986, following allegations of mismanagement of funds; Ezekiel Alebua, deputy prime minister, succeeded him. In the general elections of February 1989, the People's Alliance Party (PAP), led by Solomon Mamaloni, defeated the Alebua government. Mamaloni became the new prime minister in March 1989. Mamaloni resigned as PAP leader in October 1990 and formed a coalition government with several members of the opposition. Francis Billy Hilly, an independent supported by members of the National Coalition Partners (a loose six-party coalition), became the Solomon Islands' new prime minister in June 1993. Hilly worked with the Melanesian Spearhead Conference to ease tensions between the Solomon Islands and Papua New Guinea. In 1994, parliament voted to replace Hilly with Mamaloni, leader of the Group for National Unity and Reconciliation (GNUR), the largest political party in parliament.

In the 1997 national parliamentary elections, the GNUR retained its majority, and Bartholomew Ulufa'alu was elected prime minister. He pledged to resolve the Solomons' financial crisis by improving revenue collections and downsizing government ministries. He also grappled with the problem of finding a resolution to the ethnic conflict in Guadalcanal, which had dominated all other domestic political issues since late 1998. Disputed were issues of land ownership, access to education, employment and economic development between the people of Guadalcanal and



LOCATION: 5° to 12°30' S; 155° to 170°E. TERRITORIAL SEA LIMIT: 12 miles.

Malaitan settlers on the island. That year, the Isatubu Freedom Movement (IFM), representing Guadalcanal's native people, began to forcibly evict Malaitans, who responded by forming the Malaita Eagle Force (MEF). In May 2000, the MEF took Ulufa'alu hostage, staging a coup. Ulufa'alu resigned, and in June he was replaced by Manasseh Sogavare. Fighting between the two factions left over 100 people dead and more than 20,000 displaced. A peace agreement was signed in October 2000, but it failed to end the violence. Unarmed peacekeepers from Australia and New Zealand were sent to supervise disarmament and demilitarization. In September 2001, IFM rebel leader Selwyn Sake was killed, threatening the peace agreement. In November, the MEF reported that 90% of its weapons had been surrendered. Allan Kemakeza of the PAP was elected prime minister in December 2001. In February 2003, a member of the country's National Peace Council, Sir Fred-

erick Soaki, was assassinated. He had worked with the UN to demobilize former militants still employed by the government as police officers on Malaita. In 2003, Kemakeza's government was criticized for failing to curb the actions of militia members, three of whom were convicted in 2005 of the April 2003 murder of six Melanesian brothers on the Weathercoast of Guadalcanal.

An Australia-led intervention force, the Regional Assistance Mission to Solomon Islands (RAMSI), came to the Solomon Islands in July 2003 to assist ending the lawlessness and corruption following the years of unrest. In July 2004, the first anniversary of RAMSI's partnership with the people of the Solomon Islands was celebrated with festivities in Honiara; however, not all were happy with the governmental welcome afforded RAMSI.

A group of 66 rebel militants calling themselves the Malaita Separatist Movement demanded the resignation of prime minister Allan Kemakezain May 2005. They cited dissatisfaction with his pro-Australian views and accused RAMSI of being motivated by ethnic hatred, particularly against Malaitans.

In July 2005, the cabinet approved voting reforms aimed at eliminating the election fraud that resulted from voters selling their unmarked ballots. Under the proposed plan, each voter was to have his finger marked with indelible ink, after which the voter would go into a private voting booth to mark the ballot, and then cast the marked ballot into a central ballot box, in view of the election officials.

### **13 GOVERNMENT**

Under the independence constitution of 1978, the Solomon Islands is a parliamentary democracy with a ministerial system and a unicameral national parliament consisting of 50 members elected to four-year terms; suffrage is universal for citizens over the age of 21. The prime minister, who must command a parliamentary majority, selects the 20-member cabinet. The head of state is the British monarch, represented by the governor-general. Governor-general since 1994, Sir Moses Pitakaka was replaced in May 1999 by Anglican priest Father John Lapli, who was elected by the national parliament over six other candidates, including Pitakaka. There is a constitutionally provided ombudsman to provide protection against improper administrative treatment.

### **14 POLITICAL PARTIES**

The members of the first parliament formed after independence in 1978 had no party affiliations. However, political parties emerged shortly before the elections of August 1980, in which the Solomon Islands United Party, headed by Peter Kenilorea, won 14 seats; the People's Alliance Party (PAP), led by Solomon Mamaloni, received 8 seats; the National Democratic Party (NDP), 2 seats; and independents, 14 seats.

In the December 2001 elections, the dominant parties were the PAP, led by Kemakeza, which won 16 seats; the Alliance for Change Coalition, led by Ulufa'alu, which took 13 seats; the People's Progressive Party, led by Sogavare, which took 2 seats; and the Labor Party, led by Joses Tuhonuku, which won 1 seat. Independents held 18 seats.

The following elections were held in April 2006; as of June 2006, the results had not yet been made public. Elections were scheduled for 2010.

### **15 LOCAL GOVERNMENT**

The islands are divided into nine administrative districts, of which eight are provinces, each with an elected assembly and a premier; the ninth is the town of Honiara, governed by an elected council. In outlying areas, village headmen exercise administrative responsibilities.

### **16 JUDICIAL SYSTEM**

The judicial system is based on a blend of British and traditional systems and consists of the High Court, magistrate's courts, and local courts. Appeals from magistrate's courts go to the High Court; customary land appeals courts hear appeals from the local courts.

Defendants in criminal cases are entitled to counsel and to the writ of habeas corpus. Violations of civil liberties are punishable by fines and jail sentences. An ombudsman with the power of subpoena can investigate complaints of violations of civil liberties. The traditional culture, in addition to legal provisions, provides strong protection against arbitrary interference with privacy, home, family, and correspondence.

### **17 ARMED FORCES**

The Solomon Islands have no military forces. There is a 500-member police force that also engages in border protection. Maritime surveillance is also provided by this police force, which is headed by a commissioner.

### **18 INTERNATIONAL COOPERATION**

The Solomon Islands joined the United Nations (UN) on 19 September 1978 and belongs to ESCAP and several nonregional specialized agencies, such as the FAO, the World Bank, ILO, UNCTAD, UNESCO, and the WHO. It participates in the Asian Development Bank, the ACP Group, the Commonwealth of Nations, WTO, G-77, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Alliance of Small Island States (AOSIS), and the Pacific Island Forum. In environmental cooperation, the Solomon Islands are part of the Convention on Biological Diversity, the London Convention, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

### **19 ECONOMY**

At least 75% of the population is tied to subsistence agriculture. The capital sector is dependent on the production of copra, timber, and fish for export, but outputs of other cash commodities—particularly cocoa, spices, and palm oil—have grown in recent years. The development of large-scale lumbering operations has increased timber production considerably, and concern about the preservation of forest resources led to government restriction of log exports in 1993. In the late 1990s, the economic downturn in Asia led to the collapse of the export market for logs—primarily Japan and South Korea. In late 1997, the government devalued the currency to encourage the development of other export products and to discourage the growth of imports. The economy declined by 10% in 1998, and the government initiated cutbacks in government agencies. The GDP growth rate was -15% over the 2001–03 period. The islands are rich in undeveloped mineral resources

such as lead, zinc, nickel, and gold. However, in 1998, Ross Mining of Australia began producing gold at Gold Ridge on Guadalcanal. In the wake of ethnic violence in 2000, exports of palm oil and gold ceased while exports of timber fell. Negotiations were under way in 2005 to reopen the Gold Ridge Mine and the major palm oil plantation, but each could take years to reopen.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 the Solomon Islands' gross domestic product (GDP) was estimated at \$800.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,700. The annual growth rate of GDP was estimated at 5.8%. The average inflation rate in 2003 was 10%. It was estimated that agriculture accounted for 42% of GDP, industry 11%, and services 47%.

## 21 LABOR

The wage labor force in 2002 totaled approximately 27,000. As of that year, 80% worked in agriculture, 5% had jobs in industry, and the remainder were in services. The country suffers from an acute shortage of skilled workers, and an estimated 80% of professional and technical employees are recruited from overseas. There was no data available on the country's unemployment rate.

Most employed persons have a standard workday of between five and six hours, six days a week, with overtime bringing the average workweek to 45 hours. The minimum working age is 12, or 15 years old for work in factories or on ships. In practice, given low wages and high unemployment, there is little reason to hire children. The minimum wage was US\$0.31 per hour in 2002. The Solomon Islands' largest trade union is the Solomon Islands National Union of Workers. Unions are free to organize and strike, although unions seldom strike. About 60–70% of wage earners were unionized as of 2001. Government regulations require employers to provide housing for workers whose jobs do not permit them to travel to and from home each day. Unions regularly engage in collective bargaining.

## 22 AGRICULTURE

About 2.8% of the total land area is utilized for temporary or permanent crops. Agriculture accounts for about 41% of GDP. Copra (coconut meat) is typically the dominant export and the economic lifeline of the Solomons; world copra prices strongly affect the economy, so a decline in copra prices in 1985 inaugurated an economic slump, exacerbated by the effects of Cyclone Namu. In 1992, production of copra increased by over 30% from 1991, for a total of 38,500 tons. The rebound in 1992 came from a near-doubling of world prices and better coordination of domestic shipping. Copra exports in 2004 were estimated at 5,000 tons. About 75% of the copra is produced by small holders, principally on Guadalcanal, Choiseul, the Russell Islands, San Cristobal, Santa Isabel, and Vella Lavella. Development plans called for crop diversification and the construction of a copra mill on the islands. The overseas marketing of copra is a monopoly of the government's Solomon Islands Copra Board. Other agricultural products in 2004 included cocoa, 4,000 tons; palm oil, 34,000 tons; and palm

kernels, 8,000 tons. In 2004, agricultural products accounted for 36% of exports and 8% of imports. Exports of palm, copra, and cocoa typically account for over 20% of total exports.

The major food crops are coconuts, yams, taro, sweet potatoes, cassava, and green vegetables. The government has encouraged the cultivation of rice, rotated with soybeans, in the Guadalcanal plains; however, cyclone losses resulted in increased dependence on imported rice.

## 23 ANIMAL HUSBANDRY

Cattle were traditionally kept on coconut plantations as a means of controlling the growth of grass, and many large copra plantations raised cattle for slaughter. There were 13,500 head of cattle and 53,000 pigs on the islands in 2005. Over 40% of the cattle are raised by small holders. The government's Livestock Development Authority (LDA) maintains about 3,200 head on Guadalcanal and Western Province. The LDA is now mostly a producer of trader pigs and poultry, raising 25,000 chicks and 120 piglets per month for sale. Production of pork has doubled since the early 1980s, yet still has not kept up with domestic demand. About 3,300 tons of meat were produced in 2005.

## 24 FISHING

Fish are an essential part of the local diet, and fishing has become an important commercial activity. In 1991, the total catch reached a record high of 69,292 tons; the total catch in 2003 was 39,903 tons. In 2003, the annual catch of skipjack tuna was 19,014 tons. Exports of fish products in 2003 were valued at \$20.2 million.

## 25 FORESTRY

Forests cover about 88.8% of the total area, with about 2,536,000 hectares (6,266,000 acres) of timber stands providing an estimated timber yield in 2004 of 692,000 cu m (24.4 million cu ft), of which about 554,000 cu m (19.6 million cu ft) was exported as logs. Exports of forest products were valued at \$41.5 million in 2004, 97% of it from logs. Important forest timbers are kuari, balsa, teak, Honduras and African mahoganies, Queensland maple, silky oak, and black bean. Several hundred chainsaw operators and about 40 portable sawmills produce over one-fifth of all sawn timber. Logging at current rates (15–16,000 hectares/37–39,000 acres per year) exceeds the estimated maximum sustainable annual cut by three times. Forest preservation and management legislation has been proposed, but there is no long-term viable silvicultural plan in place.

## 26 MINING

Although the archipelago was named in the 16th century for the fabled gold mines of King Solomon and had long-term mining potential, there have been insufficient high-quality mineral deposits to justify extensive mining investment. Mining was nevertheless the second-leading industry in 2002. Because of political and ethnic violence, mineral production in 2001 was limited to small quantities of common clays, crushed stone, and sand and gravel, and no gold or silver mining was reported (a minor amount of gold, and possibly associated silver, was obtained from primitive panning and sluicing by individuals). In 2000, production of gold was 338 kg, with silver output that year estimated at 200 kg. There was no recorded gold or silver output for 2001. The Gold

Ridge Mine, at Mavu, which was closed from mid-2000 through the end of 2001, had undertaken a study to upgrade production from 3,100 kg per year to 4,500–4,700 kg per year, which could increase the mining sector's contribution to GDP from 1% to 15%. The country's main industrial prospects focused on its undeveloped mineral resources of gold-silver, lead-zinc, nickel, and phosphate. Deposits of bauxite, copper, chromite, and manganese ores have also been found.

## 27 ENERGY AND POWER

The Solomon Islands, with no proven reserves of oil, natural gas, or coal, relies entirely upon imports to meet all its petroleum, natural gas, and coal product needs.

In 2002, imports and demand for refined petroleum products each averaged 1,240 barrels per day. There were no imports or consumption of natural gas or coal in 2002.

Most electric power is supplied by the government-controlled Solomon Islands Electricity Authority, although some private undertakings produce their own electricity. Electric generating capacity in 2002 was 12,000 kW, of which all was fossil fuel based. Electrical output was 0.054 billion kWh, with demand for electricity at 0.050 billion kWh in 2002.

## 28 INDUSTRY

Industrial activity in the Solomons is rudimentary, lacking in both the capital and the skilled labor necessary for significant development. The leading industries are fish processing and timber milling; soaps are made from palm oil and coconut oil. Small firms produce a limited array of goods for the local market: biscuits, tobacco products, rattan furniture, baskets and mats, concrete blocks, boats, and fiberglass products. In 1998, Ross Mining of Australia began producing gold at Gold Ridge on Guadalcanal. Minerals exploitation in other areas has continued. A Japanese joint venture, Solomon Taiyo Ltd., which operated the only fish cannery in the country, closed in mid-2000 due to ethnic disturbances. The plant later reopened under local management, but the export of tuna had not resumed by year-end 2005.

## 29 SCIENCE AND TECHNOLOGY

The Solomon Islands College of Higher Education has schools of nursing, natural resources, marine and fisheries studies, and industrial development.

## 30 DOMESTIC TRADE

Honiara is the commercial center, with a highly developed port and a wide variety of services to support trade and tourism. However, growth in both domestic trade and tourism has been hindered by inadequate infrastructure and security concerns. Most commercial enterprises have been controlled by the Chinese or Europeans. A large segment of the population still relies on bartering. Normal banking hours are 9 AM to 11:30 AM and 1:30 PM to 3 PM, Monday through Thursday, and 9 AM to 3 PM on Friday. Normal office hours are 8 AM to 12 NOON and 1 PM to 4:30 PM, Monday through Friday.

## 31 FOREIGN TRADE

Overseas trade volume expanded rapidly in the mid-1990s, but the economic woes in Asia in the late 1990s and ethnic conflict

in the early 2000s caused the export market to contract significantly. The distribution of the Solomon Islands' trade continues to be limited by the huge distances to potential export markets. The Solomon Islands' major exports are timber and fish. Other exports include palm oil, oil seeds, and cocoa.

In 2004, the Solomon Islands' primary export partners were China (27.8%), South Korea (17%), Thailand (15.8%), Japan (9.7%), and the Philippines (4.8%). The primary import partners in 2004 were Australia (24.6%), Singapore (23.1%), New Zealand (7.7%), Fiji (4.8%), and Papua New Guinea (4.7%).

## 32 BALANCE OF PAYMENTS

In 1992, export earnings were exceptionally high due to a massive income windfall from the steep rise in the volume of log exports at a time when prices in Asian markets were being driven up by a supply shortage. By the late 1990s, the market for logs had collapsed, causing strain on the Solomon Islands balance of payments. Most manufactured goods and petroleum products must be imported.

In 2004, exports were valued at an estimated \$171 million, and imports were valued at an estimated \$159 million. In 2002, the Solomon Islands carried an external debt burden of \$180.4 million. The country receives approximately \$28 million annually in economic aid, primarily from Australia. Other important aid donors include New Zealand, the European Union, Japan, and Taiwan.

## 33 BANKING AND SECURITIES

The Solomon Islands Monetary Authority became the Central Bank of the Solomon Islands (CBSI) in January 1983. Three commercial banks also operate on the islands: The Australia and New Zealand Banking Group, Westpac (which took over the Hong Kong and Shanghai Banking Corp.'s local operations in mid-1988), and the National Bank of Solomon Island (NBSI). Only the NBSI has branches outside the capital. Most villages rely on credit

### Balance of Payments – Solomon Islands (1999)

(In millions of US dollars)

<b>Current Account</b>		<b>21.5</b>
Balance on goods	54.5	
Imports	-110.0	
Exports	164.6	
Balance on services	-31.2	
Balance on income	-16.9	
Current transfers	15.1	
<b>Capital Account</b>		<b>9.2</b>
<b>Financial Account</b>		<b>-33.8</b>
Direct investment abroad	...	
Direct investment in Solomon Islands	9.9	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	0.0	
Other investment liabilities	-43.7	
<b>Net Errors and Omissions</b>		<b>-1.6</b>
<b>Reserves and Related Items</b>		<b>4.7</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

unions. The government's 49% shareholding interest in the NBSI was sold to the National Provident Fund as a part of a privatization program in 1992. The remaining 51% is held by the Commonwealth Banking Corp. of Australia (CBC).

The government participates in private investment projects through a holding company, the Investment Corp. of Solomon Islands (ICSI), the successor to the Government Shareholding Agency. It holds the government's equity in other financial institutions, notably the Development Bank of Solomon Islands (DBSI), as well as in many other companies, some of which are foreign controlled. The government, via the ICSI, uses locally borrowed funds and foreign aid to assist industry. The government also guarantees commercial bank loans to companies in which the ICSI has an equity holding. The International Monetary Fund reports that in 1999, currency and demand deposits—an aggregate commonly known as M1—were equal to \$55.1 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$95.2 million.

### **34 INSURANCE**

Insurance is sold through representatives of foreign firms. In 1997, GRE Insurance, the National Insurance Co. of New Zealand, QBE Insurance, and Zürich Australian Insurance were operating in the Solomon Islands.

### **35 PUBLIC FINANCE**

The US Central Intelligence Agency (CIA) estimated that in 2003, the Solomon Islands' central government took in revenues of approximately \$49.7 million and had expenditures of \$75.1 million. Revenues minus expenditures totaled approximately -\$25.4 million. Total external debt was \$180.4 million.

### **36 TAXATION**

Individual incomes are taxed on a graduated scale ranging from 14% on the first S\$2,100 of taxable income to 42% on taxable income exceeding S\$14,700 for single taxpayers. Companies incorporated in the Solomon Islands are taxed at a fixed rate of 35%; a rate of 50% applies to those incorporated elsewhere. A value-added tax on telephone services, restaurant food, and overseas travel tickets went into effect in August 1990. Employers contribute 7.5% of employee wages for social security; employees contribute 5% minimum. On 1 July 1990, a resident withholding tax went into effect for royalties, fishing operations, sales of copra and cocoa, and certain other sources of income.

### **37 CUSTOMS AND DUTIES**

All products imported into the Solomon Islands are subject to customs duties and a 20% surcharge is levied on all ad valorem goods. Specific duties apply to alcoholic beverages, tobacco, rice, and sugar. Concessionary rates have been granted to imports of industrial machinery and equipment, raw materials, chemicals, and building materials. Licenses are required for the importation of firearms, ammunition, animals, seeds, soil, and plant material.

### **38 FOREIGN INVESTMENT**

The government encourages direct foreign investment through tax concessions, remission of customs duties, and other forms of assistance. Foreigners may repatriate profits (after taxes) and, un-

der most conditions, capital investments. A primary role in the development of resources is reserved for the government. In 1990, Lever Brothers opened a coconut oil plant at Yandina. In 2004, net inflows of foreign direct investment (FDI) amounted to -\$5 million.

## **39 ECONOMIC DEVELOPMENT**

The government has attempted to diversify agricultural production in order to make the economy less vulnerable to world price fluctuations of such key cash crops as copra. Important development projects during the 1980s included new sawmills, a fish cannery, a spice industry, and the Lungga hydroelectric plant. Fisheries receive significant portions of development funds. A rubber industry is being developed, and plans are under way to export the indigenous ngali nut as an upscale confectionery product under the name "Solomons nut."

Foreign assistance plays an essential role in the nation's development strategy; Australia and Japan are the largest donors. In 1996, the Solomon Islands received US\$46.4 million in aid. As of the mid-2000s, the country was receiving approximately US\$28 million annually in economic aid, primarily from Australia. Other important aid donors include New Zealand, the European Union, Japan, and Taiwan. Aid is also received from the IBRD and ADB. ODA net inflows for 2004 were US\$122.2 million.

## **40 SOCIAL DEVELOPMENT**

A National Provident Fund covering certain categories of wage workers age 14 and older provides old-age, disability, and survivor benefits in lump-sum payments. This program is financed from worker and employer contributions. Employers cover the cost of workers' compensation. The Employment Act mandates that employers pay dismissal indemnity of two weeks' wages for each year of employment. The bulk of organized welfare services are provided by church missions. In small villages and outlying areas, assistance is traditionally provided through the extended family.

Although women are accorded equal rights by law, their role is limited by customary family roles in most Solomon Islands societies. Due to cultural barriers, a majority of women are illiterate, which contributes to a general shortage of employment opportunities for women. Domestic abuse and violence are common.

The government generally respects the human rights of its citizens. However, the armed conflict between rival militias has resulted in the deterioration of human rights.

## **41 HEALTH**

Poor standards of general hygiene and inadequate sanitation continue to make malaria and tuberculosis endemic. Adequate sanitation is available to 60% of the entire Solomon Islands population.

Infant mortality was estimated at 21.29 deaths per 1,000 live births as of 2005; average life expectancy was an estimated 72.66 years. As of 2002, the crude birth rate and overall mortality rate were estimated at 33.3 and 4.2 per 1,000 people, respectively. As of 2004, there were an estimated 13 physicians and 80 nurses per 100,000 people.

The most prevalent disease reported is malaria. Many of the five island nations in the South Pacific have insufficient vitamin A levels. The incidence of xerophthalmia was present in 1.55% of all children in the Solomon Islands.

In 1999, 15 new cases of leprosy were reported by the World Health Organization, which is advocating multidrug therapy and screening of people in high-risk areas to counter the spread of this disease that was once believed to have been eradicated.

## 4<sup>2</sup> HOUSING

The government has built low-cost housing projects in Honiara to help ease congestion. Outside Honiara, housing is primitive, with overcrowding a problem even in the smaller villages. As of 1996, 80% of the population lived in villages of less than 300 people. According to a 1999 census, there were 65,014 households, 98% of which were single-family households. The average household had 6.3 members. Only 52% of all households had access to piped drinking water, 23% had modern toilet facilities, and 16% had access to electricity.

Since 1998, the government, through the Ministry of Lands and Housing, has been focusing on programs for improved housing and utilities for all.

## 4<sup>3</sup> EDUCATION

Education is not compulsory, and many schools charge fees. In 1976, the government began substantial aid to primary as well as secondary schools. Christian missions (mainly Anglican), supported by government grants, continue to provide some primary schooling. Primary school lasts for six years. This is followed by three years of lower secondary schooling, which is offered through provincial and community schools. An additional two years of upper secondary education is offered through a national secondary school. Students planning to enter university studies take a final year (sixth form). The academic year runs from February to November.

Primary school enrollment in 2003 was estimated at about 72% of age-eligible students. In 2001, secondary school enrollment was at less than 60% of age-eligible students. It is estimated that about 70% of all students complete their primary education.

Higher education is provided by the Solomon Islands Teachers College (Honiara), the Honiara Technical Institute, and the University of the South Pacific Solomon Islands Center, also in Honiara. As of 2003, public expenditures on education were estimated at 3.2% of GDP, or 15.4% of total government expenditures.

## 4<sup>4</sup> LIBRARIES AND MUSEUMS

The National Library (founded in 1974) in Honiara has two branches and a collection of over 100,000 volumes. The library at the Solomon Islands Center of the University of the South Pacific holds 9,000 volumes. The Solomon Islands National Museum and Cultural Center began collecting in the 1950s and opened a permanent site in 1969. The center promotes and provides research into all aspects of Solomon Island culture.

## 4<sup>5</sup> MEDIA

The main post office is at Honiara. In 2002, there were 6,600 mainline phones and 1,000 mobile phones in use nationwide. As of 2004, there were two privately owned radio stations and one public station operated by the Solomon Islands Broadcasting Corporation. Two television channels were sponsored by Australia's Asia-Pacific Service and British Broadcasting Corporation International. There were 80 radios and four televisions per 1,000 pop-

ulation in 1997. In 2003, there were 398 Internet hosts serving about 2,200 Internet users. Periodicals include the *Solomon Voice* (weekly, 2002 circulation 10,000), *Solomon Star* (weekly, circulation 4,000), and the *Solomon Nius* (monthly, 2,000). The government is said to generally respect constitutional provisions for freedom of speech and of the press.

## 4<sup>6</sup> ORGANIZATIONS

Cooperative societies are important in rural areas for the distribution of locally produced goods. Honiara has a chamber of commerce. YMCA and YWCA chapters are active. There are active sports associations in the country, including those representing such pastimes as tae kwon do, tennis, yachting, and weightlifting; most sports groups are affiliated with the national Olympic Committee. The Solomon Island Graduate Women's Association helps support the advancement of women in business and education. There are also chapters of Habitat for Humanity and the Red Cross.

## 4<sup>7</sup> TOURISM, TRAVEL, AND RECREATION

Tourism, although encouraged by the government's Tourist Authority, is not seen as a major growth area due to lack of investment. Visitors are drawn to the ecotourism resorts of the Marovo Lagoon. Fishing and diving are the main attractions. Popular pastimes include rugby, football (soccer), basketball, football, and water sports. All visitors are required to carry a passport and an onward/return ticket.

## 4<sup>8</sup> FAMOUS SOLOMON ISLANDERS

Sir Peter Kenilorea (b.1943), Solomon Mamaloni (1943–2000), Ezekiel Alebua (b.1947), and Sir Allan Kemakeza (b.1951) were among the Solomons' political and government leaders from independence into the mid-2000s.

## 4<sup>9</sup> DEPENDENCIES

The Solomon Islands have no territories or colonies.

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# SRI LANKA

Democratic Socialist Republic of Sri Lanka  
*Sri Lanka Prajathanthrika Samajavadi Janarajaya*



**CAPITAL:** Colombo

**FLAG:** The national flag contains, at the hoist, vertical stripes of green and saffron (orange-yellow) and, to the right, a maroon rectangle with yellow bo leaves in the corners and a yellow lion symbol in the center. The entire flag is bordered in yellow, and a narrow yellow vertical area separates the saffron stripe from the dark maroon rectangle.

**ANTHEM:** *Sri Lanka Matha (Mother Sri Lanka).*

**MONETARY UNIT:** The Sri Lanka rupee (₨) of 100 cents is a paper currency with one official rate. There are coins of 1, 2, 5, 10, 25, and 50 cents and 1 and 2 rupees, and notes of 10, 20, 50, 100, 500, and 1,000 rupees. ₨1 = \$0.00998 (or \$1 = ₨100.19) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the national standard, but British weights and measures and some local units also are used.

**HOLIDAYS:** Independence Commemoration Day, 4 February; May Day, 1 May; National Heroes Day, 22 May; Bank Holiday, 30 June; Christmas Day, 25 December; Bank Holiday, 31 December. Movable holidays include Maha Sivarathri Day, Milad-an-Nabi, Good Friday, 'Id al-Fitr, Dewali, and 'Id al-Adha'; in addition, the day of the rise of the full moon of every month of the Buddhist calendar, called a Poya day, is a public holiday.

**TIME:** 5:30 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Sri Lanka (formerly Ceylon) is an island in the Indian Ocean situated south and slightly east of the southernmost point of India, separated from that country by the 23 km- (14 mi-) wide Palk Strait. Including 870 sq km (336 sq mi) of inland water, Sri Lanka has a total area of 65,610 sq km (25,332 sq mi), extending 435 km (270 mi) north-south and 225 km (140 mi) east-west. Sri Lanka's total coastline is 1,340 km (833 mi). Comparatively, the area occupied by Sri Lanka is slightly larger than the state of West Virginia. Sri Lanka's capital city, Colombo, is located on the southwest coast.

## <sup>2</sup> TOPOGRAPHY

The south-central part of Sri Lanka is a rough plateau cut by a range of mountains whose highest peak is Pidurutalagala, 2,524 m (8,281 ft). Narrow coastal plains skirt the mountainous section on the east, south, and west, but in the north the extensive coastal plain fans out, reaching from the eastern to the western shores of the island. Five-sixths of the land is less than 300 m (1,000 ft) in elevation. Numerous rivers and streams flow seaward in all directions from the central mountain area; the longest river, flowing northeastward, is the Mahaweli Ganga (332 km/206 mi).

Both the eastern and western coasts of Sri Lanka were hit by a catastrophic tsunami on 26 December 2004. Stemming from an underwater earthquake 324 km (180 mi) south of Indonesia's Sumatra island, waves reaching 12 m (40 ft) rolled onto the coasts, killing almost 40,000 residents and tourists. More than 1.5 million were left without homes.

## <sup>3</sup> CLIMATE

The climate, although tropical and monsoonal, varies from warm in the coastal plains and lowlands to temperate in the hill and mountain regions. The lowlands in the northeast receive an average rainfall of about 130 cm (50 in), and the hill country in the southwest has an average of 254 to 508 cm (100 to 200 in), most of the rain coming during the monsoon season. Elsewhere, average rainfall varies from 63 cm (25 in) to 190 cm (75 in). Located only 879 km (546 mi) north of the equator, Sri Lanka has neither summer nor winter but only rainy and dry seasons. Average temperature is 27°C (80°F).

## <sup>4</sup> FLORA AND FAUNA

Most plants and animals are those common to southern India, but there are additional varieties. The plant life ranges from that of the equatorial rain forest to that of the dry zone and the more temperate climate of the highlands. Tree ferns, bamboo, palm, satinwood, ebony, and jak trees abound. The wide range of mammals, birds, and reptiles once found in Sri Lanka has been reduced by the conversion of forests into rice fields, but water buffalo, deer, bear, elephants, monkeys, and leopards are among the larger animals still present. The Ceylon elk (*sambhur*) and the polonga snake are unique to Sri Lanka. Birds are numerous, many varieties from colder countries wintering on the island. Sri Lanka has well-organized game and bird sanctuaries. Insects abound and numerous fish are found in the shallow offshore waters. As of 2002, there

were at least species of 88 mammals, 126 species of birds, and over 3,300 species of plants throughout the country.

## 5 ENVIRONMENT

Sri Lanka's principal environmental problem has been rapid deforestation, leading to soil erosion, destruction of wildlife habitats, and reduction of water flow. The government began a reforestation program in 1970, and since 1977, it has banned the export of timber and the felling of forests at elevations over 1,500 m (5,000 ft) and the export of timber. Nevertheless, between 1981 and 1985, some 58,000 hectares (143,000 acres) of forestland were lost each year. From 1990–2000, the annual rate of deforestation was 1.6%.

The nation's water has been polluted by industrial, agricultural, and mining by-products along with untreated sewage. Air pollution from industry and transportation vehicles is another significant environmental concern. The main environmental agency is the Central Environmental Authority within the Ministry of Industry and Scientific Affairs.

Although legislation to protect flora and fauna and to conserve forests has been enacted, there has been inadequate enforcement of the laws, and the nation's wildlife population has been reduced by poaching. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), the number of threatened species includes 21 types of mammals, 16 species of birds, 8 types of reptiles, 44 species of amphibians, 23 species of fish, 2 species of invertebrates, and 280 species of plants. Threatened species include the Asian elephant, green labeo, spotted loach, and four species of turtle (green sea, hawksbill, olive ridley, and leatherback). Over a dozen species of amphibians have become extinct.

## 6 POPULATION

The population of Sri Lanka in 2005 was estimated by the United Nations (UN) at 19,722,000, which placed it at number 53 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.3%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 22,208,000. The overall population density was 301 per sq km (779 per sq mi); however, about 50% of the population is concentrated in the southwestern quarter of the island.

The UN estimated that 30% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 1.13%. The capital city, Colombo, had a population of 648,000 in that year. Other urban centers and their estimated populations are Dehiwala-Mt. Lavinia, 209,787; Moratuwa, 177,910; Jaffna, 145,600; Kotic, 109,000; and Kandy, 161,395.

## 7 MIGRATION

Under an agreement signed in 1964, India pledged to repatriate 525,000 of the 975,000 persons of Indian origin (Tamils) then on the island, while Ceylon agreed to absorb 300,000 and grant them Ceylonese citizenship. Of the remaining 150,000, 75,000 were repatriated by a separate agreement concluded in 1974, and an equal number became citizens of Sri Lanka. Due to military ac-

tivities in 1995 and 1996, an estimated 650,000 people have been internally displaced. As of May 1997, India's Tamil Nadu state had around 56,000 refugees from Sri Lanka, with another 36,000 throughout India. Repatriation to Sri Lanka has ceased since the military conflicts started again in 1995. Over 54,000 refugees have returned from southern India since 1992. In 2004, there were 63 refugees and 48 asylum seekers in Sri Lanka. However, there were also 352,374 internally displaced persons (IDPs), 33,370 returned IDPs, and 170,000 stateless persons.

In 2003, worker remittances to Sri Lanka were estimated at \$1.3 billion a year, equivalent to 8% of Sri Lankan GDP. Most remittances are from maids in the Middle East; there are about 350,000 Sri Lankans in Saudi Arabia, followed by 80,000 in Lebanon, 40,000 each in Kuwait and Oman, 30,000 each in Qatar and Jordan, and about 160,000 in the United Arab Emirates. Annually, some 200,000 Sri Lankans go abroad to work in Middle Eastern countries, Western Europe, Australia, and North America. By some estimates, about 600,000 of the one million Sri Lankans abroad are domestic helpers.

In 2005, the net migration rate was an estimated -1.27 migrants per 1,000 population. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

According to data from 2002, the Sinhalese constitute the largest population group, making up 74% of the total population. Sri Lankan Tamils (descendants of medieval invaders from India) total 18%; Sri Lankan Moors 7%; Burghers (descended from the Dutch), Malays (mostly of Arab extraction), and Veddas account for 1%. The Veddas are a small aboriginal tribe located in the most inaccessible forest regions of southeastern Sri Lanka.

## 9 LANGUAGES

English was the official language under the British and remained so until 1956, when Sinhala became the nation's official language. This measure was bitterly opposed by the Tamil minority. Riots, disorders, and dissension grew, leading to a Tamil civil disobedience campaign and a temporary state of emergency. Tamil was added as an official language in 1988.

Sinhala is a member of the Indo-Aryan subgroup of the Indo-European language family, related to Pali. Tamil is a Dravidian language spoken in northern and eastern Sri Lanka and in southern India. Sinhala is spoken by approximately 74% of the population; Tamil is spoken by 18%. English is also commonly used in government and is spoken by about 10% of the population.

## 10 RELIGIONS

Of the total population, Buddhists constitute nearly 70% of the people and are almost without exception ethnic Sinhalese who practice Theravada Buddhism; Hindus amount to 15% of the total population and are almost exclusively ethnic Tamils; Muslims account for 7% (and may or may not be Tamil speakers) and include the Moor and Malay communities; and Christians, accounting for 8%, are to be found in the Sinhalese, Burgher/Eurasian, and Sri Lankan Tamil communities (not to be confused with the so-called Indian Tamils, who were imported as plantation workers in the last century and are exclusively Hindu). A majority of Christians are Roman Catholic, with Anglicans and Baptists also significant,

the latter the result of American missionary activity in the north in the 19th century.

The 1978 constitution established Sri Lanka as a secular state and guarantees freedom of religion; however, the document also stipulates that Buddhism enjoys the foremost place in the republic, and there have been some restrictions on religious freedom. In 2003, a bill was presented to the cabinet that would make all religious conversions illegal. Though there has been much debate about the bill, by late 2005 it had not yet been enacted.

## 11 TRANSPORTATION

In 2002, the country had an estimated 11,650 km (7,246 mi) of highways, of which 11,068 km (6,884 mi) were paved. Registered motor vehicles numbered 695,330 in 2003, including 321,330 passenger cars and 374,000 commercial vehicles.

In 2004, there were 1,449 km (901 mi) railroad track, all broad gauge, and all state owned and state operated.

Colombo, one of the great commercial seaports of Asia, formerly was an open roadstead, but the construction of breakwaters has made it one of the world's greatest artificial harbors. In 2005, the merchant fleet consisted of 23 ships of 1,000 GRT or more, totaling 120,924 GRT. Ports of the open roadstead type are Trincomalee, Galle, Batticaloa, Kankasanturai, Kayts, and Jaffna. A car ferry service links Mannar Island with the Indian mainland. As of 2004, Sri Lanka had 160 km (99 mi) of navigable inland waterways, primarily on rivers in the southwestern part of the country.

Sri Lanka had an estimated 14 airports in 2004, of which 14 had paved runways as of 2005. The principal international airport is Katunayaka, 39 km (24 mi) north of Colombo. Air Lanka (formerly Air Ceylon), the national airline company, serves international routes only. Upali Travels, a private carrier, provides domestic service. In 2003, about 1.958 million passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The Sinhalese, early Indo-European-speaking settlers, arrived in what is present-day Sri Lanka, in the 6th century BC, probably from northern India. Later arrivals from India brought Buddhism beginning about 240 BC. The practice of Buddhism set Sri Lanka apart from southern India, where Hinduism was the major religion. The presence of Tamil Dravidian speakers is noted in many ancient texts from the region, and for much of the first millennium AD, the Sri Lankan peninsula was controlled by Tamil Dravidians, whose primary religion was Hinduism. However, following a series of civil wars between the Sinhalese and Tamils, Vijayabahu reestablished the Sinhalese dynasty in the 11th century. In the 12th century, the Sinhalese king Parakrama Bahu I united the entire island.

The Portuguese East India Company brought the first European rulers in the early 16th century, and in time, the Portuguese conquered the entire island, with the exception of the Sinhalese kingdom in Kandy in the central plateau. By the middle of the 17th century, the Portuguese had been driven out of Sri Lanka (and southern India) by the Dutch East India Company, which governed for more than 100 years, introduced plantation agriculture, developed trade, and left a legacy that includes Roman-Dutch law and a group of people of Dutch-Sinhalese ancestry known as Burghers. But they, too, found themselves displaced.



LOCATION: 5°55' to 9°50' N; 79°42' to 81°53' E. TERRITORIAL SEA LIMIT: 12 miles.

Having won their struggle with France for mastery in India (and in North America), the British laid claim to Sri Lanka, which they called Ceylon, at the end of the 18th century after the Netherlands fell under French control. After a brief period as part of the British East India Company's Indian domain, Ceylon was designated a Crown colony in 1802, and by 1815, the entire island was united under British rule. The British introduced coffee, tea, coconut, and rubber plantations, and their own form of administration.

With the development of a nationalist movement across the Palk Strait in India in the 20th century, nationalists in Ceylon also pressured for greater self-rule, leading to further democratic political reforms in constitutions enacted in 1910, 1920, 1924, 1931,

and 1947; included in the 1931 enactment was limited self-rule under universal suffrage. In 1948, with little actual struggle, and a year after Indian independence, Ceylon became a self-governing dominion within the British Commonwealth.

The period from 1948 through 1970 saw the evolution of Ceylon's multiparty parliamentary system, in which orderly and constitutional elections and changes of government took place. Beginning in 1970, executive power began to be highly centralized under Prime Minister Sirimavo Bandaranaike, who from 1971 to 1977 ruled with the use of unpopular emergency powers in support of her socialist, pro-Sinhalese policies. She introduced a new constitution in 1972, converting the dominion of Ceylon to the republic of Sri Lanka, reaffirming a parliamentary system under a weak, ceremonial presidency, and making the protection of Buddhism a constitutional principle.

The defeat of the Sri Lanka Freedom Party (SLFP) in the July 1977 elections brought Junius Richard Jayewardene of the more moderate United National Party (UNP) to power. He became Sri Lanka's first elected executive president in February 1978, under a constitutional amendment of fall 1977 establishing a presidential form of government. Seven months later, a new, more liberal constitution came into effect. As his prime minister, Jayewardene chose Ranadive Premadasa, a long-time follower with lower-caste support. In October 1982, Jayewardene was popularly elected to a new six-year term, and two months later, in a successful effort to avoid general elections, the life of the sitting parliament was extended through July 1989 by means of a constitutional amendment endorsed by popular referendum.

Since 1978, rising tensions and violence between the majority (mostly Buddhist) Sinhalese and minority (mostly Hindu) Sri Lankan Tamil communities that have long shared the island have dominated political life. The strife dates to 1956, when the Sinhalese-dominated government had declared Sinhala the official language and replaced English with separate language tracks in education for Sinhala and Tamil speakers. In the late 1970s, moderate Sri Lankan Tamils looked to the leadership in the Tamil United Liberation Front (TULF) and to negotiations with the new UNP government in 1978 to pursue changes aimed at protecting their cultural heritage by giving greater control to elected officials in areas where Sri Lankan Tamils were in the majority.

By the early 1980s, their efforts had failed. Participation in parliament as a responsible opposition had brought no changes, and many rounds of talks with Jayewardene and the majority Sinhalese community had netted no progress in redressing Tamil grievances. Violence was on the rise, and a spasm of communal bloodletting in summer 1983 left hundreds, if not thousands, dead in Colombo and elsewhere. By 1984–85, Sri Lankan Tamil leadership had fallen into the hands of extremists advocating violence, dooming to failure before it began the government's eleventh-hour convening of an all-party conference in 1984 to seek a political solution to the ethnic conflict.

Fighting between the Sinhalese-dominated army and Sri Lankan Tamil separatists escalated in 1986 and 1987, with no solution in sight. It should be noted that the insurgency is limited to the larger group of Sri Lankan Tamils. A different group of Tamils, known as Indian Tamils or Estate Tamils, has little role in the insurgency. These communities consist of plantation workers

brought to Sri Lanka from India to work in the highlands at the center of the island.

In the spring of 1987, the government began a military offensive against Tamil forces in the Jaffna Peninsula in the Northern Province. India, sensitive to its own large Tamil population just across the strait, served as a base for rebels. Earlier, the Indian government had attempted to negotiate a settlement between the Sri Lankan government and the rebels, but in 1987, India reacted to the offensive by airlifting food and supplies to the rebels, creating considerable tension between the two countries. On 29 July, Jayewardene and Prime Minister Rajiv Gandhi of India signed an agreement by which the Sri Lankan government reluctantly accepted the need for devolution of power to the provinces, agreed that Tamil would have official status, and conceded that a semi-autonomous administrative unit would be created for the Tamils in the Northern and Eastern provinces, subject to a vote by the Eastern Province on joining such a unit. An Indian peacekeeping force, which eventually grew to more than 100,000 troops, was sent to Sri Lanka to implement the agreement and enforce a cease-fire. But in the fall of 1987, Tamil separatists—organized as the Liberation Tigers of Tamil Ealam (LTTE)—resumed their attacks, killing about 300 people. When they refused the protection of the Indian Peacekeeping Force (IPKF), the IPKF launched an offensive against the rebel stronghold in Jaffna. Fighting continued, inconclusively, between the IPKF and (mainly) the LTTE for 18 months thereafter, with heavy casualties on both sides.

Meanwhile, through 1988 and 1989, the government was under attack from the militant Sinhalese nationalist political party, Janatha Vimukthi Peramuna (JVP), which sought its overthrow for agreeing to the presence of Indian forces in Sri Lanka. The rebellion was put down firmly and brutally by President Premadasa, who succeeded Jayewardene in 1988 in a close race against Sirimavo Bandaranaike.

In 1990, V. P. Singh, who had replaced Rajiv Gandhi as Indian prime minister, agreed to Sri Lanka's request that India pull its forces out of the country. With the JVP opposition eliminated and the Indians gone, Premadasa turned his attention to the possibility of expanding the new situation, including a *de facto* cease-fire with the LTTE, into a negotiated settlement. But a new spasm of LTTE violence in the Eastern Province led him to order an all-out army and air force campaign against the north in the second half of 1990, and guerrilla warfare resumed. Through 1991 and 1992, Premadasa's government continued to pursue the possibility of a negotiated settlement with the LTTE, denying it sought a military solution. But the LTTE's Velupillai Prabhakaran, dominating the separatist side, rejected most government terms.

Fighting between the LTTE-led rebels and the Sri Lankan army continued through the 1990s and early part of the 21st century, despite repeated efforts to forge a cease-fire.

In late January 1998, following a suicide bombing in Kandy at the "Temple of the Tooth," Sri Lanka's most sacred Buddhist shrine, the government formally outlawed the LTTE. Following a spate of bombings and the assassinations of moderate Tamil leaders in Jaffna, the government declared a national state of emergency in August 1998.

The Sri Lankan government's war against the LTTE has fared badly. By 2005, the LTTE controlled much of the northern and eastern coastal areas of Sri Lanka. As of February 2003, the num-

ber of people killed in the fighting was approximately 65,000, and the number displaced was 1.6 million. In February 2002, Sri Lanka and the LTTE signed a cease-fire agreement that implied the two sides would move toward peace talks. The LTTE insisted the government lift its ban on the group before peace talks could begin. In May, the two sides held their first direct talks in seven years. In early September, the Sri Lankan government lifted its ban on the LTTE, and on 16 September formal peace talks were held in Thailand. The most difficult issue to be resolved, whether the north and east would be independent or autonomous, was initially shelved. However, in four days of peace talks held in Oslo, Norway, in December, the government and the LTTE agreed to share power in a federal system. The Tamils would have autonomy in the north and east of the island, but not a separate state.

Despite repeated threats of a renewal of violence, the fragile cease-fire held through 2005. However, the LTTE continued to press for an independent Tamil homeland, much to the frustration of the Sinhalese majority government. On 26 December 2004, the Indian Ocean tsunami hit Sri Lanka, leaving more than 30,000 people dead and devastating much of the area that the LTTE controlled. Although the government and LTTE bickered over distributions of foreign aid, a mechanism for sending assistance to rebel-held areas was in place in mid-2005. However, elections in 17 November 2005 appeared to compromise that agreement, leading many to fear that Sri Lanka might once again fall into civil war. The new president, Mahinda Rajapakse, promised to take a hard-line stance against the LTTE. The rebels responded in late December with a series of attacks that prompted Hagrup Haukland, head of a cease-fire monitoring team, to warn that if the violence did not stop, "war may not be far away."

### **13 GOVERNMENT**

The constitution of September 1978 established the Democratic Socialist Republic of Sri Lanka as a free, sovereign, independent state based on universal suffrage at 18 years of age. The president of the republic is directly elected for a six-year term and serves as head of state and as executive head of government, appointing and heading the cabinet of ministers, whom he or she chooses and who are (or must quickly become) members of parliament. A prime minister, similarly selected, serves mainly as parliamentary leader.

Legislation approved by parliament cannot be vetoed by the president, and the president may be removed by parliament upon a two-thirds majority vote, following a finding by the Supreme Court of incapacity, treason, corruption, or intentional constitutional violation. The constitution can be amended by a two-thirds majority vote in the parliament, subject to ratification (for certain provisions) by popular referendum. The constitution provides that popular referenda also may be held on issues of national importance, but the normal business of legislation is in the hands of a unicameral parliament consisting first of 168—now 225—members elected for six-year terms under a proportional representation system. The sitting parliament elected in July 1977 took the unusual step of extending its own life for another six years by a national referendum in 1982, thus avoiding elections in which the competition for places on the ballot might have weakened the United National Party's (UNP) constitution-amending two-thirds majority.

In June 1994, the Wijetunga government scheduled "snap" elections for parliament on 16 August 1994, six months earlier than would have been required; elections to the presidency followed parliamentary polling. Paced by the electoral appeal of Sri Lankan Freedom Party (SLFP) deputy leader Chandrika Bandaranaike Kumaratunga, the People's Alliance of seven leftist parties won a clear plurality in the elections, ousting the UNP after 17 years in power. To the 91 parliamentary seats the alliance won directly were added an additional 14 under the proportional system, and with the further support of 9 members of the Sri Lanka Muslim Congress, the new People's Alliance government was able to command a majority of 114 seats in the 225-member house and to elect Kumaratunga as leader of the house, facilitating her prompt appointment as prime minister—an office previously held by both her ailing 80-year old mother and her late father, S.W.R.D. Bandaranaike.

Because the presidential system incorporated in the 1978 constitution vests the substantial powers of head of state and head of government in the hands of the president, Kumaratunga's capacity for independent action remained limited. As prime minister, she was actually little more than leader of the house, but in the November 1994 presidential elections, Kumaratunga, who is the daughter and the widow of prominent Sri Lankan politicians (both of whom were assassinated) was elected president by a sizeable majority. After assuming office, she appointed her mother, Sirimavo Bandaranaike, prime minister. Upon being elected, she made her primary issue a negotiated peace with the Tamil separatists. Kumaratunga's repeated offers of limited sovereignty within a greater Sri Lankan state were spurned by the Tamils. Attempts to subdue the Tamils by military force also failed, with the Sri Lankan army suffering serious reversals in November 1999. Despite this, in December 1999, Kumaratunga won a second six-year term in office as Sri Lanka's president. Kumaratunga's People's Alliance party was defeated in parliamentary elections held in December 2001, and Ranil Wickremasinghe of the UNP became prime minister. A cease-fire between the Tamils and the government was signed in February 2002, and peace talks began later that year. As of February 2003, there was friction between the People's Alliance and its partner, the People's Liberation Front, and Wickremasinghe's government, largely over the terms of the agreements being made with the Liberation Tigers of Tamil Eelam (LTTE). Elections on 17 November 2005 installed Mahinda Rajapakse as president. The fragile truce between the LTTE and the government began to unravel shortly thereafter. Although Rajapakse offered to resume talks, the LTTE portrays him as a pro-Sinhala chauvinist. Rajapakse's victory also resulted from his appeals to Sri Lanka's pro-Sinhala majority to take a hard line against the rebels. The next presidential elections are scheduled for 2011.

### **14 POLITICAL PARTIES**

Political life in Sri Lanka is open and vigorous, with a wide range of views represented among the political parties, many of which have their roots deep in the pre-independence era. In the time since independence, considerations of religion, language, and culture have largely displaced ideology as the issues around which multi-ethnic Sri Lanka's political life evolves. In the last decade, ethnic struggle—and violence—between the government, domi-

nated by majority Sinhalese, and militant minority Tamil separatists has dominated the political process.

The United National Party (UNP) was the main party of the independence movement, and its widely respected leader, D. S. Senanayake, as head of a coalition of which the UNP was the chief unit, became Ceylon's first prime minister after independence. He won a major victory in 1952 and continued in power until he died in 1956. The divided opposition failed to agree on a leader until 1951, when Solomon Bandaranaike left the UNP to form the Sri Lanka Freedom Party (SLFP). Over the years, the SLFP became the island's other major political party, advocating—like the UNP—a nonaligned foreign policy, with the UNP friendlier to the West, the SLFP to the former Eastern bloc. Both find their support from within the majority Sinhalese community, and like most other parties, both are led mostly by high-caste Sinhalese.

Shortly before the 1956 elections, Bandaranaike formed the People's United Front (Mahajana Eksath Peramuna—MEP), composed of his own SLFP, the Trotskyite Lanka Sama Samaja (LSSP), and a group of independents. The MEP called for the extension of state control, termination of British base rights, nationalization of tea and rubber plantations, and a foreign policy of strict non-alignment. In the elections, the MEP won 51 seats, and Bandaranaike became prime minister, holding power until September 1959 when he was assassinated by a Buddhist monk.

In the elections of March 1960, the UNP won 50 of the 151 seats at stake; the SLFP, 46 seats; and other parties, the remaining 55. UNP leader Dudley Senanayake failed to muster a majority, and new elections were called for July. In this second round of polling, the UNP won a majority of the popular vote but only 30 seats. The SLFP, led by its slain leader's widow, Sirimavo Bandaranaike, won 75, and with her supporters on the left, she was able to form a government, becoming the first woman in the world to hold office as prime minister. She committed her government to pursuing continuation of her husband's agenda, including nationalization of enterprises.

In the 15 years that followed, the UNP and the SLFP alternated in power for periods no longer than seven years. In 1965, Dudley Senanayake became prime minister after the UNP won 66 of the 151 legislative seats, but the SLFP's Sirimavo Bandaranaike was returned to power in the 1970 elections as the head of a coalition that included the Trotskyite LSSP and the pro-Soviet Ceylon Communist Party (CCP). In response to an insurrection fomented in 1971 by the Janatha Vimukthi Peramuna (JVP), a militant Sinhalese party in the south, Bandaranaike imposed a state of emergency on the island that lasted for six years. She pushed through a new constitution in 1972.

By 1977, Bandaranaike's public image had declined. No longer supported by her former coalition partners, she was humiliated at the polls by J. R. Jayewardene's UNP, which was returned to power with 51% of the popular vote and 142 of 168 seats in parliament. The moderate Tamil United Liberation Front (TULF), which had swept Tamil areas of the north and east, became the major opposition party in parliament with 16 seats, and the SLFP representation in the house fell to a bare eight seats.

Jayewardene's sweeping victory enabled him to fulfill the UNP's campaign pledge to introduce a French-style presidential system of government. Forsaking the now-eclipsed office of prime minister, he set out as president to use his new powers to open the

economy and to make a new effort to reconcile with the increasingly disaffected Tamil minority. In the local elections and parliamentary by-elections of May 1983, the UNP strengthened its commanding position by gaining control of a majority of municipal and urban councils and winning 14 of 18 parliamentary seats contested.

The CCP and two other leftist groups, the People's Liberation Front and the New Socialist Party, were banned in 1983 on charges of playing a role in the ethnic riots that swept the island in July; leaders of the Communist Party were subsequently arrested. In August 1983, TULF members of parliament, after several fruitless years of negotiations with Jayewardene aimed at devolving power to local levels, were confronted with a constitutional amendment aimed at them by the UNP's two-thirds majority that required all MPs to pledge their allegiance to a unitary state. They abandoned parliament, and by now most have been killed, as the leadership of the Tamil movement fell into the hands of those advocating violence and complete independence as the only sure ways to protect Tamil ethnicity. The TULF was decimated in parliamentary elections in February 1989, which saw the emergence of several small Tamil parties with reputed ties to the rebels.

In presidential elections held in December 1988, Prime Minister Premadasa beat the SLFP's Sirimavo Bandaranaike in a close race marred by ethnic violence. He was sworn in as Jayewardene's successor on 2 January 1989. In February, he led the UNP to a strong victory in parliamentary polling, capturing 125 of the 225 seats under a new proportional voting system; he then named Dingiri Wijetunga as prime minister. These elections also saw the debut of the United Socialist Alliance (USA), a new political grouping set up in 1987 and composed of the SLFP's former coalition partners on the far left, including the CCP, the LSSP, and the Sri Lanka Mahajana Party (SLMP); the USA took 4 seats, while the SLFP won 67.

In the summer of 1991, Premadasa beat back a sudden challenge to his position by leading members of his party in parliament, suspending the parliament for a month to delay debate on a motion they had filed to impeach him for abuse of his authority. But in a rising tide of violence and assassinations of governmental officials across the island, President Premadasa himself became a victim of a Tamil bomber on 1 May 1993. The Parliament unanimously elected Prime Minister Wijetunga as his successor on 7 May 1993.

A "snap" election called six months early by President Wijetunga as part of his campaign for reelection in November 1994 backfired on 16 August 1994 when the voters rejected the UNP by a small margin. In its place, they elected a seven-party leftist coalition—now dubbed the People's Alliance (PA)—led by the SLFP's Sirimavo Bandaranaike and Chandrika Bandaranaike Kumaratunga—mother and daughter, 80 and 49 years of age, respectively. More vigorous but less experienced, the younger Kumaratunga promptly became prime minister.

Kumaratunga won election on the promise of ending the civil war. Her offers of limited regional autonomy for Tamils within the Sri Lankan state were initially turned down by the LTTE leader, Velupillai Prabhakaran (most of the moderate Tamil leaders have been assassinated). Her attempts at a military solution were also unsuccessful until a cease-fire and peace talks emerged in 2002. Citing parliament's rejection of her proposals for strengthening

the prime minister's powers and for granting regional autonomy to the Tamils, Kumaratunga called for presidential elections ahead of schedule in December 1999. The race between the president and her UNP rival, Ranil Wickremasinghe, was close. However, three days before polling, Kumaratunga was injured in an assassination attempt, bringing out a sympathy vote. She was returned to office with 51.1% of the votes compared to her opponent's 42.7%. In November 1994, presidential elections were held. UNP leader Gamini Dissanayake fell victim to the island's endemic violence and his widow Srimala Dissanayake was appointed to run against the younger Kumaratunga. While the latter's political party won only a slim plurality and had to govern by coalition, in the presidential race she won a commanding majority (63–36%) and, upon becoming president, appointed her mother prime minister. Despite criticisms over the handling of Sri Lanka's tsunami relief efforts, the SLFP retained its leadership on 17 November 2005 when Mahinda Rajapakse won a slim majority.

The results of the 2 April 2004 parliamentary elections were as follows: SLFP and JVP, 45.6% (105 seats); UNP, 37.83% (82 seats); TNA, 6.84% (22 seats); JHU, 5.97% (9 seats); SLMC, 2.02% (5 seats); UPF, .54% (1 seat); EPDP, .27% (1 seat), and other, .93%.

The next parliamentary elections are scheduled for 2010.

## **15 LOCAL GOVERNMENT**

Although Sri Lanka is a unitary state, it is divided into eight provinces whose borders follow historical and traditional lines. The key administrative unit has traditionally been the district, into which the provinces are further divided. There are a total of 25 districts under the control of senior civil servants, who are district officers responsible to the government in Colombo for ensuring justice, maintaining law and order, collecting revenues, and allocating development funds. There is, in addition, a system of district ministers that was created after 1978 to assist the district officers and to provide political input at the district level. Appointed by the president, district ministers are members of parliament but from a constituency other than one in the district for whom they bear district responsibility. Not full members of the cabinet, they nonetheless sit with the president in the Council of Ministers and otherwise enjoy ministerial perquisites.

Districts are also served in rural areas by popularly elected district councils which have limited powers but which assist the district officer and the district minister in assessing public views and mood and in setting development priorities. Municipal councils, urban councils, and Pradeshiya Sabhas perform a similar function in urban and rural areas. Their term of office is four years. Currently there are 14 municipal councils, 37 urban councils, and 258 Pradeshiya Sabhas. In general, municipal councils are established for cities and large towns, urban councils for less urbanized areas, and Pradeshiya Sabhas for rural areas.

In conformity with an Indo-Lankan agreement in 1987 to devolve power to the provinces, the parliament voted to establish, at the provincial level, elected councils headed by chief ministers. In the presence of the IPKF in 1988, elections were held to these provincial councils (PC), and the UNP took control of seven in non-Tamil areas; the Eelam People's Revolutionary Liberation Front (ERPLF), a new, anti-LTTE Tamil party, supported at the time by the IPKF, took control of the two in the Tamil north and east. While unsettled conditions have slowed progress on devolution,

elections to the seven PCs in non-Tamil areas in 1993 reportedly produced more mixed results, with gains and losses for all parties, including the UNP, the SLFP, and the ERPLF. Although the PA was successful in gaining control of provincial councils in elections held in 1997 and 1999, its share of the popular vote showed it running neck and neck with the opposition. For example, in elections held in April 1999 in non-Tamil areas, the PA gained control of all the provincial councils contested, but only achieved 43% of the votes compared to the UNP's 41%. However, district elections for Colombo held on 10 October 2000 saw the UNP take 43.45% of the vote to the People's Alliance's 38.86%. In local elections held in March 2002, the UNP won a sweeping victory, taking all but 5 of the 222 councils that voted.

## **16 JUDICIAL SYSTEM**

Civil law is based on Roman-Dutch law introduced during the period of Dutch rule, but in the area around Kandy, an indigenous type of law prevails. Criminal law is British. Tamil Hindus and Muslims have their own laws governing property disposition and certain observances. Sri Lanka's judicial system includes district courts, magistrates' courts, courts of request (restricted to civil cases), and rural courts.

In criminal cases, the Supreme Court (composed of a chief justice and 6 to 10 associate justices, all appointed by the president) has appellate jurisdiction. Under the 1978 constitution, the other high-level courts are the Court of Appeal, High Court, and courts of first instance. The president also appoints judges to the Court of Appeals and the High Court. A judicial service commission appoints transfers and dismisses lower court judges. Sinhala is the official language of the courts.

The constitution declares the independence of the judiciary, and the courts appear to be independent in practice.

Defendants are guaranteed a number of procedural due process protections, but trials under the Emergency Regulations (ER) and the Prevention of Terrorism Act (PTA) lack significant procedural safeguards.

## **17 ARMED FORCES**

In 2005, Sri Lanka's armed forces had 111,000 active personnel, with 5,500 reservists. The Army numbered 78,000. Equipment included 62 main battle tanks, 15 reconnaissance vehicles, 62 armored infantry fighting vehicles, 192 armored personnel carriers, and 963 artillery pieces. The Navy had personnel numbering 15,000, manning five bases with up to 113 patrol/coastal vessels and four amphibious landing craft. The Air Force had 18,000 personnel and operated 21 combat-capable aircraft that included 13 fighter ground attack aircraft, in addition to 14 attack helicopters. The country's paramilitary forces had an estimated 88,600 active personnel in a police, national guard, or home guard role. Sri Lankan forces are deployed in four countries as United Nations peacekeepers. In 2005, the defense budget totaled \$564 million.

## **18 INTERNATIONAL COOPERATION**

Sri Lanka was admitted to the United Nations (UN) under the name Ceylon on 14 December 1955; it is a member of ESCAP and several nonregional specialized agencies, such as the FAO, UNESCO, UNIDO, UNCTAD, the World Bank, IAEA, ILO, and the WHO. The nation is also a member of the Asian Development

Bank, the Commonwealth of Nations, the Colombo Plan, the WTO, G-15, G-24, and G-77. Sri Lanka is a member of the South Asian Association for Regional Cooperation (SAARC), which promotes economic and social development for its South Asian member states. The country holds observer status in the OAS.

Sri Lanka was a founding member of the Nonaligned Movement. The government has offered support to UN missions and operations in Western Sahara (est. 1991), Burundi (est. 2004), Haiti (est. 2004), and the Democratic Republic of the Congo (est. 1999). In environmental cooperation, Sri Lanka is part of the South Asia Cooperative Environment Program (SACEP), the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Since 1977, the Sri Lankan economy, once dominated by agriculture, has experienced strong growth in its industrial and services sectors. While annual growth in agricultural output averaged only 2% between 1988 and 1998, industry and services expanded at annual rates of 7.1% and 5.4%, respectively. From 1988 to 2000, agriculture's share of gross domestic product (GDP) declined from 26.3% to 21%, although employing still about 35% of the labor force. In 2004, agriculture made up an estimated 19.1% of GDP and employed about one-third of the workforce. Overall, real GDP grew at an average annual rate of 5.2% from 1991 to 2000. Over the 2001–05 period, the GDP growth rate averaged 3.8%.

Economic expansion has been led by manufactures, particularly textiles and apparel, which is also the leading net earner of foreign exchange. The textile sector grew 16.25% in 2000 (up from 7.5% in 1999), which in turn contributed to a 20% growth in exports. Privately owned export-oriented factories produce over 95% of manufacturing output. Manufacturing is generally the leading growth area of the economy. In addition to the textile industry, the production of food and beverages, as well as that of chemical and rubber-based goods, is also important. Services, accounting for 54.7% of GDP in 2004, are led by tourism, the second-largest foreign exchange earner.

From 1973 to 1977, the channeling of resources into social welfare programs, combined with high oil prices and frequent droughts, helped depress the economy and business growth. In 1977, the new United National Party (UNP) government lifted most price controls, shifted government spending into capital investment, liberalized foreign exchange and import restrictions, and eliminated some government monopolies to permit more business competition. These policies help raise the average annual increase in real GDP to 6% from 1978 to 1981, compared to 3% from 1971 to 1977. However, coinciding with the second oil shock (1978–79), a high level of inflation accompanied the increased growth. From 1980 to 1985, though exports continued to grow at an average 20% a year, real GDP growth slowed to an average 4.7% a year. In 1983, countrywide riots that left nearly 400 dead and 79,000 homeless signaled the beginning of what proved to be years of separatist violence by the Tamil Tigers. In the latter half of the 1980s, the national economy was faced with grave challenges: escalating defense expenditures to combat the insurgency; recurrent drought; depressed world prices for major export crops, tea,

and coconut-based goods; and stagnant government revenues. These conditions produced a resurgence of inflation, increasing unemployment, critical current account deficits, and stagnating economic growth. By 1989, GDP growth had fallen to 2%, while annual export growth fell to 5% and the official unemployment rate reached 18%. Worsening economic indicators spurred renewed stabilization and structural adjustment efforts by the government with emphases on tightened monetary and fiscal policies, and privatization to stimulate investment.

In the 1990s, average economic growth rebounded to above 5%, led by expansions in manufactures and services. As was true for much of the rest of the world, strong growth in 2000 foundered in 2001 due to a number of factors, including the global economic slowdown; an attack on Colombo's international airport by the Liberation Tigers of Tamil Eelam (LTTE), which harmed the tourism industry; a severe drought; and the 11 September 2001 terrorist attacks on the United States, which sharply reduced foreign direct investment and resulted in reductions in travel and spending. Unemployment swelled, as did the budget deficit, which reached 10.9% of GDP. A moderate recovery was brought about in 2002, due in part to a Norwegian-brokered peace agreement with the LTTE, revived consumer and business confidence, which led to increases in domestic demand and tourism, and an easing of the drought, which brought down agricultural prices. Imports of goods and services still increased faster than exports, however, and the current account deficit averaged -1.8% of GDP over the 2001–05 period. In 2001, the government switched to a flexible exchange rate system. Inflation averaged 9.7% over the 2001–05 period.

The conflict between the Sinhalese government and the Tamil Tigers of the north and east for a largely independent homeland overshadows the economy. In April 2004, the United People's Freedom Alliance (UPFA, of which the People's Alliance, PA, is the largest constituent), won the parliamentary election; it has been less willing to make compromises with the LTTE than the UNP, which won the December 2001 parliamentary election and ushered in a cease-fire in 2002. Mahinda Rajapakse of the PA won the presidential election in November 2005, and was expected to take a hard line on negotiations with the LTTE. Increased political volatility following the presidential election was likely to have a dampening effect on the tourism industry. Average annual real GDP growth was forecast to stand at 5.7% in 2006–07.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Sri Lanka's gross domestic product (GDP) was estimated at \$86.7 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$4,300. The annual growth rate of GDP was estimated at 4.7%. The average inflation rate in 2005 was 11.2%. It was estimated that agriculture accounted for 17.7% of GDP, industry 27.1%, and services 55.2%.

According to the World Bank, in 2003, remittances from citizens working abroad totaled \$1.438 billion (about \$75 per capita) and accounted for approximately 7.9% of GDP. Foreign aid receipts amounted to about \$35 per capita.

The World Bank reports that in 2003 household consumption in Sri Lanka totaled \$13.92 billion (about \$725 per capita) based on a GDP of \$18.2 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003, household consumption grew at an average annual rate of 4.8%. In 2001, it was estimated that approximately 43% of household consumption was spent on food, 7% on fuel, 4% on health care, and 8% on education. It was estimated that in 1997, about 22% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, Sri Lanka's workforce was estimated at 8.08 million. As of 2003, the agricultural sector accounted for 34.3% of the labor force, with 23.4% in industry, 38.7% in the service sector, with the remainder in undefined occupations. Unemployment in 2005 was estimated at 8.4%.

The country has a strong trade union tradition, and the constitutional right to form unions is respected by the government. Approximately 25% of the nationwide labor force are union members, with over 70% of agricultural workers unionized as well. The largest trade union federations are the Ceylon Workers' Congress, the National Workers' Union, the Democratic Workers' Congress, and the Ceylon Federation of Labor. With the exception of essential workers, employees have the right to strike. It is illegal for an employer to discriminate against those who engage in union activity. Collective bargaining is widely practiced.

Thousands of Sri Lankan workers are employed abroad, mostly in Saudi Arabia, Kuwait, the United Arab Emirates, Singapore, Hong Kong, Bahrain, Qatar, and Oman, many of them as housemaids and nannies valued for their literacy and English-language skills.

There is no national minimum wage, but there are minimum wages set in individual sectors and industries. The average such wage was \$33.52 per month in industry, commerce, and the service sector, and \$1.42 per day in agriculture as of 2001. It was estimated that 16,500 children younger than the minimum legal age of 14 were employed full time, with many thousands more employed in domestic service. The legal workweek is set at 45 hours.

## 22 AGRICULTURE

Agriculture, the mainstay of the economy, employs about 35% of the working population and contributes 19% to GDP. About 75% of those working in agriculture are engaged in the production of tea, rubber, and coconuts, the three crops that represent nearly 60% of Sri Lanka's agricultural land. Tea production in 2004 was 303,000 tons. Rubber production was 92,000 tons, and coconut production totaled 1,950,000 tons.

Rice is the major staple crop, produced over much of the country. The major growing districts are Kurungala in the Northwestern Province, Ampara in the Eastern Province, Polonnaruwa and Anuradhapura in the North Central Province, and the Mahaweli area; together these areas account for 55% of production. The maha rice season crop (63% of production) is planted in the fall and harvested in the spring, while the yala rice crop (37%) is planted in the summer and harvested in the fall. Production of

rice reached 2.5 million tons in 2004. Lesser crops include sugar, pepper, cinnamon, chilies, sesame, cardamom, tobacco, cashew nuts, betel leaves, coffee, and cocoa.

Under the Land Reform Law of 1972, all property holdings exceeding 20 hectares (50 acres), except for property controlled by publicly owned companies, were vested in the Land Reform Commission for redistribution; a total of 226,373 hectares (559,377 acres) were redistributed, including one-fifth of the land under tea. Under the Land Reform Amendment Bill of 11 October 1975, all publicly owned estates (including the major British-owned tea and rubber plantations) were nationalized. The Janatha Estate Development Boards and the Sri Lanka Plantation Corporations account for 60% of total tea production and 30% of the total area under rubber cultivation.

## 23 ANIMAL HUSBANDRY

Sri Lanka's livestock population is comparatively small; in 2005 there were 1,218,000 head of cattle, 316,000 water buffalo, 425,000 goats, 83,000 hogs, 12,000 sheep, and 11,600,000 chickens. Animals are not of high quality, partly as a consequence of religious considerations and primitive agricultural conditions. The natural pasturage lacks both nutritional value and palatability, and prospects for new pastures are not promising. In 2005, milk output was 174,100 tons and 52,000 tons of eggs were produced.

## 24 FISHING

Fishing produces less than the country's needs and yields a meager income to fishermen, most of whom use primitive boats and gear in the shallow waters surrounding the island. In 2003, the total fish catch was estimated at 289,949 tons, up from 165,397 tons in 1990. Exports of fish products were valued at nearly \$99.5 million in 2003.

## 25 FORESTRY

About 30% of the total land area consists of forests. In 2004, 6,340,000 cu m (224 million cu ft) of roundwood were cut. Forestry products included 61,000 cu m (2.1 million cu ft) of sawn timber and 5,646,000 cu m (199 million cu ft) of firewood for domestic use.

## 26 MINING

Sri Lanka's major mineral commodities are graphite and colored gemstones. However, 18 years of civil war, prolonged drought, high oil prices, and an electricity crisis have crippled its economy. In 2003, the country's gross domestic product (GDP) grew by 5.5%. Mining and quarrying accounted for 1.8% of GDP in 2003. Graphite production (all grades) totaled 3,387 metric tons in 2003, down from 3,619 metric tons in the previous year. The island's gem industry is world famous. In the Ratnapura district, there are considerable deposits of sapphire, star sapphire, ruby, star ruby, cats eye, chrysoberyl, beryl, topaz, spinel, garnet, zircon, tourmaline, quartz, and moonstone. A lapidary industry was established for the international marketing of cut and polished precious and semiprecious gemstones. Although output of star rubies and star sapphires were not available for 2003, production of cat's-eye totaled 45,228 carats, while production of rubies came to 12,934 carats; sapphires to 773,547 carats; and all other gem-

stones (other than diamonds, precious and semiprecious), came to 1,828,400 carats in 2003.

Large quantities of kaolin and apatite have been found, and there are large surface deposits of quartz sand, with kaolin and quartz sand mined. Limestone dating from the Miocene era is quarried from the Jaffna peninsula and used in the manufacture of cement. In the dry-zone coastal areas, salt is manufactured by solar evaporation of seawater. In addition, Sri Lanka produces clays (brick, tile, and for cement production), feldspar, and phosphate rock, and presumably produces varieties of stone and sand and gravel. Cement production and petroleum refining were among the Sri Lanka's leading industries in 2003, with diamonds and petroleum products import exports. The beach sands contain large quantities of ilmenite, rutile, monazite, and zircon, although none were produced from 2000 through 2003. There are plans to revive mineral sands operations, including of garnet sands discovered along the southern coastline. No rare earth metals were produced from 2000 through 2003. The cerium, yttrium, zirconium, niobium, tantalum, thorium, and uranium groups have been found, and thorianite appears to be widely distributed.

## 27 ENERGY AND POWER

Sri Lanka, as of 1 January 2004, had no proven reserves of crude oil or dry natural gas, nor any coal reserves as of 2003. All hydrocarbon needs were met by imports.

As of 1 January 2004, Sri Lanka had only a modest crude oil refining capacity at 48,000 barrels per day. In 2002, refined petroleum product output averaged 46,510 barrels per day. Imports of all petroleum products, including crude oil, averaged 78,030 barrels per day. Demand that year for refined oil products averaged 77,500 barrels per day. There were no imports or demand for natural gas in 2002. Coal imports and consumption that year each totaled 1,000 tons of hard coal.

Electric power generating capacity in 2002 totaled 2.224 million kW, of which hydropower accounted for 1.161 million kW of capacity, followed by conventional thermal capacity at 1.060 million kW, and geothermal/other at 0.003 million kW. Power generation in 2002 totaled 6.669 billion kWh, of which 59.9% was from fossil fuels and 39.96% from hydropower. Geothermal/other made up the rest. Consumption of electricity in 2002 was 6.202 billion kWh.

Sri Lanka meets all of its crude oil requirements with imports.

## 28 INDUSTRY

Since 1977, the government's market-oriented economic policies have encouraged industrial growth in the private sector, particularly in textiles, food and beverages, wood products, rubber and plastics, and other consumer goods. While most small- and medium-sized enterprises are now privately owned, state ownership continues to predominate in basic industries such as oil refining and electric power generation. In the period 1990 to 2001, 38 manufacturing companies were privatized, including Lanka Lubricants (sold to Caltex in 1994), Colombo (bottled) Gas Co. (sold to Shell Oil in 1995), Ceylon Steel Corp. (sold to Hanjung of Korea in 1996), and Sri Lanka's only flour mill (sold to Prima Ltd. of Singapore). In 2004, industry accounted for about 26.2% of GDP,

of which manufacturing made up about 16%; construction, 7.5%; mining, 2%; and electrical power and water, 1%.

Textiles and apparel is the largest industrial sector, accounting for 40% of manufacturing output, and, with 350,000 textile workers, the largest industrial employer. There are about 800 textile factories, the largest 100 accounting for about half of production. The sector is the leading net earner of foreign exchange. Apparel, which accounts for about 35% of industrial output and 34% of manufacturing employment, makes up 50% of total exports. The United States is Sri Lanka's main apparel market, buying up to 65% of Sri Lanka's apparel exports. In 2005, quotas under the world Multi-Fiber Agreement (MFA) were phased out, and now Sri Lanka's garment industry faces the challenge of a more competitive world market, although only the largest operations appear to have the technological and marketing capacities to effectively compete.

Food, beverages, and tobacco, the second-largest manufacturing sector, accounting for about 22% of industrial output, depends largely on the domestic market. The third-largest industrial sector—chemicals, petroleum, and rubber products—accounts for some 19% of industrial output. Sri Lanka's only oil refinery is a state-owned facility with a capacity of 68,000 barrels per day. The nonmetallic mineral sector is important, as are other nontraditional sectors—smaller fabricated metal products and basic metal products. Paper industries have grown in recent years.

The government's industrial policy includes encouraging investment in industries in which it believes Sri Lanka has a comparative advantage. The Board of Investment (BOI) offers various incentives for investment in five industry segments: electronics and components for electronic assembling, industrial and machine tools (a new emphasis), ceramics and glassware, rubber-based industries, and light and heavy engineering. Another key policy element is deregulation, and in 2001, a committee on deregulation was formed to study regulatory impediments to Sri Lanka's industrial development.

## 29 SCIENCE AND TECHNOLOGY

With the launch in 1978 of a free-trade zone north of Colombo, Sri Lanka was able to establish such high-technology enterprises as the manufacture of integrated circuits and control and relay panels. In 1982, two US electronics manufacturers contracted to build semiconductor assembly plants in the zone. The textile industry, located there, ranked nineteenth in 1985 as a supplier to the United States. For the period 1990–2001, there were 46 technicians and 191 scientists and engineers per million people engaged in research and development. In 2002, high technology exports were valued at \$19 million, or 1% of the country's manufactured exports.

The Sri Lanka Association for the Advancement of Science, founded in 1960, is located in Colombo. Also in the city are the Ceylon Institute of Scientific and Industrial Research, founded in 1955; Natural Resources, Energy, and Science Authority of Sri Lanka (founded originally in 1968 as the National Science Council); Colombo Observatory, founded in 1907; and the National Academy of Sciences of Sri Lanka, founded in 1976. The country also has research institutes devoted to coconuts, horticulture, medicine, rice, rubber, tea, and veterinary science. The Royal Botanic Gardens was founded in 1821 at Peradeniya, and a natural

history museum was founded at Colombo in 1985. Sri Lanka has 13 universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 34% of college and university enrollments.

### 30 DOMESTIC TRADE

Sri Lanka's economy is highly dependent on domestic trade. Wholesale and retail trade is the largest single sector of the economy, accounting for 21% of GDP. Most retail stores are small and unspecialized. Marketing and distribution are dominated by the strong and well-developed cooperative movement, which the government assists with loans, price guarantees, and supervision. Although government monopolies played a major role in the wholesale distribution of imported goods, as well as many domestic commodities, during the 1970s and 1980s, liberalization policies since the late 1980s have decreased direct state involvement in domestic trade. The government still controls much of the food sector as a matter of national security.

Colombo is the nation's commercial center, with a large business section adjoining the traditional bazaar, a large area of small retail shops and stalls. Kandy is a market center for locally produced tea, rubber, rice, cacao, and handicrafts. Galle is an agricultural market center and Negombo is a major market center for fishing and handicrafts. Jaffna hosts a number of local markets for fishing, agriculture, and industries, including textiles, tobacco processing, and chemical and cement production. The city also serves as a trading place for elephants, peppers, and other commodities. There are several advertising firms in Colombo, some of which have connections abroad. Products are advertised in newspapers, trade journals, motion picture theaters, and on commercial radio and television.

The usual business hours are from 9 AM to 5 PM, Monday through Friday. Banks are open from 9 AM to 1 PM or 3 PM, Monday through Saturday. Shops are open from 10 AM to 7 PM, Monday through Friday, and on Saturdays from 10 AM to 3 PM. Sundays and full moon Poya days are nonworking days in Sri Lanka.

### 31 FOREIGN TRADE

Clothing and apparel is now the country's leading foreign exchange earner, accounting for over half of export receipts. Sri Lanka's traditional primary exports have been tea, natural rubber, and coconut products, especially desiccated coconut and coconut oil. However, the share of total export earnings accounted for by these three commodities declined steadily from 87% in 1972 to 48% in 1985 and 16% in 1999; tea decreased from its 58% share of total export value in 1972 to a low of 8.2% in 1995. Tea increased to 12.8% of export value in 2004, however. Declining export shares for the country's agriculturally based exports are due to adverse weather conditions as well as rapid growth in the export earnings of industrial products.

Sri Lanka still produces a large portion of the world's tea exports (25%). In 2004, Sri Lanka's major exports were garments and textiles (48.8% of total exports); tea (12.8%); diamonds and gems (4.3%); and petroleum products (1.7%). The country's primary imports in 2004 were textiles (19.2% of total imports); mineral products (16.7%); machinery and transportation equipment (14.1%); and chemicals (2.6%). Sri Lanka's leading markets in 2004 were the United States (32.4% of total exports); the United

#### Principal Trading Partners – Sri Lanka (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	4,723.0	6,038.7	-1,315.7
United States	1,762.9	218.3	1,544.6
United Kingdom	590.0	262.7	327.3
Belgium	258.1	168.3	89.8
Germany	199.2	121.5	77.7
India	170.3	834.0	-663.7
Japan	140.2	355.0	-214.8
Russia	126.5	...	126.5
United Arab Emirates	119.4	265.9	-146.5
France-Monaco	93.5	78.6	14.9
Netherlands	77.5	50.6	26.9

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

Kingdom (13.5%); Germany (4.8%); and Japan (2.7%). Leading suppliers included India (18% of total imports); Singapore (8.7%); Hong Kong (7.7%); and Japan (5.1%).

### 32 BALANCE OF PAYMENTS

Sri Lanka's balance-of-payments position is highly sensitive to price changes in the world market because it has traditionally depended in large part on a few export crops to pay for its imports. Since 1983, sharply rising defense expenditures, a decline in tourism caused by continuing civil violence, and slumping world tea and coconut prices have combined to exert pressure on the balance of payments. The deficit has also been partially offset by substantial foreign exchange earnings from tourism and from remittances by Sri Lankans working abroad. The current account deficit has declined each year since 1994, when it stood at \$860 million.

#### Balance of Payments – Sri Lanka (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-159.8</b>
Balance on goods		-871.6
Imports	-6,004.8	
Exports	5,133.2	
Balance on services		-301.2
Balance on income		-192.6
Current transfers		1,205.3
<b>Capital Account</b>		<b>61.4</b>
<b>Financial Account</b>		<b>-221.9</b>
Direct investment abroad		-27.3
Direct investment in Sri Lanka		228.7
Portfolio investment assets		15.5
Portfolio investment liabilities		-13.9
Financial derivatives		...
Other investment assets		-93.8
Other investment liabilities		-331.1
<b>Net Errors and Omissions</b>		<b>-32.3</b>
<b>Reserves and Related Items</b>		<b>352.6</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Export growth in 1999, however, slowed considerably to 2%, and earnings from tea exports declined 40% due to the impact of the Russian economic crisis in 1998.

In 2000, exports increased by close to 20% to \$5.5 billion, and exports of garments and tea did very well. Other exports, such as food, rubber products, machinery, and processed diamond exports, also performed well that year. Sri Lanka floated the rupee in 2001, and the central bank began employing currency controls. Since then, the controls have been relaxed. In addition, the government imposed an import duty surcharge to stem the flow of imports. The country's external debt stood at \$10.85 billion at the end of 2004. The trade deficit widened from some \$900 million in 2003 to \$1.4 billion in 2004, as exports increased to \$5.8 billion and imports rose to \$7.2 billion. The current account deficit, estimated at \$587.3 million in 2004, was forecast to widen to 3.9% of GDP in 2006 as the debt relief related to the 26 December 2004 Indian Ocean tsunami is withdrawn and the current transfers surplus falls in line with lower inflows of aid. The current account deficit was projected to narrow to 3.1% of GDP in 2007. Over the 2001–05 period, the current account balance averaged -1.8% of GDP.

### 3<sup>3</sup> BANKING AND SECURITIES

The Central Bank of Sri Lanka, established in 1949, began operations in 1950 with a capital of ₨15 million contributed by the government. The sole bank of issue, it administers and regulates the country's monetary and banking systems.

Although Sri Lanka has a fairly well-diversified banking system, the two largest banks, the Bank of Ceylon and Peoples Bank, are state owned and operate inefficiently. They are considered to be incompetent, primarily owing to excessive government influence in their lending operations and overstaffing. The World Bank has identified the dominance of these two banks as a major constraint on the development of the financial sector. The simple solution, privatization, is not an option given the current political climate. Together, they accounted for two-thirds of commercial bank deposits in 1999.

In addition to the central bank and the two state-owned banks, there are 9 private domestic commercial banks, 14 foreign banks, a national savings bank, 6 regional rural development banks, 2 large development finance institutions, a mortgage bank, and 13 merchant banks. US banks operating in Sri Lanka include Citibank and American Express. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.1 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 21.24%.

The Colombo's Brokers Association operates an organized stock market, whose transactions have grown significantly since the 1984 tea export boom increased liquidity in the economy. The Colombo Stock Exchange (CSE) was established by the Association of Stock Brokers in 1987 and has established itself as one of the most efficient in the region. In 2001, there were 238 companies listed on the exchange, with a combined market capitalization of \$1.3 billion. The turnover ratio was 13.2%. The exchange was adversely affected by the pullout of foreign investors from the region

after the nuclear tests in India and Pakistan. The market was also affected by the Asian economic crisis and the Russian financial crisis, suffering a 14% decline in 1998 and a 26% decline in 2000. The CSE Milanka was up 47.6% in 2001, at 1,031. As of 2004, a total of 245 companies were listed on the CSE, which had a market capitalization of \$3.657 billion. The turnover ratio in that same year was 18.4%. In 2004, the CSE Milanka rose 9.3% from the previous year to 2,073.7.

### 3<sup>4</sup> INSURANCE

Insurance was almost wholly a foreign enterprise until 1 January 1962, when the life insurance business was nationalized. The state-owned Insurance Corp. of Sri Lanka now has a monopoly on life insurance and all other insurance. In 1997, there were six insurance companies (two of which were state owned), the National Savings Bank, and two pension funds. Foreign insurers operate in the market in reinsurance and shareholding. In 2003, the value of all direct insurance premiums written totaled \$239 million, of which nonlife premiums accounted for \$137 million. In that same year, Sri Lanka's top nonlife and life insurer was the Insurance Corp. of Sri Lanka, with gross written nonlife premiums of \$54.4 million and gross written life insurance premiums of \$33.9 million.

### 3<sup>5</sup> PUBLIC FINANCE

Fiscal targets are of particular concern because the government's chronic high fiscal deficits have led to problematic national debt. Total government debt as a percent of GDP rose from 85.8% in 1997 to 113.6% in 2002. By 2005, it had dropped slightly to 98.5% of GDP. The main causes of the persistent high budget overruns are an associated combination of welfare and pension expenditures, weak tax administration, and losses by the Ceylon Electricity Board (CEB). In September 2002, the government enacted a Welfare Benefit Law aimed at clarifying welfare eligibility and establishing penalties to reduce politicization and mistargeting. In

#### Public Finance – Sri Lanka (2002)

(In millions of rupees, budgetary central government figures)

<b>Revenue and Grants</b>	<b>266,998</b>	<b>100.0%</b>
Tax revenue	221,786	83.1%
Social contributions	2,630	1.0%
Grants	7,079	2.7%
Other revenue	35,503	13.3%
<b>Expenditures</b>	<b>388,861</b>	<b>100.0%</b>
General public services	133,679	34.4%
Defense	49,163	12.6%
Public order and safety	14,972	3.9%
Economic affairs	69,261	17.8%
Environmental protection	...	...
Housing and community amenities	11,916	3.1%
Health	24,946	6.4%
Recreational, culture, and religion	...	...
Education	37,209	9.6%
Social protection	47,715	12.3%

(...) data not available or not significant.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

January 2003, the government passed the Fiscal Management Responsibility Act (FMRA), setting medium-term deficit targets and mandating “preelection budget reports” to discourage preelection handouts, as well as a new Board of Investment (BOI) Law eliminating the BOI’s power to grant extralegal incentives. These measures helped secure International Monetary Fund (IMF) approval on 8 April 2003 for a three-year program under the combined Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF and EFF). The PRGF-EFF program was in direct support of the government’s program for 2003–06 aimed at poverty reduction through private-sector growth. Historically, Sri Lanka, though low on per capita income, has been relatively high on other social welfare indicators such as adult literacy (90%), school enrollment, infant mortality, and life expectancy (72 years). The country faced a significant challenge to find ways to maintain welfare and educational standards while bringing the budget deficit under control.

The US Central Intelligence Agency (CIA) estimated that in 2005 Sri Lanka’s central government took in revenues of approximately \$3.8 billion and had expenditures of \$5.4 billion. Revenues minus expenditures totaled approximately -\$1.6 billion. Public debt in 2005 amounted to 98.5% of GDP. Total external debt was \$11.59 billion.

The IMF reported that in 2002, the most recent year for which it had data, budgetary central government revenues in millions of rupees were 266,998 and expenditures were 388,861. The value of revenues in millions of US dollars was \$2,791 and expenditures \$4,065, based on a market exchange rate for 2002 of 95.662 as reported by the IMF. Government outlays by function were as follows: general public services, 34.4%; defense, 12.6%; public order and safety, 3.9%; economic affairs, 17.8%; housing and community amenities, 3.1%; health, 6.4%; education, 9.6%; and social protection, 12.3%.

### **36 TAXATION**

Sri Lanka, as of 2005, had a standard corporate income tax rate of 30% for companies with taxable incomes of over r5 million. Companies with taxable income under that amount are taxed at a 20% rate. However, publicly listed companies that have taxable incomes over r5 million are taxed at a rate of 28.5%. Also, those companies with taxable incomes exceeding r5 million are subject to a 2.5% Human Resource Endowment Fund tax. Profits generated from so-called priority sectors are taxed at rates of 15% and 20%. The higher rate is applied to specialized housing banks, while the lower rate is applied to tourism, agriculture, livestock, fisheries, construction, and exports. Capital gains are not taxed. Dividends distributed out of taxable income and paid to residents and nonresidents are subject to a 10% withholding tax. However, dividends paid to a resident or nonresident company are not considered part of taxable income if any of the following apply: the dividend is already exempt from income tax; the withholding for tax has already been made; or the dividend is part of the dividends received by the payer from another resident firm. Interest income is subject to either a 10% withholding rate or a 15% rate, depending upon the amount of interest received and its source. The 10% applies to interest received that is in excess of r108,000 and is from

a bank deposit. The 15% rate applies to interest paid to nonresidents on a loan.

Individual income taxes are graduated, with rates of 0% up to \$2,500; 10% for income between \$2,500 and \$4,300; 20% for income between \$4,300 and \$6,000; and 30% on the balance. Noncitizens employed in enterprises licensed by the Board of Investment (BOI) are taxed at a flat concessional rate of 15%.

The value-added tax (VAT) is the most important source of government revenue. The VAT has a standard 15% rate for most goods and services supplied in or imported into Sri Lanka. Exports and international transportation are zero rated. In 2003, the government also introduced a new debits tax of 0.1%, to be applied to all current account debits, savings account transactions, and certificates of deposit (when they are cashed in). Exempt from the debits tax are the accounts of the government and international organizations, accounts at foreign currency banking units and accounts maintained for stock exchange transactions, and share investment external rupee accounts (SIERAs), through which foreign purchases on the Colombo Stock Exchange are directed.

Other taxes include excise taxes on over 250 items, local property taxes, and a 6.5% national security levy.

### **37 CUSTOMS AND DUTIES**

Sri Lanka has a two-band import tariff schedule based on the Harmonized System of Classification. As of 2005, the standard import tariff rates were 10% and 25%, although a few items carried tariffs of 5% or 35%. The tariff on automobiles is 25%. All imports of textile materials, yarn, and related intermediate and capital goods required for the garment export industry are free of import duty, as are a number of products critical to economic development, such as computers, medical and dental equipment, telecommunications equipment, and agricultural seeds and machinery. Within Sri Lanka’s free trade zone, imports of industrial and construction equipment, base metals, and coal and coke are duty free. Export duties are levied on tea, rubber, and coconut products.

### **38 FOREIGN INVESTMENT**

The great agricultural enterprises, insurance companies, and banks were developed originally by foreign capital. In 1959, foreigners owned almost 36% of the country’s rubber acreage and 6% of the tea plantations; 80% of the insurance business was written by foreign companies, and the banking business was largely a monopoly of British and Indian firms. After 1961, when nationalization became widespread, private investors were reluctant to place new funds in Sri Lanka. Consequently, during the 1960s, the country had to depend almost entirely on loans and short-term credits. During the 1970–77 period, foreign companies, principally Japanese, were more willing to collaborate with public-sector enterprises.

With the change of direction in the government’s economic policy since 1977, foreign investment has flowed more freely into the private sector. The Greater Colombo Economic Commission (GCEC)—replaced in 1992 with the current Board of Investment (BOI)—and the Foreign Investment Advisory Committee promoted outside investment in export-oriented and high-technology industries, largely through joint ventures in which majority equity was held by Sri Lankan companies. Exceptions to this policy were the large luxury hotels and construction projects for the

Mahaweli development program, in which foreign partners hold majority shares. The GCEC's Investment Promotion Zone, the country's first free-trade zone (established in 1978), attracted 116 foreign companies by 1985; 96 firms operating in the zone, chiefly clothing manufacturers, employed 35,786 workers and made capital investments with a total value of R286 million during that year. Sri Lanka now has six free-trade zones, also called export processing zones, administered by the BOI, plus three industrial parks that contain both export-oriented and nonexport-oriented enterprises.

The main law governing foreign investment is Law No. 4 of 1978, amended in 1980, 1983, and 1992, after which it has been generally known as the BOI Act. Under the BOI Act, foreign companies are separated into two categories: Those that fall under Section 16 are subject to the "normal" laws, and those falling under Section 17 qualify for special BOI-specified incentives. In general, incentives are targeted at investments that are export oriented, infuse substantial capital into the economy, and/or transfer advanced technology. In 2002 the BOI announced a new investment incentive structure for Section 17 enterprises that consists of two incentive programs, one for medium-sized investments and one for large infrastructure projects. Incentive Program 1 is focused on "designated industries"—nontraditional export sectors for which the government has determined Sri Lanka has a comparative advantage, which are electronics, industrial and machine tools manufactures, ceramics, glassware, mineral-based industries, rubber-based industries, and light and heavy engineering industries—plus export-oriented services, IT-related companies, regional operating headquarters, agribusiness investments over R5 million (about \$51,000) and small-scale infrastructure projects. These are eligible for a three-year tax holiday, preferential income tax rates of 10% in the fourth and fifth years, and a preferential income tax rate of 15% thereafter, as well as duty-free imports during the project. Incentive Program 2 is for projects over R1.2 billion (about \$15.5 million) involving electrical power, highways, airports, seaports, railways waterways, etc. According to the size of the investment, infrastructural projects qualify for tax holidays of 5–10 years, a preferential 15% tax rate thereafter, and duty-free imports of capital goods. All BOI-approved projects include no restrictions on the repatriation of profits and dividends, and free transferability of shares. The BOI's new structure of incentives is part of Sri Lanka new program of initiatives designed to attract more foreign direct investment (FDI), averaging about \$125 million per year. FDI inflows averaged 207% of GDP over the 2001–05 period. The total stock of FDI in Sri Lanka has been estimated at about \$3 billion. The largest investments have been in the power sector, followed by the textiles, telecommunications, and chemicals. Reliable statistics on FDI by country are not available, but the US State Department estimates that the largest investors have been South Korea, Japan, the United States, Australia, Hong Kong, Singapore and the United Kingdom. Sri Lanka has negotiated bilateral investment treaties (BITs), including investment protection provisions, with a number of countries.

A major step toward increasing investor confidence was taken with the institution of the peace process following the cease-fire between the government and the LTTE in February 2002. At the end of 2002, the government relaxed its investment rules, allowing 100% foreign equity in a number of services—banking, finance,

insurance, stock brokerage, construction of residential buildings and roads, supply of mass transportation, telecommunications, production and distribution of energy and professional services. Other sectors remain restricted and subject to case-by-case approval for foreign equity exceeding 49%, including most plantation enterprises—tea, rubber, cocoa, sugar and spices—and there remains a short prohibited list, which, except for franchises, keeps foreigners out of small scale enterprises. The government's policy of deregulation of the investment climate reflects pressure from the IMF, the World Bank, the Asian Development Bank (ADB), and its own precarious foreign reserve position.

### 39 ECONOMIC DEVELOPMENT

Since independence, successive governments have attempted ambitious economic development programs with mixed results. The nationalization in 1962 of three Western oil companies and in 1975 of large rubber and tea plantations was intended to end the nation's economic dependence and neocolonialism, and to create an egalitarian socialist society. The goals of the last five-year plan for 1972–76—to achieve an economic growth rate of 6% annually, to create new jobs, and thereby to ameliorate unemployment—were not met, in part because of drought and unexpected increases in the costs of crude oil, fertilizer, and other imports.

The United National Party (UNP) government, elected in 1977, chose as the centerpiece of its development strategy the Mahaweli hydroelectric irrigation resettlement program, the largest development project ever undertaken in Sri Lanka. The project involved diverting the Mahaweli Ganga in order to irrigate 364,000 hectares (900,000 acres) and generate 2,037 million kwh of hydroelectricity annually from an installed capacity of 507 Mw. Launched in 1978, construction was largely completed by 1987, at a cost of about \$2 billion. Even as the UNP government launched this massive capital program, it sought to encourage private investors, limit the scope of government monopolies, and reduce subsidies on consumer products. Foreign trade, investment, and tourism were all encouraged by the government authorities. In 1986, foreign aid rose 23% in real terms over 1985, largely to finance further massive hydroelectric projects.

While government development policies resulted in moderate growth during the late 1970s and early 1980s, the outbreak of civil war in 1983 led to a rapid rise in defense spending (from 1% of GDP in 1980 to over 4% in 1996), exacerbating structural weaknesses in the Sri Lankan economy. By 1989, rapidly declining economic growth and worsening fiscal and balance-of-payment problems reached crisis proportions, prompting renewed stabilization and adjustment efforts. Corrective policies involved stimulating savings through new banking regulations and other monetary-tightening measures, reduction of subsidies on wheat and fertilizers, government expenditure reductions, currency devaluation, privatization of many state enterprises, and other incentives for private investment. These measures resulted in greatly improved economic performance in the early 1990s, despite unfavorable weather and the ongoing insurgency.

In 1996, as the market showed signs of weakening, the government reaffirmed its free-market policies. From 1997 to 2001, however, the economy was whipsawed between a series of exogenous shocks and political pressures to maintain welfare expenditures. In 1998, the insecurity arising from the Tamil Tiger separatist

campaign was aggravated by Pakistan's and India's nuclear tests, and the aftermath of the Asian financial crisis. Recovery in 1999 and 2000 was cut short in 2001 by the global economic slowdown, the LTTE terrorist attack on the country's international airport in July, the 11 September terrorist attacks on the United States, and the onset of severe drought, all of which combined to produce Sri Lanka's first year of economic contraction on record. The year 2002, by contrast, was marked by hopeful developments. In February, the Norwegian-brokered cease-fire between the LTTE and the government was reached, and in May, the end of drought conditions meant the restoration of reliable power supplies, which also helped bring down agricultural prices.

Laws encompassing welfare reform, tax reform, and investment deregulation were passed, and, in January 2003, the Financial Responsibility Act (FRA) was adopted, setting a course to bringing the budget deficit down to below 5% of GDP by 2006, and limiting government borrowing to less than 10% total revenue. In all, 36 new laws were introduced by the government to buttress the economy's financial stability and the government's economic program adopted for 2003–06. The three-year program aimed at the reduction of poverty through private-sector growth. The strategy focuses on creating conditions conducive to private-sector growth and a sound fiscal position, and for helping establish lasting peace through relief, rehabilitation, and reconstruction (RRR). The program is being pursued in close conjunction with a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF/EFF) with a credit line of \$567 million approved in April 2003. Although aiming at sustained growth of 8–10% in the long run, the medium term goal is an average 6.5% real GDP growth for 2003–06. To achieve program's objectives, government policies are focused on four areas: (1) restoring fiscal sustainability, including raising revenues by 2.5% of GDP; (2) implementing structural reforms mainly involving deregulation and privatization; (3) creating opportunities for the poor to share more fully in the benefits of economic growth through improvements in infrastructure and education; and (4) garnering resources for reconstruction, including through donor assistance and government investments.

With the election of a government dominated by the United People's Freedom Alliance (of which the People's Alliance, PA, is the largest constituent) in April 2004, the chances for a lasting peace between the government and the Tamil Tigers were jeopardized. Mahinda Rajapakse of the PA won the November 2005 presidential election, and he was expected to take a hard line on negotiations with the LTTE. If the peace process is to succeed, however, the constitution will require substantial revision. The failure to agree to a joint mechanism to distribute aid related to the 2004 Indian Ocean tsunami increased tensions between the government and the rebels. By 2006, Sri Lanka had made impressive progress on privatization and reform of the tax, tariff, and foreign investment regimes. Reducing the fiscal deficit and government debt and containing inflation remain key economic policy objectives.

#### **40 SOCIAL DEVELOPMENT**

Through a provident fund system, the government pays monthly allotments to the aged, sick, and disabled, to destitute widows, and to wives of imprisoned or disabled men. The program is financed

by 8% employee contributions and 12% employer contributions. Old-age benefits are paid as a lump-sum grant equal to total contributions plus interest. Medical care is available free of charge in government hospitals and clinics. The law provides for a system of family allowances for families earning less than 1,000 rupees per month.

Although women have equal rights under law, their rights in family matters, including marriage, divorce, child custody, and inheritance are often dictated by their ethnic or religious group. Recent legislative changes have strengthened the rights of women. Sexual harassment is a criminal offense, but it is rarely enforced. Discrimination against women in hiring, promotion, and salary practices remains. Changes to the penal code make the burden of proof more equitable in rape cases. Sexual assault and spousal abuse continue to be serious problems.

Sri Lanka's Tamil population, numbering one million, is not entitled to either Indian or Sri Lankan citizenship, and face systemic discrimination. Human rights abuses are committed by both the government and Tamil separatist forces as part of ongoing hostilities between the two sides. These include poor prison conditions, torture, and arbitrary arrests, including mass arrests.

#### **41 HEALTH**

The government provides medical service free or at a nominal cost to almost everyone, but its health program is hampered by a worsening shortage of trained personnel and hospital beds. Medical standards, traditionally British, are considered excellent, but many Sri Lankan physicians and surgeons have moved their practices abroad—particularly to the United States and the United Kingdom, where remuneration is much higher. There are limited numbers of private hospitals and medical practitioners. Approximately 83% of the population had access to safe drinking water and the same percentage had adequate sanitation. Total health care expenditure was estimated at 3.5% of GDP. As of 2004, there were an estimated 43 physicians, 79 nurses, 3 dentists, and 5 pharmacists per 100,000 people.

Malaria, smallpox, cholera, and plague have been virtually eliminated. Malnutrition, tuberculosis, and the gastrointestinal group of infectious diseases are the chief medical problems. It was estimated that 38% of children under five years of age were malnourished. Immunization rates for children up to one year old were tuberculosis, 89%; diphtheria, pertussis, and tetanus, 91%; polio, 91%; and measles, 88%. Rates for DPT and measles were 99% and 95%, respectively.

The infant mortality rate in 2005 was 14.35 per 1,000 live births. Birth control was used by 66% of married women. As of 2002, the crude birth rate and overall mortality rate were estimated at 16.4 and 6.4 per 1,000 people, respectively. Average life expectancy in 2005 was 73.17 years. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 3,500 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

#### **42 HOUSING**

Rapid population increase, coupled with a lag in construction during and immediately following World War II, led to an acute hous-

ing shortage, high rents, high building costs, and many unsanitary and unfit houses in Sri Lanka's first decades after independence.

Preliminary results from the 2001 census indicated a total of 4,687,157 housing units nationwide. As of 2000, the average household had 4.5 members. About 64% of all households were nuclear families. About 96% of urban dwellings and 73% of rural dwellings had access to safe drinking waters. Only 73% of all households had access to safe sanitation systems. In the tsunami of 2004, about 88,544 housing units were completely destroyed or severely damaged.

### 4<sup>3</sup> EDUCATION

All education from kindergarten up to and including university training is free. Education is compulsory for 10 years, except when schools are not within walking distance of the pupil's home.

Since 1986, the educational system has been separated into two systems based on language, one in which Sinhalese is the medium of instruction and the other in which the medium is Tamil. The public educational system consists of five years of elementary school, three years of junior secondary school, three years of senior secondary school, and two years of preparatory school for those wishing to attend university.

Primary school enrollment in 2001 was estimated at about 99% of age-eligible students. The same year, secondary school enrollment was less than 80% of age-eligible students. It is estimated that about 98% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 23:1 in 2003; the ratio for secondary school was about 20:1.

In 1986, there were nine universities: Colombo, Peradeniya, Moratuwa, Sri Jayawardhanapura, Kelaniya, Jaffna, Ruhuna, Open University, and Batticaloa. These universities operate as independent units under the University Grants Commission, which is funded by the Ministry of Education. Included in the consolidated university system are the former Vidyalankara University (established 1959), previously known as the Vidyalankara Pirivena (established 1875), a celebrated seat of learning for Oriental studies and Buddhist culture; the former Vidyadaya University (established 1959); and the former University of Ceylon (founded 1942). In 1995, universities and equivalent institutions had 2,636 teachers and 63,660 students. The adult literacy rate for 2004 was estimated at about 90.4%, with 92.2% for men and 88.6% for women. As of 2003, public expenditures on education were estimated at 3.1% of GDP.

### 4<sup>4</sup> LIBRARIES AND MUSEUMS

The National Library in Colombo holds 206,300 volumes and is the largest public library in the country. Apart from the libraries in Anuradhapura, Jaffna, Kandy, and a few other towns, most public libraries have only small collections of books. In 2004, there were about 925 public libraries in the country. The University of Peradeniya has holdings of 670,000 volumes, while the University of Colombo has 240,000. There are several special libraries in Colombo, including the National Museum Library, which contains 681,000 volumes (147,000 which are monographs) and has been a depository for Ceylonese and Sri Lankan publications since 1885.

In 2004, there were 15 university libraries, and 67 special libraries in the country.

The five national museums, at Colombo, Galle, Jaffna, Kandy, and Ratnapura, contain collections pertaining to paleontology, zoology, prehistory, archaeology, and ancient art. One of Asia's finest zoological collections, as well as the largest known collection of Sinhala palm-leaf manuscripts, is in the Colombo National Museum. There are Archaeological Site Museums in Anuradhapura (ancient city), Isurumuniya, Mihintale, Veheragala, Vavuniya, Jaffna, Sigiriya, Kandy, Dedigama, Yapahuwa, Panduwasnuwara, Kotte, Matara (Star-Fort), Deegavapiya, and Kataragama. The Dutch Period Museum, the Art Gallery of the Sri Lankan Society of Art, the Natural History Museum, and a university archaeological museum are all in Colombo. There is a National Maritime Museum in Galle.

### 4<sup>5</sup> MEDIA

The central government owns and operates all telephone, telegraph, cable, and radio facilities, except in a few rural districts, which are served by private exchanges. Domestic telephone service is reportedly inadequate, while international service is good. In 2003, there were an estimated 49 mainline telephones for every 1,000 people; about 257,700 people were on a waiting list for telephone service installation. The same year, there were approximately 73 mobile phones in use for every 1,000 people.

The government operates both commercial and noncommercial radio broadcasting services in Sinhala, Tamil, and English and began television service in 1982. The state-owned Sri Lanka Broadcasting Corporation airs broadcasts on AM, FM, and short-wave. There are several privately owned broadcasting stations. As of 1999, there were 12 AM and 5 FM radio stations and 21 television stations. In 2003, there were an estimated 215 radios and 117 television sets for every 1,000 people. The same year, there were 13.2 personal computers for every 1,000 people and 12 of every 1,000 people had access to the Internet. There were 30 secure Internet servers in the country in 2004.

As of 2002, Sri Lanka had more than 10 daily newspapers. The principal morning and evening dailies (with language of publication and 2002 daily circulation) were: *Daily Lankadeepa* (Sinhala, 259,172), *Dinamina* (Sinhala, 140,000), *Divaina* (Sinhala, 100,000), *Dawasa* (Sinhala, 108,000), *The Island* (English, 80,000), *Daily News* (English, 65,000), and *Virakesari* (Tamil, 48,500). Sri Lanka also has several weekly and monthly publications.

The constitution provides for free speech and a free press and these rights are generally respected by the government. However, in the past the government has imposed restrictions on the media on the grounds of national security. In 2002, several criminal defamation laws were eliminated.

### 4<sup>6</sup> ORGANIZATIONS

Chambers of commerce include the National Chamber of Commerce of Sri Lanka, the Ceylon Chamber of Commerce, the Indian Chamber of Commerce, and the Moor Chamber of Commerce. There are numerous trade and industrial organizations.

The Royal Asiatic Society of Sri Lanka promotes national history, culture, and the arts. National youth organizations include the Ceylon Student Federation, YMCA/YWCA, Communist Youth Federation of Sri Lanka, General Union of Youth and Students,

Sri Lanka Catholic Student Movement, Sri Lanka Freedom Party Youth Organization, Girl Guides Association, Sri Lanka Mahajana Youth Federation, and the Sri Lanka Scout Association. Women's organizations include the Hindu Women's Society, the Muslim Women's Research and Action Front, and the Center for Women and Development.

Social action organizations include the Center for Society and Religion and the Civil Rights Movement of Sri Lanka. There is a national chapter of the Red Cross Society.

#### 47 **TOURISM, TRAVEL, AND RECREATION**

The tourism industry took a big hit in 2004 when a tsunami severely damaged hotels and facilities, causing many resorts to close. Damage occurred mainly in the eastern and southern areas of Sri Lanka; Colombo and the Cultural Triangle remained unaffected. The principal tourist attraction is the sacred city of Anuradhapura, home of the Seated Buddha, Buddhist temples, palaces, and the sacred Bo tree, grown from a sapling of the tree under which the Buddha is said to have attained enlightenment. Other popular sites include the ancient cities of Polonnaruwa and Kandy, with its Dalada Maligawa temple, where a sacred tooth relic of the Buddha is preserved. The Paradeniya Gardens near Kandy and the Dehiwela Zoo at Colombo are also popular. In 2005, flights running three times a week began service to China through Sri Lankan Airlines.

Sri Lanka's recreational facilities include the beach resorts of Bentota and Negombo, which, like Colombo, have modern hotels. Popular water sports are swimming, fishing, sailing, surfing, water-skiing, and skin diving. The island has excellent facilities for golf, tennis, squash, football (soccer), rugby, and cricket.

Visitors must have a valid passport. All foreign nationals are required to carry a visa, except those of the South Asian Association for Regional Cooperation (SAARC).

In response to the government's promotion of the industry, international tourism has grown in Sri Lanka. In 2003, there were 500,642 tourist arrivals. Over 53% of the visitors came from Europe. Tourism receipts were estimated at \$692 million that year. The country had 16,973 hotel rooms with 31,331 beds and a 53% occupancy rate.

According to 2004 estimates of the US Department of State, the daily cost of staying in Colombo was \$156.

#### 48 **FAMOUS SRI LANKANS**

One of the great rulers of the Anuradhapura period was Dutugemunu (fl.100 BC), who is famous for having saved Ceylon and its

religion from conquest by Indian invaders. Mahasen, a king in the 3d century AD, built many fine dagobas and other monuments that delight and amaze visiting art lovers. The classical period of Ceylonese art flourished under Kassapa, a king of the 5th century. The great figure of the Polonnaruwa period was Parakramabahu I (the Great, r.1153–86), who unified the government of Ceylon, built many magnificent structures, and organized the economy. The most famous political figure in modern Ceylon was Don Stephen Senanayake (1884–1952), leader of the independence movement and first prime minister of independent Ceylon. Solomon West Ridgway Dias Bandaranaike (1899–1959), prime minister from 1956 to 1959, is regarded as the founder of Ceylon as a socialist state. His widow, Sirimavo Bandaranaike (1916–2000), was prime minister during 1960–65, 1970–77, and 1994–2000. She was the world's first female prime minister. Her daughter, Chandrika Bandaranaike Kumaratunga (b.1945) was president from 1994 to 2005. Junius Richard Jayewardene (1906–96), who helped usher in economic reforms and a free enterprise system, became Sri Lanka's first president in 1978 and served until 1982. Science fiction writer Sir Arthur C. Clarke (b.England, 1917) is one of Sri Lanka's most famous expatriate residents. Born in Sri Lanka, Canadian author and poet Michael Ondaatje (b.1943) received the 1992 Booker McConnell Prize for his novel *The English Patient*.

#### 49 **DEPENDENCIES**

Sri Lanka has no territories or colonies.

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# SYRIA

Syrian Arab Republic

*Al-Jumhuriyah al-'Arabiyah as-Suriyah*



**CAPITAL:** Damascus (Dimashq)

**FLAG:** The national flag is a horizontal tricolor of red, white, and black stripes; in the white center stripe are two green five-pointed stars.

**ANTHEM:** *An-Nashid as-Suri (The Syrian National Anthem)* begins "Protectors of the nation, peace be upon you."

**MONETARY UNIT:** The Syrian pound (s£) is a paper currency of 100 piasters. There are coins of 25 and 50 piasters and 1 Syrian pound and notes of 1, 5, 10, 25, 50, 100, and 500 Syrian pounds. s£1 = \$0.02062 (or \$1 = s£48.5) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but local units are widely used.

**HOLIDAYS:** New Year's Day, 1 January; Revolution Day, 8 March; Egypt's Revolution Day, 23 July; Union of Arab Republics Day, 1 September; National Day, 16 November. Muslim religious holidays include 'Id al-Fitr, 'Id al-Adha, Milad an-Nabi, and Laylat al-Miraj. Christian religious holidays include Easter (Catholic); Easter (Orthodox); and Christmas, 25 December.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southwest Asia at the eastern end of the Mediterranean Sea, Syria has an area of 185,180 sq km (71,498 sq mi). Comparatively, the area occupied by Syria is slightly larger than the state of North Dakota. Included in this total is the Golan Heights region (1,176 sq km/454 sq mi), which Israel captured in 1967 and annexed on 14 December 1981; the annexation was denounced by Syria and unanimously condemned by the United Nations Security Council. Syria extends 793 km (493 mi) ENE–WSW and 431 km (268 mi) SSE–NNW. It is bounded on the N by Turkey, on the E and SE by Iraq, on the S by Jordan, on the SW by Israel, and on the W by Lebanon and the Mediterranean Sea, with a land boundary length of 2,253 km (1,400 mi) and a coastline of 193 km (120 mi).

## <sup>2</sup>TOPOGRAPHY

There are five main geographic zones: (1) the narrow coastal plain along the Mediterranean shore; (2) the hill and mountain regions, including the Ansariyah ('Alawite) Mountains in the north-west paralleling the coast, the eastern slopes of the Anti-Lebanon Mountains, and the Jabal Ad-Duruz in the southeast; (3) the cultivated area east of the Ansariyah and Anti-Lebanon ranges, which is widest in the north, discontinuous between Himş and Damascus; (4) the steppe and desert region, traversed by the Euphrates (Al-Furat) River; and (5) the Jazirah in the northeast, steppe country with low rolling hills.

The Anti-Lebanon Mountains, extending southward along the Lebanese border, serve as a catchment for the rainfall of central Syria. To the north of this range, the Ansariyah Mountains, which reach heights of over 1,500 m (5,000 ft), slope westward to the Mediterranean. The Orontes (Asi) River irrigates areas on the eastern side of the Ansariyah Mountains.

## <sup>3</sup>CLIMATE

The climate varies from the Mediterranean type in the west to extremely arid desert conditions in the east. The coastal regions have hot summers and mild winters; in the mountains, summer heat is moderated according to elevation and the winters are much more severe.

The steppe and desert areas have extremely hot, arid summers and greatly varying winter temperatures ranging from 21°C (70°F) to below freezing. Average temperatures for Damascus range from about 21° to 43°C (70–109°F) in August and from about -4° to 16°C (25–61°F) in January. Rainfall averages about 75 cm (30 in) on the coast, around 125 cm (50 in) in some mountain areas, and less than 25 cm (10 in) in the eastern three-fifths of the country. In dry years, rainfall may be reduced by half.

## <sup>4</sup>FLORA AND FAUNA

The coastal plain is highly cultivated and the little wild growth found is mainly of the brushwood type, such as tamarisk. On the northern slopes of the Ansariyah range are remnants of pine forests, while oak and scrub oak grow in the less well-watered central portion. Terebinth is indigenous to the low hill country of the steppes and wormwood grows on the plains. Some sections of the Jabal Ad-Duruz are covered with a dense maquis.

The wildlife of Syria includes types common to the eastern Mediterranean region, together with typical desert species. There is a diminishing number of bears in the mountains. Antelope are found wherever grazing is available and human competition not too severe. There are also deer in some sections. Smaller animals include squirrel, wildcat, otter, and hare. In the desert, the viper, lizard, and chameleon are found in relatively large numbers. Native birds include flamingo and pelican, as well as various ducks, snipe, and other game birds.

As of 2002, there were at least 63 species of mammals, 145 species of birds, and over 3,000 species of plants throughout the country.

## 5 ENVIRONMENT

Much of Syria's natural vegetation has been depleted by farming, livestock grazing, and cutting of trees for firewood and construction. The thick forests that once covered western Syria have been drastically reduced; as a result, soil erosion and desertification are extensive. The salinity of the soil is also a problem, causing a loss of more than \$300 million worth of agricultural products per year. Other environmental problems include pollution of coastal waters from oil spills and human waste and contamination of inland waterways by industrial waste and sewage.

Environmental awareness has been a growing concern in the Arab world. The United Nations (UN) and Middle Eastern environmental organizations have sponsored Arab Environment Day to bring the focus of the nation's attention on environmental problems. The quantity of native wildlife had been so seriously depleted that in 1979 the government banned hunting for five years.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species includes 3 types of mammals, 11 species of birds, 3 types of reptiles, 9 species of fish, and 3 species of invertebrates. The Mediterranean monk seal, bald ibis, and African softshell turtle are endangered. The Anatolian leopard, cheetah, Syrian wild ass, Israel painted frog, and Persian fallow deer are extinct.

## 6 POPULATION

The population of Syria in 2005 was estimated by the United Nations (UN) at 18,389,000, which placed it at number 55 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 37% of the population under 15 years of age. There were 101 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.7%. The government has sharpened its focus on population issues, creating a state minister for population affairs in 2003. The projected population for the year 2025 was 27,410,000. The overall population density was 99 per sq km (257 per sq mi), but most of the population is concentrated in Damascus and the six western provinces. Desert areas in the east are largely uninhabited.

The UN estimated that 50% of the population lived in urban areas in 2005 and that urban areas were growing at an annual rate of 2.53%. The capital city, Damascus (Dimashq), had a population of 2,228,000 in that year. The population of Aleppo (Halab), a northern trading and agricultural center, was an estimated 2,505,000. Other main cities are Hims (Homs), 915,000; Hamāh (Hama); and Latakia (Al Lādhiqiyah).

## 7 MIGRATION

In the past there was sizable emigration of Syrians to Europe, Africa, and the Western Hemisphere, but emigration had virtually ceased by the late 1940s. Since World War I, there has been substantial internal migration from the coastal mountains to the central plains and, in general, from rural areas to the towns. There is considerable migration across the borders with Lebanon and Jordan. About 150,000 Syrians working in Kuwait returned during

1990–91. As of October 1995, there were 300,000 Palestinian refugees in Syria. In 1997, the Syrian government accepted the protection mandate of the United Nations High Commissioner for Refugees (UNHCR) for all recognized refugees in the country. The total number of migrants in 2000 was 903,000, including approximately 391,000 refugees. As of 2004, there were 15,604 registered refugees in Syria, primarily from Iraq. In that same year, there were 785 asylum seekers (countries of origin were Iraq, Somalia and Sudan) and 185 returned refugees. However, in 2004, there was also a stateless population of 300,000. In 2004, over 3,000 Syrians sought asylum in eight countries in Western Europe and the United Kingdom. In that same year, there were 16,184 Syrian refugees in Germany. In 2005, the net migration rate was estimated at zero migrants per 1,000 population. The government views the emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

Ethnic Syrians are primarily of a Semitic stock; however, racial types have generally become intermixed. It is estimated that Arabs make up about 90.3% of the population. Other ethnic groups make up the remaining 9.7%, including Kurds, Armenians, and others.

## 9 LANGUAGES

The official language and the language of the majority is Arabic, but dialect variations are distinct from region to region and even from town to town. The written language, classical Arabic, based on the Koran (Quran), is the basis of the standard spoken form. Kurdish and Armenian are the principal minority languages. Aramaic, the language of Jesus, and Circassian are also widely understood. French and English are somewhat understood.

## 10 RELIGIONS

Islam is the religion of the vast majority. About 74% of the population are Sunni Muslims. Alawite, Druze, Ismailis, Shia, and Yazidis account for another 16% of the population. The Alawite constitute an important minority in Syria and hold a disproportionate share of political power; although they consider themselves Muslims, they combine their avowed creed with Christian rituals and esoteric cults. Also important are the Druzes (most of whom live in the Jabal Ad-Duruz), whose religion is an offshoot of Shia Islam.

About 10% of the population is Christian, with Greek Orthodox being the largest denomination. Other Christian churches include Armenian Catholic, Armenian Orthodox (Gregorian), Syrian Catholic, Syrian Orthodox, Maronite Christian, Baptist, Mennonite, Church of Jesus Christ of Latter-Day Saints, and Nestorian (Chaldean). The small Jewish population is urban, living primarily in Damascus, Al Qamishli, and Aleppo.

Under the 1973 constitution, Islam is no longer declared to be the religion of the state, but the president of Syria must still be a Muslim, and Islamic law is a major source of legislation. Freedom of worship is guaranteed by the constitution but public proselytizing is strongly discouraged by the government. All religious groups must register with the government. Certain Orthodox Christian and Muslim holidays are officially observed.

## <sup>11</sup>TRANSPORTATION

The Syrian national railroad system consists of 2,711 km (1,686 mi) of standard and narrow gauge railways, of which 2,460 km (1,530 mi) is standard gauge line. Three sections are: the Syrian section of the old Baghdād Railway; the main line from Damascus to Aleppo, with connections to Tartus, points in Lebanon, and the phosphate mines; and the railway linking Al Lādhiqiyah, Halab, and Al-Qamishli, built with Soviet help and completed in 1981. There are also 251 km (156 mi) of narrow-gauge line, part of which is the pre-World War I Hejaz Railway, linking Damascus to Jordan and Lebanon. Syria is also connected by rail with Turkey (thus with Europe) and Iraq.

The road system, though growing, remains inadequate in view of the demands imposed by increased economic activity. In 2002, Syria had 45,697 km (28,424 mi) of roads, of which only 6,489 km (4,036 mi) were paved, including 1,001 km (623 mi) of expressways. There are road connections between the major towns and with Iraq, Jordan, Lebanon, and Turkey. As of 2003, there were 181,017 passenger cars and 290,300 commercial vehicles.

Tartus and Al Lādhiqiyah are the main ports. Jablah and Baniyas are minor ports. In 2005, the merchant fleet comprised 120 vessels of 1,000 GRT or more, totaling 446,981 GRT. Although Syria had 900 km (560 mi) of navigable inland waterways as of 2002, these have had little economic impact. In 2004, Syria had an estimated 92 airports. As of 2005, it had a total of 26 had paved runways, and there were also seven heliports. Damascus is a connecting point for a number of major airlines; the main passenger terminal of its international airport was completed in 1982. Another principal airport is Aleppo International at Aleppo (Halab). Syrian Arab Airlines provides service to Halab, Al-Qamishli, Al Lādhiqiyah, and other airports; it also flies to other Arab countries and to Europe and Africa. In 2003, about 908,000 passengers were carried on scheduled domestic and international flights.

## <sup>12</sup>HISTORY

Archaeological excavations at Ebla, in northern Syria, have revealed that Syria was the center of a great Semitic empire extending from the Red Sea north to Turkey and east to Mesopotamia around 2500 BC. At that time, Damascus, traditionally the world's oldest continuously occupied city and certainly one of the world's oldest cities, was settled. Later, an advanced civilization was developed along the Syrian and Lebanese coastlands under the Phoenicians (c.1600–c.800 BC), among whom trade, industry, and seafaring flourished. The wealth of the land attracted many conquerors, and Syria was invaded successively by the Hittites, Egyptians, Assyrians, Persians, and others. In the 4th century BC, Syria fell to Alexander the Great, first in a long line of European conquerors. After the breakup of his empire, dominion over Syria was disputed by the Seleucid and Ptolemaic successor states, and Persians invaded when the opportunity arose; eventually the Seleucids gained control. In the 1st century BC, all of Syria, Lebanon, Palestine, and Transjordan was conquered by the Romans and organized as the province of Syria; these areas are termed "geographic" Syria. Christianity, particularly after its official recognition in the

early 4th century AD by Constantine the Great, spread throughout the region.

In 637, Damascus fell to the Arabs. Most Syrians were converted to Islam, and Arabic gradually became the language of the area. Under the Umayyad caliphs, Damascus became the capital of the Islamic world and a base for Arab conquests. Under the 'Abbasids, the caliphate was centered at Baghdād, and Syria was reduced to provincial status. Thereafter, geographic Syria fell prey to a succession of invaders, including Byzantines and Crusaders from Western Europe. Some parts of Syria came under the sway of Seljuks and Ayyubids, a Kurdish dynasty. The latter was most prominent under its leader Saladin (Salah ad-Din). During the 13th century, Mongols frequently invaded Syria, and for 200 years parts of Syria were controlled by the Mamluks, who ruled it from Egypt through local governors. In 1516, the Ottoman forces of Sultan Selim I defeated the Mamluks, and for the next four centuries, Syria was a province of the Ottoman Empire.

During World War I, Sharif Hussein (Husayn Ibn-'Ali) of Mecca threw in his lot with the Allies and revolted against Ottoman rule. After the war, with British forces in control, the formal entry of Allied troops into Damascus was made by Arab forces under Faisal (Faysal), Hussein's son, on 30 October 1918. Faisal and the Arab nationalists, whose number had been growing since 1912, opposed French aspirations to Syria and claimed independence under the terms of agreements between the British government and Hussein. In March 1920, Faisal was proclaimed king by a congress representing Syria, Lebanon, and Palestine. However, geographic Syria was divided into British and French mandates. In June, the French, who had been allotted a mandate for Syria and Lebanon by the Agreement of San Remo (April 1920), ejected Faisal and installed local administrations of their own choosing. Arab nationalists resented French rule; there was a major revolt from 1925 to 1927, and unrest persisted until the outbreak of World War II. In 1941, Free French and British forces wrested control of Syria from Vichy France. Two years later, under pressure from the United Kingdom and the United States, the French permitted elections and the formation of a nationalist government. The United Kingdom and the United States recognized Syria's independence in 1944, and the last French troops departed on 17 April 1946.

Two parties that had led the struggle for independence, the Nationalist Party and the People's Party, dominated Syrian political life in the immediate postwar period. However, the Palestine War of 1948–49, which resulted in the defeat of the Arab armies and the establishment of Israeli statehood, discredited the Syrian leadership. In December 1948, riots against the government were put down by the army, and several army factions struggled for more than a year to gain control of the Syrian state. Col. Adib Shishakli ruled Syria for most of the period from December 1949 to March 1954, when he was ousted by another army coup.

The years from 1954 to 1958 were marked by the growth of pan-Arab and left-of-center political forces at the expense of the traditional merchant landowner class, which dominated the Nationalist and People's parties. Foremost among these forces was the Arab Socialist Ba'ath Party, which saw in Gamal Abdel Nasser (Nasir), the president of Egypt, a kindred pan-Arabist. Military officers remained active in political affairs but were split into competing factions. Some elements of the Nationalist and People's parties sought to counter the left by seeking help from Iraq and other

countries. In late 1957, influential military officers decided to seek unity with Egypt as a means of suppressing factionalism. Enthusiastically supported by the Ba'ath and other pan-Arabists, they appealed to Cairo. Nasser agreed, and on 1 February 1958, Egypt and Syria proclaimed the union of Syria and Egypt as the United Arab Republic (UAR).

A monolithic single-party structure replaced the lively Syrian political tradition; decisions were made in Cairo; land reforms were introduced. Syrians chafed under Egyptian rule, and in September 1961, after a military coup, Syria seceded from the UAR. A period of political instability followed until, on 8 March 1963, power was seized by a group of leftist army officers calling themselves the National Council of the Revolutionary Command, and a radical socialist government dominated by the Ba'ath Party was formed.

The period that followed was marked by internal struggles between the founders of the Ba'ath Party and a younger generation of party militants, many in the military. That generation came to power in 1966 but split in succeeding years. In the June 1967 war between Israel on one side, and Syria, Egypt, and Jordan on the other, Israel gained control of the Golan Heights. Gen. Hafez al-Assad (Hafiz al-Asad), a former chief of the Air Force and defense minister, became chief of state on 16 November 1970; he assumed the presidency, a reinstituted office, for the first of four seven-year terms beginning in March 1971, and a permanent constitution was ratified by popular referendum on 12 March 1973. On 6 October of that year, Syrian troops launched a full-scale attack against Israeli forces in the Golan Heights, as the Egyptians attacked in the Suez Canal area. After the UN cease-fire of 24 October, Israel remained in control of the Golan Heights, and Syria boycotted peace negotiations in Geneva. However, on 31 May 1974, Syria signed a US-mediated disengagement accord with Israel, restoring part of the Golan Heights to Syria and creating a buffer zone, manned by a UN peacekeeping force. The occupied sector of the Golan Heights was annexed by Israel in 1981; outside powers criticized and did not recognize the annexation.

In recent years, Syria has intervened militarily in neighboring Arab states to secure political ends. In September 1970, Syrian armored forces crossed the border into Jordan to support the Palestinians during the Jordanian civil war, but the Syrians were driven back by troops loyal to Jordan's King Hussein (Husayn) and by the threat of Israeli intervention. In 1976, Syrian troops entered Lebanon, nominally to enforce a cease-fire between Christian and Muslim forces but actually to help the Christian forces prevent a victory by leftist Muslims and Palestinians. Syria strongly opposed the Egyptian-Israeli peace treaty of 1979 and was one of the few Arab states to support Iran in its war against Iraq, with which Syria had hoped to merge. Another merger plan, this one with Libya, was announced in September 1980, but the effort was stillborn. In October, Syria signed a 20-year friendship treaty with the USSR; subsequently, Syria received large quantities of Soviet arms, including anti-aircraft missiles, which it deployed in the Bekaa (Biqā') Valley in Lebanon. After Israel invaded southern Lebanon in June 1982, the Israelis knocked out the missile batteries, crippled Syria's Soviet-equipped air force, and trapped Syrian as well as Palestinian fighters in Beirut before allowing their evacuation. Having reequipped its army with Soviet weapons, Syria maintained 25,000-35,000 troops in Lebanon until 2005. In the

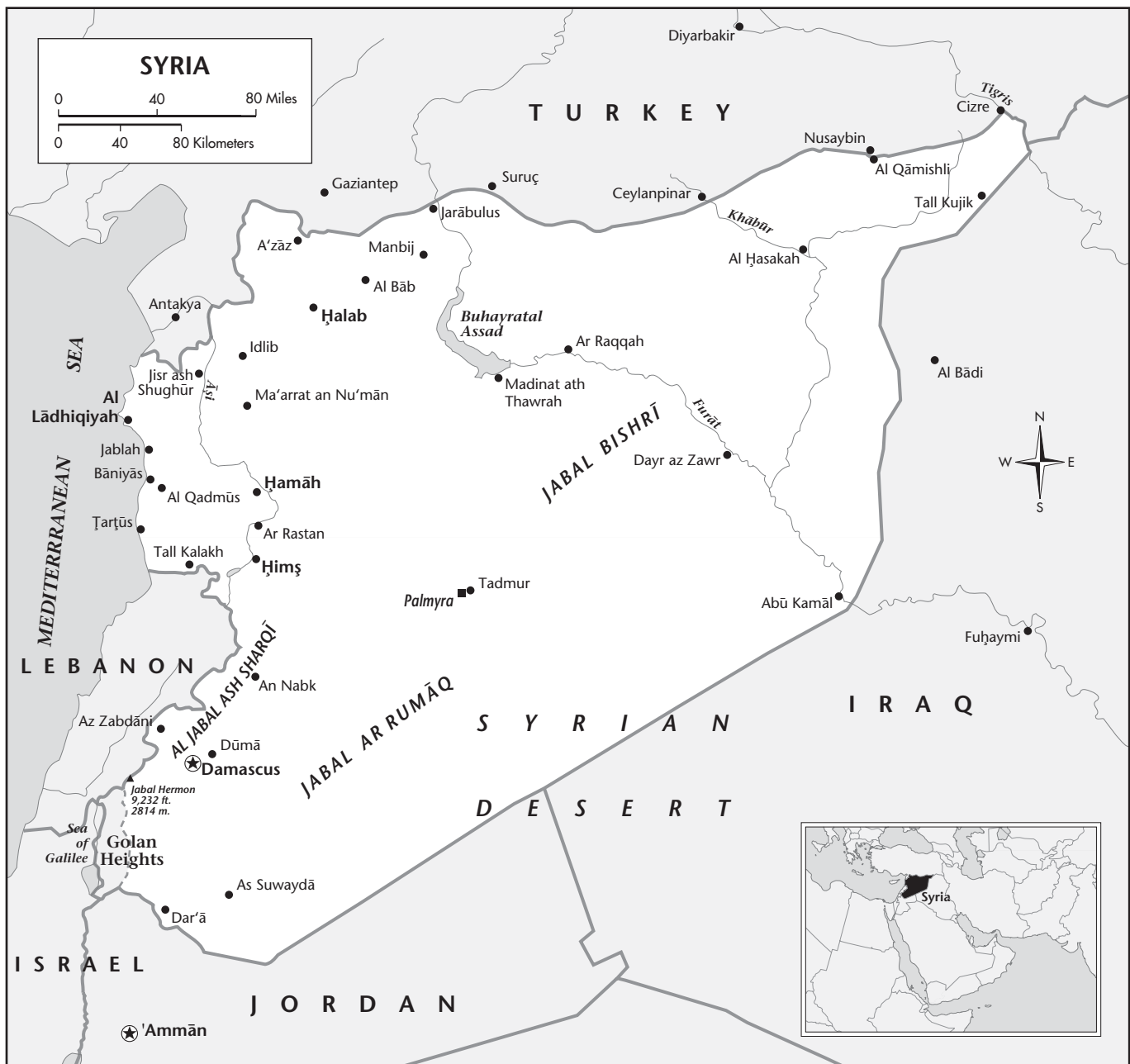
Lebanese civil war, Syria supported the Druze and Muslim militias against the Maronite Lebanese Forces.

Syria made repeated attempts to establish a cease-fire among Lebanon's factions. In 1989, it endorsed the Taif Accord for ending the conflict and, later, when Christian militia General Michel Aoun declared himself president of Lebanon and sought to expel the Syrian forces, assaulted his enclave with artillery and drove him out of the country. In 1991, Syria backed moves to disarm and disband the militias and signed a treaty with Beirut to put relations on a stable and peaceful basis. Under the Taif Accord, Syria was to have withdrawn its forces from Beirut and coastal areas by September 1992. Syria's withdrawal from Beirut took place in June 2001.

The authoritarian Assad regime was condemned by outsiders for assisting terrorist and drug smuggling groups. Both charges were played down after Syria joined the coalition of forces against Iraq in 1990 and agreed to participate in direct peace talks with Israel in 1991. The collapse of the Soviet Union removed Syria's most important source of external support, nullifying Assad's proclaimed strategy of refusing to negotiate with Israel until Syria gained military parity.

Internally, the regime was resented for its denial of democracy and the concentration of power with members of the Assad family's minority religious sect, the Alawis. The most serious internal threat came from Islamic militants in the late 1970s and early 1980s. In 1982, Assad sent the army against their stronghold in Hama, devastating a section of the city and causing tens of thousands of casualties. There has been no serious threat to the regime since then, and the Ba'ath Party has continued to control the country. In the 1990s, Assad took steps to liberalize economic controls and to permit some political freedoms. About 300 political prisoners were released in 1992 and Syrian Jews were again allowed to travel. Still, the country remains on the US State Department's list of countries that support terrorism and US trade is severely restricted. In 1994, Syrian officials met with representatives of Israel's Yitzhak Rabin-led government on the return of the Golan Heights—something Assad had wanted for decades. After Rabin's assassination, however, the talks were discontinued, and the stalemate between Syria and Israel continued. In 1997, US Secretary of State Madeleine Albright announced that she would visit Syria in an effort to get the stalled peace process back on track. Syria was officially guarded about the prospects for success, as it remained deeply suspicious of Israel's right-wing government led by Benjamin Netanyahu. In the same year, the Assad regime entered into negotiations with Iraq to open up its ports to the latter. Syria broke off diplomatic relations with Iraq after backing Iran in the 1980-88 war.

With the election of Labor leader Ehud Barak as prime minister of Israel in May 1999, new hope arose for improved relations with Israel, and a new round of peace talks between Syria and Israel was held in the United States, near Washington, D.C., in January 2000. In May 2000, Israel withdrew from southern Lebanon. By the late 1990s, serious concerns had been raised about the health and mental status of Syria's president, who was reportedly having "mental lapses" and suspected to be suffering from some form of dementia, as well as other infirmities. Nevertheless, Assad was elected to a fifth seven-year term in 1999 in a nearly unanimous vote. After the 1994 death in an automobile accident of Basel, the



LOCATION: (1949): 32°30' to 37°30' N; 35°50' to 42° E. BOUNDARY LENGTHS: Turkey, 822 kilometers (510 miles); Iraq, 605 kilometers (378 miles); Jordan, 375 kilometers (234 miles); Israel, 76 kilometers (47 miles); Lebanon, 375 kilometers (234 miles); Mediterranean coastline, 193 kilometers (117 miles). TERRITORIAL SEA LIMIT: 35 miles.

son whom the Syrian leader had been grooming to succeed him, another of Assad's sons, Bashar, was given increased responsibilities. Assad died on 10 June 2000 of a heart attack; 34-year-old Bashar Assad was unanimously elected secretary-general by the Ba'ath Party one week later. Parliament amended the constitution to lower the minimum age for a president from 40 to 34. In a July referendum, Bashar won overwhelming support to succeed his father, and he officially began a seven-year term as president on 17 July 2000.

In November 2000, President Assad ordered the release of more than 600 political prisoners. However, in September 2001, members of parliament and proreform activists were detained, which dulled hopes that Bashar would usher in a new climate of reform

in the aftermath of his father's death. Although more than 100 dissidents were released from prison in November, human rights organizations maintain that hundreds of political prisoners remain in jail in Syria. In April 2001, the outlawed Muslim Brotherhood, whose members were targeted during the 1982 Hama massacre, announced its intention to resume political activity.

Following the terrorist attacks on the United States on 11 September 2001, Bashar Assad publicly emphasized Syria's stance on terrorism, although it did not support the US-led war on terrorism, stating military action was not the appropriate response to terrorism. The United States still lists Syria on its State Department's list of countries supporting terrorism, and in 2004 imposed economic

sanctions on Syria over what it called its support for terrorism and failure to stop militants from entering Iraq from Syria.

Syrian troops withdrew from Beirut in June 2001 to redeploy in other parts of Lebanon, in response to greater Lebanese criticism of Syria's presence there. In April 2005, as a result of massive Lebanese street protests following the 14 February 2005 assassination of former Lebanese prime minister Rafik al-Hariri—called the “Cedar Revolution,” for bringing down the pro-Syrian Lebanese cabinet—Syria withdrew all of its military forces from Lebanon.

One of the main reasons Israel has not pulled out of the Golan Heights has to do with water. The Golan Heights provides approximately 30% of Israel's water needs. The Dan, the Banyas, and the Hatzbani, tributaries of the upper Jordan River, originate in the Golan Heights. Israel's water needs are also tied to Lebanon. Lebanon has begun to divert 50 million cubic meters a year from the Wazzani and Hatzbani Rivers to supply villages in southern Lebanon with water. The Wazzani feeds into the Hatzbani, which in turn flows into the Jordan River watershed and Lake Kinneret (Lake Tiberias or the Sea of Galilee), a major source of Israel's water supply. In 2002, Sharon identified measures to divert water from Israel as a cause for war. In 1964 Syria tried to dam the waters that fed Lake Kinneret, but Israel destroyed the dams as one of the events leading to the 1967 Six-Day War. Since then, Syria has built 23 dams on the Yarmouk River, a tributary flowing into the Jordan River south of Lake Kinneret, affecting the water supplies of Israel and Jordan.

### <sup>13</sup>GOVERNMENT

After independence, Syria made several attempts at establishing a constitution. The constitution of 1950 was revived in amended form in 1962 and then abrogated. A provisional constitution adopted in April 1964 was suspended in 1966 and replaced to some extent by a series of edicts. The fundamental law that emerged considered Syria a socialist republic forming part of the Arab homeland, required that the head of state be a Muslim, recognized Islamic law as a main source of legislation, ordained collective ownership of the means of production, but permitted some private ownership.

The constitution of 12 March 1973, embodying these principles and ratified by popular referendum, vests strong executive power in the president, who is nominated by the Ba'ath Party and elected by popular vote to a seven-year term. The president, who appoints the cabinet (headed by a prime minister), also serves as commander-in-chief of the armed forces and as secretary-general of the Ba'ath Party; three vice presidents were named in March 1984, including President Assad's younger brother Rifaat, who was dismissed from this post in 1998. The two other vice presidents named in 1984 were still in office in 2005. The unicameral People's Assembly (Majlis al-shaab) has 250 members who are elected every four years, but who have no real power. Suffrage is universal, beginning at age 18. Syria has been under a state of emergency since 1963 (except for 1973–74). Although Bashar Assad announced in January 2001 that the emergency law was “frozen” and “not applied,” the state of emergency still remained in force.

Bashar Assad began a seven-year term as president in July 2000 following his father's death that June. The next presidential election is scheduled to take place in 2007.

### <sup>14</sup>POLITICAL PARTIES

The Arab Socialist Ba'ath Party is Syria's dominant political institution. It has a countrywide organization and controls mass organizations for youth, students, women, and the like. Only the Ba'ath may carry on political activity in the armed forces. It is far larger and more influential than the combined strength of its five partners in the National Progressive Front (NPF). This official political alignment, formed by President Hafez Assad in 1972, groups the Communist Party of Syria (SCP) and small leftist parties—the Syrian Arab Socialist Union (ASU), the Socialist Unionist Movement (ASUM), the Democratic Socialist Union Party (DSUP), and the Arab Socialist Party (ASP)—with the Ba'ath. The Ba'ath Party was founded in 1947 with the goals of Arab liberation, Arab unity, and socialism. Ba'athists attained control of the government in 1963, but the party became divided into two factions, a wing of doctrinaire socialists and a more pragmatic wing. Assad, then minister of defense and a strong nationalist, seized power in a bloodless coup in November 1970 and purged the doctrinaire Ba'athists from the government. The Ba'athists have relied on the minority Alawi sect, of which Assad was a member, and on the rural sector of the population generally. During his years as president, Assad appointed Ba'athist Alawis to influential positions in the government and in the military and security services. When Assad died on 10 June 2000, the Ba'ath Party held a party congress—its first since 1985—and elected Bashar Assad secretary-general. Bashar Assad succeeded his father as president the next month.

Hafez Assad, the sole presidential candidate for over 20 years, won national plebiscites by 99% majorities on 12 March 1971, 8 February 1978, 13 March 1985, 2 December 1991, and 10 February 1999. His son, Bashar, won in July 2000 by a vote of 8.6 million to 22,000. In elections on 1 December 1998, the Ba'ath won 135 seats; the ASU, 8; SCP, 8; ASUM, 7; ASP, 5; DSUP, 4; and independents, 83. In the March 2003 elections, the NPF won 167 seats (with the Ba'ath winning 135 seats once again), and independents held 83 seats. The next elections are scheduled to take place in 2007.

### <sup>15</sup>LOCAL GOVERNMENT

Syria is divided into 14 provinces (*muhafazat*); every province has a governor (*muhafiz*) and council. Each province is in turn divided into districts (*mantiqat*), each headed by a *qaimmaqam*. Each district is further subdivided into subdistricts, each in the charge of a *mudir*. Governors are appointed by and are directly responsible to the authorities in Damascus.

### <sup>16</sup>JUDICIAL SYSTEM

The Syrian legal system is based partly on French law and partly on Syrian statutes. Investigating magistrates determine whether a case should be sent to trial. Minor infringements are handled by peace courts, and more serious cases go to courts of first instance. There are civil and criminal appeals courts, the highest being the Court of Cassation. Separate state security courts have jurisdiction over activities affecting the security of the government. In addition, Shariah courts apply Islamic law in cases involving per-

sonal status. The Druze and non-Muslim communities have their own religious courts.

A Supreme Constitutional Court investigates and rules on petitions submitted by the president or one-fourth of the members of the People's Assembly challenging the constitutionality of laws or legislative decrees. This court has no jurisdiction to hear appeals for cases from the civil or criminal courts.

The constitution provides for an independent judiciary. The regular court system is independent; however, the state security courts are not completely independent from the executive.

There are no jury trials. The regular courts respect constitutional provisions safeguarding due process. The Supreme State Security Court tries political and national security cases. The Economic Security Court tries cases involving financial crimes. Both courts operate under the state-of-emergency rules overriding constitutional defendants' rights.

## 17 ARMED FORCES

In 2005, Syria's armed forces had 307,600 active personnel, supported by 354,000 reservists. The Army had 200,000 personnel, and included seven armored divisions, three mechanized infantry divisions, a Republican Guard division, four independent infantry brigades, three surface-to-surface missile brigades, two artillery brigades, one special forces division, and one border guard brigade. The Army had 4,600 main battle tanks, 800 reconnaissance vehicles, 2,200 armored infantry fighting vehicles, over 1,600 armored personnel carriers, and 3,150 artillery pieces, in addition to sophisticated antitank and antiaircraft weapons. The Syrian Navy had 7,600 active personnel, with major naval units that included two frigates, 20 patrol/coastal vessels, and five mine warfare ships. The naval aviation arm operated 25 attack and 25 antisubmarine warfare helicopters. The nation's Air Force had 40,000 personnel, with 632 combat-capable aircraft, including 390 fighters and 126 fighter ground attack aircraft. The service also had 71 attack helicopters. The Air Defense Command had an estimated 60,000 personnel with 25 air defense brigades and two Surface-to-Air Missile (SAM) regiments, which included 4,707 surface-to-air missiles. Paramilitary forces included a gendarmerie of 8,000 and a workers' militia with an estimated 100,000 members. In 2005, the military budget totaled \$1.72 billion. Syria, in that same year, removed its 18,000 troops in Lebanon. A total of 150 Russian troops were stationed in Syria.

## 18 INTERNATIONAL COOPERATION

Syria is a founding member of the United Nations (UN), having joined on 24 October 1945, and belongs to ESCWA and several nonregional specialized agencies, such as the FAO, the World Bank, UNSECO, UNIDO, the ILO, and the WHO. Syria served on the UN Security Council from 2002 to 2003. It is a charter member of the Arab League, set up in 1945 to foster cooperation in foreign and domestic affairs. Syria also belongs to the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Council of Arab Economic Unity, G-24, G-77, the Islamic Development Bank, the Organization of the Islamic Conference (OIC), and OAPEC.

Syria is a member of the Nonaligned Movement. Despite a long history of tense relations, Syria established full diplomatic relations with Egypt in 1989. Lebanon and Syria signed a treaty of

brotherhood, cooperation, and coordination in 1991. Syria and Israel have a strained relationship based on Syria's support of the Palestinian cause. Syria cooperated with the US-led multinational coalition of forces in the Gulf War (1990–91) and has offered limited cooperation in the war on terrorism.

In environmental cooperation, Syria is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Despite repeated announcements of economic reforms, Syria's economy continues to be dominated by the state, with the government budget acting as the principle tool for managing the economy. In 2002, the government announced that its program for privatization had been replaced by a priority on making state enterprises more efficient.

Statistics on the Syrian economy are subject to government manipulation and revision, and may be inaccurate and inconsistent. Traditionally, Syria is an agricultural economy, and by 2001 estimates, this sector accounted for 40% of the labor force and 27% of gross domestic product (GDP). Subsistence agriculture has given way to modern production and marketing methods, although 80% is still rain-fed and vulnerable to drought. Droughts in 1997 and 1999 were significant factors lowering GDP growth. Wheat and barley constitute two-thirds of the cultivated area but cotton is the main cash crop.

Development of the state-owned oil industry and exploitation of other mineral resources, notably phosphates, have helped to diversify Syrian industry, which was formerly concentrated in light manufacturing and textiles. Although Syria's oil production is small by Middle Eastern standards, in 2001 oil accounted for 70% of Syria's exports and 20% of its GDP. Syria became an oil exporter in 1987, but at present levels of proven reserves it will become an importer again within 10 years.

Economic growth in Syria has depended on oil prices, foreign aid, and good weather. Low oil prices and drought dampened growth in the late 1980s, but in the first half of the 1990s, due to increased oil production, recovery from drought and nearly \$5 billion in foreign aid as a "reward" for its participation in the Gulf War combined to help the economy to register average annual growth rates of 5.3% in the late 1990s. Oil production peaked in 1996 at about 600,000 bbl/d, after which it declined due to technical problems and depletion. Modest growth was restored in 2000 and 2001 (about 2.1% and 2.0%, respectively) with the increase in oil prices. For 2002, real GDP growth was an estimated 3.2%.

On 14 July 1998 Iraq and Syria signed a memorandum of understanding reopening the Iraqi Petroleum Co. (IPC) pipeline built in 1934 connecting the Kirkuk oil fields with the Syrian port of Banias on the Mediterranean. Syria had closed the pipeline in 1982 when it broke off diplomatic relations with Iraq and shifted to Iran as an oil supplier. The IPC pipeline had been severely damaged during the Gulf War, and it was not until March 2000 that it was reported serviceable. In mid-November 2000, numerous press reports began circulating claiming that the IPC pipeline was being used to ship Iraqi oil to Syrian refineries on favorable terms, allowing Iraq to obtain oil revenues above the limits set by the United Nations Oil-for-Food program. Iraq and Syria denied

the allegations, but according to the US Department of Energy (DOE), independent analysts determined that Syria's export levels of crude oil in 2001 could not have been attained without importing from Iraq in the range of 150,000 and 200,000 bbl/d. In November 2001, Iraq and Syrian reportedly signed an agreement on building a new \$200 million pipeline to replace the aging IPC line. In April 2003, as part of the invasion of Iraq, American troops shut down the IPC pipeline. The cost to Syria of the shutdown was estimated at \$500 million to \$1 billion a year.

The GDP growth rate was estimated at 1.5% in 2005, down from 1.8% in 2004, and 2.6% in 2003. The inflation rate has been fairly stable, and at 2.6% in 2005, it did not pose any major problems to the economy. The unemployment rate has been fairly stable, hovering around 2.5%. The government has implemented modest economic reforms, but most of the economy continues to be under its control. Declining oil production and population growth pressure on water supplies are long term problems that the country needs to deal with.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Syria's gross domestic product (GDP) was estimated at \$63.9 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$3,500. The annual growth rate of GDP was estimated at 1.4%. The average inflation rate in 2005 was 2.6%. It was estimated that agriculture accounted for 25% of GDP, industry 31%, and services 44%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$618 million (about \$4 per capita) and accounted for approximately 2.9% of GDP. Foreign aid receipts amounted to \$160 million (about \$9 per capita) and accounted for approximately 0.8% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Syria totaled \$13.88 billion (about \$80 per capita) based on a GDP of \$21.5 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.3%. It was estimated that in 2004, about 20% of the population had incomes below the poverty line.

## 21 LABOR

The Syrian labor force is well educated and well trained in comparison with that of other Arab countries, but its size is small because about half the population is under 15 years of age and because many skilled workers are employed abroad in Organization of the Petroleum Exporting Countries (OPEC) member nations. Syria's labor force in 2004 was estimated at 5.12 million. As of 2002, it was estimated that agriculture accounted for 30% of the workforce, with 27% in industry and 43% in the services sector. There is a high level of underemployment, with unemployment in 2002 estimated at 20%. Many unskilled persons in agriculture and industry work only seasonally. The government is attempting to

meet the demand for trained workers by establishing vocational schools.

The statutory workweek is 36 hours. In 2002, the minimum wage was \$57 per month in the public sector and between \$49 and \$53 per month in the private sector. The law mandates one day of rest per week. These regulations are enforced through the minister of labor and social affairs. Generally, the legal minimum age for employment is 16 years, with some exceptions. The Labor Law of 1959 established the right of workers to form unions and empowered the government to regulate hours of work, vacations, sick leave, health and safety measures, and workers' compensation. However, unions must belong to the government's bureaucratic labor confederation. The confederation acts merely as a conduit to transfer directives from government decision makers to unions and workers. Thus, there is no meaningful right to strike or bargain collectively. The government also is authorized to arbitrate labor disputes.

## 22 AGRICULTURE

About 6.1 million hectares (15.1 million acres) are arable, but the area actually cultivated is about 5.4 million hectares (13.6 million acres), or 30% of the total area. Because only 25% of cultivated land is irrigated, agriculture depends on rainfall, which is uncertain, and in lean years Syria becomes a net importer of wheat and barley; this strains the whole economy and hampers development. The government has two approaches to this problem: to increase the use of fertilizers in low rainfall areas and to add substantially to irrigated cultivation. The irrigated area was expected to double through the Euphrates Dam project, which was completed in 1978. Lake Assad, formed by the dam, was planned to eventually provide irrigation for some 640,000 hectares (1,581,000 acres). Costs of land reclamation, technical difficulties due to gypsum in the soil, and low water, in part caused by Turkish damming upstream, have slowed progress. Total irrigated area reached an estimated 1,333,000 hectares (3,294,000 acres) in 2003. The government has allocated an increasing share of its investments to irrigation, but full development of irrigation schemes is expected to take at least another 20 years. However, given the current water management policies, Syria could face a serious water shortage much sooner.

Traditionally, much of Syria's agricultural land was held by landowners in tracts of more than 100 hectares (250 acres); sharecropping was customary. This picture was greatly altered by the government's agrarian reform program, begun in 1958. The law, as modified in 1963, fixed the maximum holding of irrigated land at 15–50 hectares (37–124 acres) per person and nonirrigated land at 80 hectares (198 acres) per person. All expropriated land available for cultivation has been allotted to farmers.

The principal cash crop is cotton, but cotton's share of total export value declined from 33% in 1974 to 2.3% by 2004. Other cash crops are cereals, vegetables, fruit, and tobacco. Since the government suspended convertibility of the Syrian pound, grain and other agricultural products have been smuggled to Lebanon in exchange for goods not available through the state importing agencies. Production (in thousands of tons) for major agricultural commodities in 2004 was as follows: wheat, 4,537; barley, 527; corn, yellow, 180; tomatoes, 920; potatoes, 500; olives, 950; grapes,

300; apples, 215; oranges, 427; cotton lint, 331; seed cotton, 1,023; sugar beets, 1,250; and tobacco, 26.5.

### **23 ANIMAL HUSBANDRY**

Grazing land occupies 8.3 million hectares (20.5 million acres), or about 45% of Syria's total area. Stock raising contributes significantly to the Syrian economy. Between 1963 and 1981, livestock herds more than doubled in number, and since 1975, the number of model farms, veterinary units, and livestock artificial insemination centers has increased considerably.

Sheep are the most important livestock animals in Syria, grazing on poorly developed wheat and barley fields and on the remains of crops such as wheat and corn. In 2005, there were an estimated 15.3 million sheep. Mutton production was an estimated 207,000 tons in 2005; sheep milk production, 604,000 tons. The price of mutton of the Awassi breed, which is in high demand in Syria, was about 35% higher than beef in the mid-1990s.

There were also 1,018,000 goats, 940,000 head of cattle, 15,000 camels, 2,800 buffaloes, and 30,000,000 chickens in 2005. Animals and animal products account for 40% of total agricultural output by value. Production of cow's milk in 2005 totaled 1,250,000 tons; cheese, 95,400 tons; butter and ghee, 16,300 tons; and eggs, 167,000 tons.

### **24 FISHING**

There is some fishing off the Mediterranean coast and from rivers and fish farms. The commercial catch was 16,128 tons in 2003, with common carp and tilapia from inland waters accounting for 40%.

### **25 FORESTRY**

Syria is almost entirely denuded of native forests. Approximately 461,000 hectares (1,139,000 acres) were forestland in 2000, but only about 50,000 cu m (1.77 million cu ft) of roundwood were produced in 2004. Most of the designated forestland consists either of wholly barren land or of rangeland with arboreous shrubs. The substantial forests are mainly on the northern slopes of the Ansariyah range, on the windward side of the Anti-Lebanon Mountains, and in the Al Lādhiqiyah region.

### **26 MINING**

Syria's mineral resources are not extensive, but deposits of iron, petroleum, and phosphate have been exploited. Syria is a leading exporter of phosphate rock, while petroleum has become a leading source of foreign currency earnings. In 2003, the production of phosphate rock (gross weight) totaled 2,414,000 tons, down from 2,483,000 million tons in 2002. Other mineral deposits include asphalt, salt, chromite, and marble. Marble and salt were mined in commercial quantities. In 2004, an estimated 340 metric tons of marble blocks were quarried, with salt output in that same year estimated at 146,000 metric tons. Syria also produces hydraulic cement, refractory-grade dolomite, natural gas, natural gas liquids, gravel and crushed rock, gypsum, nitrogen, phosphatic fertilizers, phosphoric acid, construction and industrial sand, steel, dimension stone, sulfur, and volcanic tuff. No metal was mined in 2003. Deposits of silica sand in al-Qaristyn had resources of 150 million tons. The mineral industry is owned and controlled by the government. In 2001, the government announced its intention to

open the mineral industry to local and foreign private investors. The rapid expansion of the construction sector in the near future is expected to increase Syria's demand for cement, gypsum, limestone, gravel, sand, and steel.

### **27 ENERGY AND POWER**

Syria's proven reserves of oil have made it the largest oil producer in the eastern Mediterranean region (includes Israel, Jordan and Lebanon). It also has reserves of natural gas, but no known reserves of coal.

As of 1 January 2005, Syria had proven oil reserves estimated at 2.5 billion barrels. In 2004, oil production and domestic consumption averaged an estimated 460,000 barrels per day and 265,000 barrels per day, respectively. In that same year, Syria's oil exports averaged 195,000 barrels per day. In 1996, Syria's oil output peaked at 590,000 barrels per day, and has been declining as reserves have become depleted, and as older fields reach maturity. Production of oil is expected to steadily decline in upcoming years, and if the trend continues, the country could become a net importer of oil within 10 years, as consumption increases as the population grows. As of 2000, however, it was estimated that only 36% of Syria's potential oil and gas deposits had been drilled.

Syria has two refineries, one at Himş, and the other at Banias. Reported as of August 2005, each refinery has an average production of 107,140 barrels per day and 132,725 barrels per day, respectively.

As of 1 January 2005, Syria's proven reserves of natural gas were estimated at 8.5 trillion cu ft. In 2003, natural gas production and domestic demand were each estimated at 245 billion cu ft. About 50% of the country's natural gas production is nonassociated with the production of oil. Also, Syria's production of natural gas is expected to increase as part of a strategy to replace the use of oil with natural gas to generate electric power, thus freeing up more oil for export.

As of 2003, Syria's installed electric power generating capacity totaled about 7.6 GW, of which 1.5 GW was came from hydroelectric capacity and the rest from natural gas and fuel oil. In 2003, Electric power output was estimated at 27.2 billion kWh, with demand estimated at 25.3 billion kWh.

### **28 INDUSTRY**

Syria has been renowned since ancient times for such handicrafts as Damascus brocade and Syrian soap. Some of these traditions endured even after 1933, when the first mechanized plant for spinning and weaving was set up in Aleppo. In 1965, the textile industry was nationalized and reorganized into 13 large state corporations. A series of nationalization measures after 1963 resulted in public control of most industry, but efforts have been made to stimulate the expansion of the private sector, as state-owned industries suffer from low productivity. In the 1970s, government policy began emphasizing domestic industrial production (coupled with high tariffs on imported consumer goods) of iron and steel, fertilizers, chemicals, and household appliances. In 1995, manufacturing and mining accounted for 14% of GDP. By 2000, this proportion had reached 23%. In 2002, the government announced that priority

would be shifted from efforts to privatize the state-owned enterprises (SOEs) to continued efforts to increase their efficiency.

Important industries include the chemical and engineering industries, the food industry, and oil refining. The largest component of the General Establishment of Chemical Industries (GECI) is the cement industry, which is considered strategic and wholly state owned. The General Organization for Cement and Building Materials consists of seven state-owned but independently operated cement companies. The total capacity in 2001 was about 5 million tons per year, with government plans to increase this to 8 million tons per year. Another subsidiary of GECI is the General Fertilizer Co. (GFC). It has two nitrogenous fertilizer plants and one phosphate-based unit, all located at Himş. Under construction in 2002 was a 500,000 ton/year triple-superphosphate plant near Palmyra being built by Bechtel and Makad International. Also planned is a 450,000 nitrogenous complex near Hasaka to use natural gas from the Omar field in northeast Syria. Syria's fertilizer industry rests on its ample deposits of natural gas and phosphates, and produces ammonia, urea and nitrogenous fertilizers. Syria also has an iron-rolling mill at Himş and factories producing furniture, refrigerators, paper, glass and plastic products, and television sets. Some 70,000 tons of crude steel were produced in 1995. Syria has a total refinery capacity of 239,860 barrels per day from two refineries: a 132,725 barrels per day capacity refinery at Baniyas and a 107,140 barrels per day capacity refinery at Himş. Plans to upgrade both have been announced.

The industrial production growth rate was 7% in 2002 (higher than the GDP growth rate), establishing the industrial sector as a growth engine. In 2003, industry accounted for 31% of the GDP, and was bested by services with 44%. Out of the 5.1 million working people, 27% were engaged in industrial activities, 43% in services, and 27% in agriculture.

## 29 SCIENCE AND TECHNOLOGY

Courses in basic and applied science are offered at Al-Baath University (founded in 1979 at Himş), the University of Aleppo (Halab) (founded in 1960), the University of Damascus (founded in 1903), and Tishreen University (founded in 1971 at Lattakia). In 1987–97, science and engineering students accounted for 23% of college and university enrollments. Major scientific research institutions in Syria include the International Center for Agricultural Research in the Dry Areas (ICARDA), founded in 1977 at Aleppo and the Arab Center for the Study of Arid Zones and Dry Lands (ACSAD), founded in 1971 at Damascus. The country's advanced petrochemical technologies have been installed by foreign oil companies. In early 1987, an estimated 2,500 Soviet military technicians were stationed in Syria; civilian personnel also provided assistance in various fields. For the period 1990–2001, there were 29 researchers and 24 technicians engaged in research and development per million people. In 2002, high technology exports were valued at \$2 million, or 1% of the country's manufactured exports.

## 30 DOMESTIC TRADE

Damascus and Aleppo are the principal commercial centers. Virtually all importers, exporters, and wholesalers have offices in one or both cities. The chief retail centers have general and specialized stores as well as large bazaars. Smaller bazaars and open markets

are found in many Syrian towns and villages. Advertising agencies use newspapers, magazines, moving picture theaters, signs on buses, and other media.

The Syrian government cracked down on smuggling in May 1993. Most of the previously smuggled commodities can now be imported through official channels. Commodity smuggling from Lebanon, however, is still present and provides an "unofficial market" for imported products at the free market exchange rate reflective of world price levels.

Usual business hours are from 9 AM to 1 PM and from 3:30 PM to 7 PM. Friday is the weekly day of rest. Banking hours are Saturday–Thursday, 8 AM to 2 PM.

The Damascus International Fair and the Syrian Industrial Marketing Fair are annual events.

## 31 FOREIGN TRADE

During the 1980s, Syria focused on increasing its trade with socialist nations. However, when the Soviet Union broke apart in 1991, Syria increased trade with European nations. In 2000, the European Union (EU) countries took 66% of exports and supplied 31% of imports, while countries of the Middle East took 28% of exports and supplied 14% of imports. Syria's main export commodities are crude petroleum (69%) and refined petroleum products (7.0%). Other exports include cotton (4.3%), vegetables (2.9%), garments (2.8%), and fruits and nuts (2.0%).

In 2005, exports reached \$6.3 billion (FOB—Free on Board), while imports grew to \$6.0 billion (FOB). In 2004, the bulk of exports went to Italy (22.7%), France (18%), Turkey (12.9%), Iraq (9%), and Saudi Arabia (6.2%). Imports included machinery and transport equipment, food and livestock, metal and metal products, and chemicals, and mainly came from Turkey (9.4%), the Ukraine (8.7%), China (7.8%), Russia (5.4%), Saudi Arabia (5.2%), the United States (4.7%), South Korea (4.6%), and Italy (4.3%).

## 32 BALANCE OF PAYMENTS

Syria has had serious deficits in its trade balance since 1976, but import restrictions, foreign aid (especially from other Arab governments), and the drawdown of foreign exchange holdings enabled the government to cover the losses. Since the late 1980s, the

### Principal Trading Partners – Syria (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	5,730.7	5,110.6	620.1
Italy-San Marino-Holy See	1,900.3	215.8	1,684.5
France-Monaco	823.3	132.6	690.7
Turkey	430.7	291.9	138.8
Saudi Arabia	339.2	203.2	136.0
Lebanon	230.8	80.9	149.9
Spain	224.5	63.9	160.6
United States	212.2	255.7	-43.5
Cyprus	186.6	...	186.6
Jordan	141.0	58.6	82.4
United Kingdom	119.4	63.4	56.0

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Syria (2002)**

(In millions of US dollars)

<b>Current Account</b>		<b>1,440.0</b>
Balance on goods	2,210.0	
Imports	-4,458.0	
Exports	6,668.0	
Balance on services	-324.0	
Balance on income	-925.0	
Current transfers	479.0	
<b>Capital Account</b>		<b>20.0</b>
<b>Financial Account</b>		<b>-250.0</b>
Direct investment abroad	...	
Direct investment in Syria	115.0	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	1,180.0	
Other investment liabilities	-1,545.0	
<b>Net Errors and Omissions</b>		<b>-160.0</b>
<b>Reserves and Related Items</b>		<b>-1,050.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

government has been encouraging private-sector trade. Private-sector exports consequently skyrocketed from \$79 million in 1987 to \$517 million in 1990, thus reducing the trade deficit. An upturn in world oil prices at the end of the 1990s and into the early 2000s and an improvement in the country's agricultural exports greatly improved the balance of payments situation.

The US Central Intelligence Agency (CIA) reported that in 2001, the purchasing power parity of Syria's exports was \$5 billion, while imports totaled \$4 billion, resulting in a trade surplus of \$1 billion.

The International Monetary Fund (IMF) reported that in 2000, Syria had exports of goods totaling \$5.15 billion and imports totaling \$3.7 billion. The services credit totaled \$1.7 billion and debit \$1.67 billion.

Exports of goods and services totaled \$6.4 billion in 2004, down from \$6.6 billion in 2003. Imports grew from \$7.0 billion in 2003, to \$7.2 billion in 2004. The resource balance was consequently negative, and on a downward path—from -\$354 million in 2003, to -\$495 million in 2004. An opposite trend was registered for the current account balance, which improved from -\$477 million in 2003, to \$514 million in 2004. Foreign exchange reserves (including gold) increased to \$4.3 billion in 2004, covering more than seven months of imports.

### 33 BANKING AND SECURITIES

Syria's financial services sector is underdeveloped. Besides the Central Bank, there are five banks in the country, all of which are state run. The Central Bank, founded in 1956, is the bank of issue for currency, the financial agent of the government, and the cashier for the treasury. The Agricultural Bank makes loans to farmers at low interest; the Industrial Bank (nationalized in 1961), the People's Credit Bank and the Real Estate Bank (both founded in 1966), and the Commercial Bank of Syria (formed in 1967 by a merger of five nationalized commercial banks) make loans in their

defined sectors. Unused Syrian pounds cannot be sold back to the Commercial Bank, and the private exchange of foreign currencies and Syrian pounds is a criminal act. These strict currency controls are the largest disincentives to investment and foreign trade. So decrepit is the country's financial services sector that most Syrian businessmen and foreigners use banks in either Lebanon or Cyprus. Foreign diplomats in Damascus, for instance, use accounts in the Chtaura, in Lebanon's Beqaa valley, around one hour by car from Damascus.

Private-sector groups have called for reforms such as private participation in banking, the creation of a stock exchange, and separation of the Central Bank of Syria from the government. Privatization of banks, which had been prohibited for 30 years, arrived in 2001 with new banking reform laws. The country's four banks are all owned by the government and interest rates are fixed by law. In March 2001, President Bashir issued Law 28, authorizing the establishment of private and joint-venture banks, with foreigners permitted up to 49% ownership. To date, none has been established, but in January 2003 the government identified five banks to be licensed in the third quarter.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$37.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$62.0 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5%.

### 34 INSURANCE

All insurance in Syria was nationalized in 1963 and is controlled by the government-owned General Insurance Organization of Syria (formerly the Syrian Insurance Co.). Motor vehicle insurance is compulsory. In 1999, \$337.2 million in premiums were written in Syria. Twenty-two million was spent on these premiums, making the insurance sector's share of the gross domestic product 0.40%.

### 35 PUBLIC FINANCE

Although Syria was able to balance its budget in 1992, large military expenditures and continued subsidization of basic commodities and social services have produced deficits in subsequent years. State intervention in business and price controls put a damper on growth.

The US Central Intelligence Agency (CIA) estimated that in 2005 Syria's central government took in revenues of approximately \$5.6 billion and had expenditures of \$6.5 billion. Revenues minus expenditures totaled approximately -\$836 million. Public debt in 2005 amounted to 45% of GDP. Total external debt was \$8.59 billion.

The International Monetary Fund (IMF) reported that in 1999, the most recent year for which it had data, central government revenues in millions of Syrian pounds were 196,096 and expenditures were 190,300. The value of revenues in millions of US dollars was \$17,470 and expenditures \$16,953, based on a principal exchange rate for 1999 of 11.225 as reported by the IMF. Government outlays by function were as follows: general public services, 12.9%; defense, 23.6%; economic affairs, 44.0%; housing and community amenities, 1.0%; health, 2.3%; recreation, culture, and religion, 1.5%; education, 9.2%; and social protection, 5.3%.

**Public Finance – Syria (1999)**

(In millions of Syrian pounds, central government figures)

<b>Revenue and Grants</b>	<b>196,096</b>	<b>100.0%</b>
Tax revenue	142,748	72.8%
Social contributions	531	0.3%
Grants	...	...
Other revenue	52,817	26.9%
<b>Expenditures</b>	<b>190,300</b>	<b>100.0%</b>
General public services	24,559	12.9%
Defense	44,984	23.6%
Public order and safety	...	...
Economic affairs	83,810	44.0%
Environmental protection	...	...
Housing and community amenities	1,910	1.0%
Health	4,459	2.3%
Recreational, culture, and religion	2,937	1.5%
Education	17,533	9.2%
Social protection	10,108	5.3%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.**36 TAXATION**

Relatively low salaries have kept the tax base narrow, and price controls have restricted the taxable profits from industry. By decree in 2001, the president raised the minimum exemption for income taxes to S£1,000 (about \$22). There are taxes on individual income (at progressive rates of 5–12.5%).

Business profits are taxed at progressive rates of 10% to 35%. Shareholding companies and industrial limited liability companies are taxed at a flat rate of 25%, if an investment in machinery and plant in excess of S£5 million is made. Capital gains are included in taxable income are taxed at the applicable corporate rate. However, capital gains resulting from the sale of shares by the shareholder are not taxed. Dividends distributed by Syrian companies are not subject to a withholding tax if paid out of profits that have already been taxed. For Syrian and non-Syrian companies and individuals, income from movable capital (interest, royalties, and foreign sources of dividends) are taxed at a flat rate of 7.5%. There is no general sales tax, but consumption taxes are assessed on specific items such as petrol, rice and sugar. Other taxes include excise taxes, property taxes, stamp duties, and social security contributions.

**37 CUSTOMS AND DUTIES**

Goods imported into Syria are subject to a customs duty and “unified” tax. Rates are progressive and, as of 2005, ranged from 1–200% depending on the government’s view of the necessity for the products. Food and industrial raw materials carry low rates while luxury goods, such as automobiles, have rates of 150–200%. The unified tax is a surcharge on all imported goods and ranges from 6–35%. The tax helps to support the military, schools, and municipalities.

Syria has free-trade agreements with Bahrain, Kuwait, Iraq, Jordan, Lebanon, Qatar, Sudan, Saudi Arabia, and the United Arab Emirates. Trade agreements with Libya, Morocco, Oman, and Tu-

nisia are in negotiations. There is a single-column tariff modified by trade and transit agreements with other Arab League states, under which member countries are granted preferential duties on some products and duty-free entry for others. Syria accepts the Arab League boycott of Israel.

**38 FOREIGN INVESTMENT**

Although a government decree prohibits confiscation of foreign investments, there are no safeguards against nationalization of property. In principle, the judicial system upholds the obligations of contracts but in practice decisions are subject to outside pressures. In addition, poor infrastructure, power outages, lack of financial services, and complex foreign exchange regulations have all contributed to Syria’s failure to attract significant amounts of foreign investment. Four major pieces of legislation have been passed to encourage foreign investment. Decision 186, issued in 1985, was aimed at encouraging investment in tourism. Decree 10 in 1986 was designed to encourage joint-venture agricultural companies. In June 1991, in the wake of the Gulf War, the government issued Investment Law 10, aimed at promoting investment in all sectors of the economy by providing the same incentives to local and foreign investors. Qualifying investors are granted tax holidays and duty-free privileges for the import of capital goods. The law succeeded in attracting investments particularly in textiles, pharmaceuticals, food processing, and other light industries. The primary investors have been from the Gulf states. In 1999, it was estimated that nearly 1,500 projects valued at \$6.5 billion had been approved since the reforms of 1991. In May 2000, Decree 7 amended Law 10 of 1991 to make investment more attractive by extending tax holiday periods, increasing hard currency flexibility, reducing income taxes on shareholding companies, and offering sector and regional incentives. A tax holiday of five years is extended to seven years for enterprises that export over 51% of their output.

The most significant foreign investment in Syria had been in gas and oil. In 1990, 12 foreign oil firms had operations in Syria, but as of mid-2002, only five remained—Shell, Total-Fina-Elf, Mol (Hungary), INA-Naftaplin (Croatia) and Conoco. Other foreign investors include Mitsubishi, Samsung, Mobil, Nestlé, and Prince Walid Bin Talal of Saudi Arabia. Foreign investment is complicated by Syrian requirements of import and export licenses on every item imported and then reexported, no matter the value, and by US sanctions on supplying Syria any “dual” use items such as computers and oil exploration equipment. Despite a recent 20% increase, the average wage in the public sector remains below minimum subsistence levels, and provides a strong motivation for widespread corruption. In 2002, an increasingly strict enforcement of the Arab League’s boycott of Israeli goods added more complications to obtaining supplies and more layers of red tape. US government insurance programs for foreign investors, such as OPIC, are not available for investors in Syria, and the country is on the State Department’s list of sponsors of terrorism. USAID ended assistance to Syria in 1983, and financing cannot be obtained through government agencies like the Export-Import Bank. There are six duty-free zones in Syria: near the border town of Dar’a (a joint venture with Jordan), north of Damascus at Adra, in Damascus, at the Damascus Airport, and at the ports of Al Lādhiqiyah and Tartus. According to official estimates, there were 350 foreign

and joint-venture investment projects in the country as of 2002, with a total value of about \$3 billion.

### **39 ECONOMIC DEVELOPMENT**

The transformation of Syria's economy began with the Agrarian Reform Law in 1958, which called for the expropriation of large tracts of land. During the union with Egypt, laws were passed for the nationalization of banks, insurance companies, and large industrial firms. After the Ba'ath Party came to power in 1963, the socialist trend reasserted itself with greater force. A series of laws created a new banking system and instituted public ownership of all large industries. By the early 1970s, however, the government had relaxed many restrictions on trade, foreign investment, and private-sector activity in an effort to attract private and foreign, especially Arab, contributions to Syria's economic growth.

Since 1961, a series of five-year plans has concentrated on developing the nation's infrastructure and increasing agricultural and industrial production. Investments reached 60% of the target under the first plan (1961–65); the second plan (1966–70) aimed to expand real GDP by 7.2% annually but achieved a yearly growth rate of only 4.7%. The third plan (1971–75) was disrupted by the 1973 Arab-Israeli War, but thanks to aid from other Arab states and large oil price increases, Syria experienced an economic boom with a high annual growth rate of 13%. The fourth plan (1976–80) was hampered by the high cost of Syria's military intervention in Lebanon and a cutoff of aid from Gulf states; economic growth varied widely, from 2.8% in 1977 to 9.2% in 1980.

Under the fifth plan (1981–85), development projects begun during the previous plan were to be continued or completed. Total investment was estimated at \$101 billion, of which 23% was to be provided by the private sector. Real GDP was to grow by 7.7% annually; actual growth rates ranged from 10.2% in 1981 to 3.6% in 1984, averaging 2.3% for the period.

Syria's sixth development plan (1986–90) emphasized increased productivity rather than new projects, with special emphasis on agriculture and agro-industries. Actual investment in agriculture accounted for 18.7% of total spending. The share of the industry and energy sector was at 19.7%, far below the planned 30.9%. Services received the highest share, with 53% of the total.

The seventh five-year plan (1991–95) proposed total investments of \$259 billion, more than double the amount spent under the previous plan. It aims at spending 81.7% of the total on the public sector and 18.3% on the mixed-sector/private-sector cooperatives. Officials at the Supreme Planning Commission have stated that agriculture and irrigation continue to receive top priority, with self-sufficiency in cereal production a policy objective. Output in agriculture and manufacturing is planned to expand by 5.6% per annum.

During 1949–86, multilateral assistance to Syria totaled \$822.7 million, of which 77% came through the IBRD. US loans and grants during the same period amounted to \$581.9 million. Financial aid to Syria from Arab oil-producing states has not been made public. Since 1982, Syria has received a million tons of oil annually from Iran, free of charge. Because Syria is in arrears on payments to the World Bank, disbursements were halted in 1988 and projects canceled. Syria has been in violation of the Brooke Amendment since 1985. The improvement in Syria's external payment position in 1989 as well as the resumption of aid flows to

Syria in 1990 due to its participation in the coalition against Iraq helped to restore its ability to repay its debt.

The outlook for the economy in the coming years is not very encouraging. GDP is expected to expand by meager rates of under 1.5% per year. This trend is caused by declining oil production, a hostile political environment, and an incapacity of the government to attract much needed foreign investment.

### **40 SOCIAL DEVELOPMENT**

A system of social insurance provides old-age pensions and disability and death benefits. The pension system is funded by 14% contributions from employers and 7% from employees. Retirement is set at age 60 with 180 months of contributions, or age 55 with 240 months. Survivors' pensions are paid to widows only; widowers are covered only if disabled. Employers also contribute 3% of payroll to fund workers' compensation providing temporary and permanent disability benefits, as well as medical and survivor benefits. Funeral grants amount to one month's earnings.

Although the government supports equal pay for equal work and encourages education for women, Islamic precepts govern many areas of women's lives, including marriage, divorce, child custody, and inheritance. Some secular laws also discriminate against women. Victims of domestic violence do not seek redress due to social stigma, and there are no reliable statistics regarding abuse and rape. Children's rights are generally protected.

The human rights situation is poor and fundamental rights are denied. Arbitrary arrest and incommunicado detention are common. Detainees' relatives are also arrested to force confessions. Torture is common. Public criticism of the Ba'ath Party or of government officials is not permitted. Local human rights organizations are banned, although one international organization was allowed to conduct a limited fact-finding mission.

### **41 HEALTH**

In 1947, Syria had only 37 hospitals, with a total of 1,834 beds, but by 1985, the number of hospitals had increased to 195, with 11,891 beds. The government also maintains mobile hospital units, modern laboratories, x-ray centers, sanatoriums, and dispensaries. In 2004, there were an estimated 140 physicians, 72 dentists, 52 pharmacists, and 140 nurses per 100,000 people. In 1993, about 99% of the population had access to health care services. Total health care expenditure was estimated at 2.5% of GDP.

Since World War II, malaria has been virtually eliminated with the aid of the World Health Organization, but intestinal and respiratory diseases associated with poor living conditions are still common, particularly in rural areas. Cases of malaria, tuberculosis and leprosy persist. Approximately 80% of the population had access to safe drinking water and 90% had adequate sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at 30.1 and 5.1 per 1,000 people, respectively. About 45% of married women (ages 15 to 49) used contraception. In 2005, the infant mortality rate was 29.53 per 1,000 live births. Maternal mortality was 110 per 100,000 live births. Average life expectancy was 70.03 years in 2005. Immunization rates for children up to one year old were tuberculosis, 100%; diphtheria, pertussis, and tetanus, 100%; polio, 100%; and measles, 98%. Rates for DPT and measles were 94% and 97%, respectively.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 500 people living with HIV/AIDS in the country. There were an estimated 200 deaths from AIDS in 2003.

## 42 HOUSING

The 1981–85 development plan allocated s£2.6 billion to construction projects, including housing. According to the latest available information for 1980–88, total housing units numbered 1,670,000 with 6.4 people per dwelling. In 2000, there were about 2,824,845 dwellings.

## 43 EDUCATION

Elementary schooling is free and compulsory for nine years, which are covered in two stages (five years plus four years) of basic school. Secondary schools offer three-year programs in general (scientific or literary), technical, and vocational studies. The academic year runs from September to June.

In 2001, about 9% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 98% of age-eligible students. The same year, secondary school enrollment was about 43% of age-eligible students. It is estimated that about 87.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 24:1 in 2000; the ratio for secondary school was about 18:1.

Syria has four universities: the University of Damascus (founded in 1923); the University of Aleppo (Halab, 1960); Tishrin University (Al Lādhiqiyah, 1971); and Al-Ba'ath University in Himş (Homs, 1979). In 1995, all higher-level institutions had a total of 4,733 teachers and 215,734 students. The adult literacy rate for 2004 was estimated at about 82.9%, with 91% for men and 74.2% for women.

As of 1999, public expenditures on education were estimated at 2.8% of GDP.

## 44 LIBRARIES AND MUSEUMS

The Assad National Library, founded in 1984 in Damascus and an adjunct of the Arab Academy, has 262,000 volumes and is well known for rare books and manuscripts. The library of the University of Damascus has 169,000 volumes. The Al Zahiriah public library in Damascus has 100,000 volumes. There are also public libraries in Halab, Damascus, Himş, and Al Ladhīqiyah.

The most important museum is the National Museum in Damascus, founded in 1919. It contains ancient Oriental, Greek, Roman, Byzantine, and Islamic collections and houses the Directorate-General of Antiquities, established in 1947, which supervises excavations and conserves antiquities under the Antiquities Law. Also in Damascus, there is the Museum of Art and Popular Traditions and the Museum of Arabic Medicine and Science. There are small museums in Halab, Hama, Himş, Palmyra, Tartos, and other cities.

## 45 MEDIA

Nearly all communications facilities are owned and operated by the government, including the postal service, telegraph, tele-

phone, radio, and television. In 2003, there were an estimated 123 mainline telephones for every 1,000 people; over two million people were on a waiting list for telephone service installation. The same year, there were approximately 65 mobile phones in use for every 1,000 people.

The government-controlled Syrian Broadcasting Service transmits on medium wave and shortwave, and broadcasts in Arabic and 10 foreign languages. Syrian television has two stations. While there are a few private radio stations, they are not permitted to transmit any news or political information. Altogether, there were nine AM and one FM radio station in 1999, and 44 television stations. In 2003, there were an estimated 276 radios and 182 television sets for every 1,000 people. The same year, there were 19.4 personal computers for every 1,000 people. In 2002, there were 220,000 Internet users.

Most Syrian newspapers are published by government ministries and popular organizations. Principal dailies in Arabic (with 2002 circulations) include *Al-Ba'ath* (40,000), published by the Ba'ath Arab Socialist Party, *Tishrin* (50,000), and *Al-Thawrah* (40,000), all in Damascus. In 2000, the government authorized publication of the first private paper since 1963. That paper, *The People's Voice*, is published by the National Progressive Front (Communist Party). The Union Socialist Party has since published its own paper, *The Unionist*.

Though the constitution provides for free expression of opinion in speech and writing, in practice the government is reported to restrict these rights significantly. Written criticism of the president, the president's family, the Ba'ath Party, the military, and the regime are not permitted.

## 46 ORGANIZATIONS

Syria has chambers of commerce, industry, and agriculture, most of which are members of the Federation of Syrian Chambers of Commerce. The International Center for Agricultural Research in the Dry Areas is based in Aleppo. Other multinational groups based in Syria include the Arab Institute for Occupational Health and Safety and the Arab Inter-Parliamentary Union. The cooperative movement is well developed. There are some professional associations.

The most prominent cultural and educational organizations are the Arab Academy and the Arab Club for Information (Arabcin), both in Damascus. There are a number of sports associations promoting amateur competition for athletes of all ages in a variety of pastimes.

The General Women's Federation was established in 1967 as one of several organizations through which the Ba'ath Party has tried to mobilize popular energies and consolidate its control. Analogous groups include the General Union of Peasants, the General Federation of Trade Unions, the General Union of Students, and the Revolutionary Youth Organization.

There is a national chapter of the Red Crescent Society.

## 47 TOURISM, TRAVEL, AND RECREATION

Syria has many famous tourist attractions, such as the Krak des Chevaliers, a Crusaders' castle; Ra's Shamrah, site of the ancient

city of Ugarit; Ar-Rusafah, with its early Christian monuments and Muslim palace; and the ancient town of Dura Europus (now As-Salihiyah). Palmyra, the capital of Queen Zenobia, is a fairly well-preserved ruin of an Arabo-Hellenic city. The Umayyad Mosque, which incorporates parts of the Byzantine Cathedral of St. John the Baptist, in Damascus, is popular. Syria's mountains and Mediterranean beaches also attract visitors.

A vaccination for meningitis is required for pilgrims traveling to Mecca for the annual Hajj. All travelers are strongly recommended to take precautions against malaria, typhoid, and meningitis. There were 4,388,119 foreign visitors to Syria in 2003, mainly from neighboring Middle Eastern countries. Hotel rooms numbered 16,966, with 38,928 beds that same year.

In 2005, the US Department of State estimated the daily cost of staying in Damascus at \$206.

#### 48 FAMOUS SYRIANS

Among the famous Syrians of earlier periods are Queen Zenobia of Palmyra (3d century AD), who led a series of military campaigns against the Romans in order to reopen trade routes; the philosopher Al-Farabi (Muhammad bin Muhammad bin Tarkhan abu Nasr al-Farabi, 872–950), considered by the Arab world as second only to Aristotle; the poet Al-Mutanabbi (Abu at-Tayyib Ahmad bin al-Husayn al-Mutanabbi, 915–65); the mystic philosopher Shihab ad-Din as-Suhrawardi (d.1191); and the theologian philosopher Taqi ad-Din Ahmad bin Taymiyah (1263–1328).

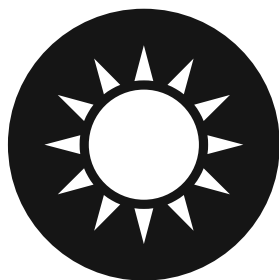
Of the Umayyad caliphs, Umar bin 'Abd-al-'Aziz (r.717–720) is still revered as a restorer of true Islam. In a later era, Nured-din (Nur ad-Din, 1118–74), ruler of Aleppo, annexed Damascus and brought Egypt under his control. By unifying Muslim forces against the Crusaders, he made possible the victories of the renowned Saladin (Salah ad-Din, 1138–93), sultan of both Syria and Egypt, whose tomb is in Damascus. Hafez al-Assad (Hafiz al-Assad, 1928–2000) ruled Syria from 1970–2000. His son, Bashar al-Assad (b.1965), was elected president unopposed after his father's death.

#### 49 DEPENDENCIES

Syria has no territories or colonies.

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# TAIWAN

Republic of China  
*Chung Hwa Min Kuo*



**CAPITAL:** T'aipei

**FLAG:** The flag is red with a 12-pointed white sun on the blue upper left quadrant. The 12 points of the sun represent the 12 two-hour periods of the day in Chinese tradition, and symbolize progress. The colors red, white, and blue represent the Three Principles of the people (San Min Chu I) of Sun Yat-sen, father of the Republic of China, and symbolize the spirit of liberty, fraternity, and equality.

**ANTHEM:** *Chung Hwa Min Kuo Kuo Ke (Chinese National Anthem).*

**MONETARY UNIT:** The new Taiwan dollar (NT\$) is a paper currency of 100 cents. There are coins of 50 cents and 1, 5, and 10 dollars, and notes of 50, 100, 500, and 1,000 new Taiwan dollars. NT\$1 = US\$0.03154 (or US\$1 = NT\$31.71) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is employed in government and industrial statistics. Commonly used standards of weights and measures are the catty (1.1 lb or 0.4989 kilograms), the li (0.5 kilometers or 0.31 miles), the ch'ih (0.33 meters or 1.09 feet), and the chia (0.97 hectare or 2.39 acres).

**HOLIDAYS:** New Year's Day and the Founding of the Republic of China (1912), 1 January; Youth Day (formerly known as Martyrs' Day), 29 March; Tomb-Sweeping Day and Anniversary of the Death of Chiang Kai-shek, 5 April; Birthday of Confucius and Teachers' Day, 28 September; National Day (Double Tenth Day), 10 October; Taiwan Retrocession Day, 25 October; Chiang Kai-shek's Birthday, 31 October; Sun Yat-sen's Birthday, 12 November; Constitution Day, 25 December.

**TIME:** 8 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Taiwan, the seat of the Republic of China, lies in the western Pacific Ocean astride the Tropic of Cancer, less than 161 km (100 mi) from the southeast coast of mainland China, from which it is separated by the Taiwan (Formosa) Strait. To the NE, less than 129 km (80 mi) away, is the W end of the Japanese Ryukyu Islands; to the E is the Pacific Ocean; the Philippine island of Luzon lies 370 km (230 mi) to the S.

Besides the island proper, Taiwan comprises 21 small islands in the Taiwan group and 64 islands in the Penghu (Pescadores) group; the total area is 35,980 sq km (13,892 sq mi). Comparatively, the area occupied by Taiwan is slightly larger than the states of Maryland and Delaware combined. Leaf-shaped Taiwan island extends 394 km (245 mi) NNE–SSW and 144 km (89 mi) ESE–WNW; it has a coastline of 1,566 km (973 mi). The Penghu group, lying 40 km (25 mi) west of Taiwan island, has a total area of 127 sq km (49 sq mi).

Also under the control of the Taiwan government are Quemoy (Chinmen) and Matsu, two island groups located strategically close to the mainland Chinese province of Fujian (Fukien). Quemoy is the biggest of a group of six islands, two of which are occupied by the People's Republic of China; it is situated in Xiamen (Amoy) Bay at 118°23'E and 24°27'N and has a total area of 176 sq km (68 sq mi). The Matsu group, consisting of Nankan (the largest), Peikan, Tungyin, and about 10 small islets, is located at

119°56'E and 26°9'N, 30.6 km (19 mi) off the mainland port city of Fuzhou; it has a total area of 28.8 sq km (11.1 sq mi).

The capital city of T'aipei is located on northern Taiwan.

## <sup>2</sup>TOPOGRAPHY

Taiwan perches on the margin of the continental shelf. Along the west coast the sea is rather shallow, averaging 90 m (300 ft) and not exceeding 210 m (690 ft) at the deepest point; however, it deepens abruptly along the east coast, dropping to a depth of 4,000 m (13,000 ft) only 50 km (31 mi) offshore. The terrain is precipitous on the east coast, with practically no natural harbor except Suao Bay in the north. The west coast is marked by wide tidal flats. Kaohsiung, the southern port, is situated in a long lagoon called Haochiung Bay. The north coast with its many inlets provides Taiwan with its best harbor, Chilung (Keelung).

The eastern two-thirds of the island are composed of rugged foothill ranges and massive mountain chains. A low, flat coastal plain, extending from north to south, occupies the western third. Yü Shan, with an elevation of 3,997 m (13,113 ft), is the highest peak on the island.

Located on the Eurasian tectonic Plate near the border of the Philippine Plate, Taiwan is part of the "Ring of Fire," a seismically active band surrounding the Pacific Ocean. Mild to moderate earthquake tremors are common, with over 200 minor shocks recorded each year.

All the rivers originate in the mountains in the central part of the island. They have short courses and rapid streams. The longest river, Choshui, draining westward, is only 190 km (118 mi) long. Only the Tanshui, which flows past T'aipei in the north, is navigable.

### **3 CLIMATE**

Taiwan enjoys an oceanic, subtropical monsoon climate. The warm and humid summer lasts from May until September, the mild winter from December until February. The average lowland temperature in January is 16°C (61°F) in the north and 20°C (68°F) in the south; the average July temperature is 28°C (82°F) in both the north and south. The growing season lasts throughout the year, except at elevations above 1,200 m (4,000 ft), where frost and snow occasionally occur.

The average rainfall is 257 cm (101 in), ranging from 127 cm (50 in) at the middle of the western coast to 635 cm (250 in) and more on exposed mountain slopes. Southwest monsoon winds blow from May through September and northeast monsoon winds from October to March. Only the extreme southwest has a distinct dry season. As a result of the tropical cyclonic storms that sweep out of the western Pacific, typhoons occur between June and October.

### **4 FLORA AND FAUNA**

The flora is closely related to that of southern China and the Philippines. Taiwan has almost 190 plant families, about 1,180 genera, and more than 3,800 species, of which indigenous members constitute about one-third of the total flora. Mangrove forest is found in tidal flats and coastal bays. From sea level to a height of 2,000 m (6,600 ft) is the zone of broad-leaved evergreen tropical and subtropical forest, where ficus, pandanus, palms, teak, bamboos, and camphors are commonly found. The mixed forest of broad-leaved deciduous trees and conifers occupies the next zone, extending from a height of 2,000 to 3,000 m (6,600–9,800 ft). Pines, cypresses, firs, and rhododendrons are grown in this region. Above this level is the zone of coniferous forests, composed mainly of firs, spruce, juniper, and hemlock.

The mammals so far discovered number more than 60 species, 45 of which appear to be indigenous to the island. The largest beast of prey is the Formosan black bear. Foxes, flying foxes, deer, wild boar, bats, squirrels, macaques, and pangolins are some of the mammals seen on the island. There are more than 330 species and subspecies of birds, of which 33 are common to the island, China, and the Philippines, and about 87 are peculiar forms. More than 65 species of reptiles and amphibians inhabit the island. There is an abundance of snakes, of which 13 species are poisonous. The insect life is rich and varied.

### **5 ENVIRONMENT**

The Environmental Protection Agency (EPA) has the main responsibility for environmental policy. Water pollution from raw sewage and industrial effluents is a significant problem in Taiwan. Outside the larger hotels and urban centers, the water is likely to be impure. Health problems like hepatitis result from waterborne contaminants. Water quality is regulated under provisions of the

sanitary drinking water legislation of 1972 and the 1974 Water Pollution Control Act.

Air pollution is another significant problem, complicated by a high pollen count. Solid waste disposal regulations and air quality standards were adopted in 1975. All factories are required to comply with established standards, the cost of installing antipollution devices being written off as a depreciable item over two years. Taiwan in 1978 adopted the safety procedures for nuclear facilities issued by the IAEA. In the mid-1980s, the government began tightening emission standards for automobiles and ordered many factories and power plants to install filters and dust collectors. The EPA announced plans in 1987 to install an island-wide pollution-monitoring system.

Wildlife management is the responsibility of the National Wildlife Protection Association of the Republic of China. The nation's marine life is threatened by the use of driftnets. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 11 types of mammals, 29 species of birds, 8 types of reptiles, 8 species of amphibians, 23 species of fish, and 78 species of plants. Threatened species include the Formosan sika, hawksbill turtle, Oriental white stork, and Lan Yü scops owl. Trade in endangered species has been reported.

### **6 POPULATION**

The population of Taiwan in 2005 was estimated by the United Nations (UN) at 22,731,000, which placed it at number 48 in population among the 193 nations of the world. In 2005, approximately 9% of the population was over 65 years of age, with another 19% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.4%, a rate the government viewed as too low. The projected population for the year 2025 was 23,625,000. The population density was 628 per sq km (1,627 per sq mi), one of the highest in the world. Approximately 90% of the inhabitants live west of the Central Range.

The UN estimated that 78% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of %. The capital city, T'aipei, had a population of approximately 2,700,000 in that year. Other large cities (with their estimated populations) include Kaohsiung (1,600,000), T'aichung (1,114,080), T'ainan (755,800), and Panch'iao (589,700).

### **7 MIGRATION**

In 1963, the Nationalist government stated that since the completion of the Communist conquest of the mainland in 1949–50, a total of 146,772 Chinese refugees had come to Taiwan for resettlement. The number of refugees has varied from year to year.

In 1986, the Taiwan government reported that there were 28,714,000 overseas Chinese (25,799,000 in Asia, 2,044,000 in the Americas, 584,000 in Europe, 214,000 in Oceania, and 73,000 in Africa), including those with dual nationality.

There may be as many as 100,000 illegal immigrants. Taiwan is pressured by the Chinese perception that Taiwan is a "land of fortune." In 2003, the Taiwanese government cracked down on illegal Chinese immigrants, especially the smuggling of Chinese women which had increased tenfold from 1999. Detained Chinese immigrants number about 2,000 a year. Their numbers outpace the

ability to repatriate them. As reported in the *Asia Times Online*, the phenomenon of “foreign brides” is another unique aspect of Taiwanese immigration. In 2003, 25% of marriages involved Taiwanese men marrying foreign women. The Ministry of the Interior noted that there were about 280,000 foreign women in Taiwan married to Taiwanese nationals. More than half of these women were from China and the remainder from Southeast Asian countries, predominantly Vietnam and Indonesia. A serious social problem that the government attacked in 2005 was the criminal activities of illegal Chinese immigrants in Taiwan.

In 2005, there were 320,000 foreign workers from Thailand, the Philippines, Indonesia, and Vietnam. The net migration rate in 2005 was an estimated zero migrants per 1,000 population.

## 8 ETHNIC GROUPS

The term “Taiwanese” is often used when referring to those Chinese who are natives of the island as distinct from the two million “mainlanders” who migrated from China after the end of World War II. Most of the more than 20 million inhabitants of Taiwan are descendants of earlier immigrants from Fujian and Guangdong (Kwangtung) provinces in South China. They form several distinct groups. The Hakka are descendants of refugees and exiles from Guangdong who came to Taiwan before the 19th century; they are farmers and woodsmen who occupy the frontiers of settlement. The more numerous Fujians are descendants of peasants from Fujian who migrated to Taiwan in the 18th and 19th centuries; they form the bulk of the agricultural population.

The aboriginal population is primarily of Indonesian origin. They live mainly in central and eastern Taiwan. They are mainly divided into nine major tribes, with the Ami, Atayal, Paiwan, and Bunun accounting for about 88%; the balance is mainly distributed among the Puyuma, Rukai, Saisiyat, Tsou, and Yami. The language and customs of the aborigines suggest a close resemblance to the Malays. About 84% of the total population is Taiwanese and 14% are mainland Chinese. About 2% of the total population are aborigine.

## 9 LANGUAGES

Most people on Taiwan now speak Mandarin Chinese (Peking dialect). It is the official language and is used in administration, jurisprudence, education, and, to a large extent, in commerce; it has come into increasingly common use during the last three decades. The Wade-Giles system of romanization, which has been replaced on the mainland by the pinyin system, is still used in Taiwan.

Native Taiwanese speak a variety of southern Chinese dialects, but mainly Southern Fukienese. This is the native tongue of about 70% of the population. It has also influenced the vocabulary of Mandarin spoken on Taiwan. There is also a sizable population of Hakka speakers. This dialect is mainly spoken in Kwantung Province on the mainland. As a result of 50 years of Japanese rule, most Taiwanese and aborigines over the age of 60 speak or understand Japanese. Tribal peoples speak dialects of the Malay-Polynesian family which have no written script.

## 10 RELIGIONS

The Chinese are traditionally eclectic in their religious beliefs. The Taiwan folk religion is a fluid mixture of shamanism, ancestor worship, magic, ghosts and spirits, and aspects of animism. These



LOCATION: 21°45'25" to 25°56'39" N; 119°18'3" to 124°34'30" E.  
TERRITORIAL SEA LIMIT: 12 miles.

commonly overlap with an individual's belief in Buddhism, Confucianism, Taoism, or other traditional Chinese religions. Natural phenomena have been deified, and ancestors, sages, virtuous women, and historical personalities have been given the status of gods. In 2003, registered organizations estimated that about 33% of the population were Taoists, 23.9% were Buddhists, 2.6% were I Kuan Taoist, and 1.2% were Protestant.

The first Westerners to bring Christianity to Taiwan were the Dutch (1624). However, a great persecution of Christians took place when the island was lost to Cheng Ch'eng-kung in 1662. Christianity made another beginning in 1860, when a missionary from Scotland came to the island. The English Presbyterian Mission started its work in the southern part of Taiwan about 100

years ago. Since the end of World War II, more than 80 Protestant denominations have been established on the island, and the activities of Christian missions, many coming over from the mainland, have become widespread. Christians constitute about 4.5% of the total population. Denominations represented include Roman Catholic, Presbyterians, Mormons, Baptists, Lutherans, Seventh-Day Adventists, Episcopalians, and Jehovah's Witnesses.

Other faiths include Tien Ti Chiao (Heaven Emperor Religion), Tien Te Chiao (Heaven Virtue Religion), Li-Ism, Hsuan Yuan Chiao (Yellow Emperor Religion), Maitraya Great Tao, Chinese Holy Religion, Hai Tzu Tao (Innocent Child Religion), Tien Li Chiao (Heaven Reason Religion), the Baha'i Faith, Mahikari, and Judaism. About 14% of the population are atheists.

## **1<sup>1</sup>TRANSPORTATION**

As of 2004, Taiwan had 2,497 km (1,553 mi) of railroad track, all of it narrow gauge. Of that total, 1,400 km (871 mi) belonged to the Taiwan Sugar Corporation and the Taiwan Forestry Bureau. The main trunk line, now electrified, links the main cities of the populous west coast between Chilung and Kaohsiung. A second trunk line, the North Link between T'aipei and Hualien on the east coast, was completed in 1979. It connects with an eastern line between Hualien and T'aitung, which was modernized in the early 1980s. Construction of the 98-km (61-mi) South Link (between T'aitung and P'ingtung) has been completed. Forming the last link in the round-the-island rail system, the South Link opened on 6 December 1991, taking over 11 years and \$770 million to complete. A total of 685 km (426 mi) of main line were electrified.

As of 2002, Taiwan had an estimated 37,299 km (23,200 mi) of highways, of which 35,621 km (22,156 mi) were paved, including 608 km (378 mi) of expressways. By 2003 there were 6,133,794 registered motor vehicles, 5,169,733 of which were passenger cars and 964,061 were commercial vehicles.

Taiwan has five international seaports, all of them extensively modernized in the 1970s. Kaohsiung in the southwest is by far the largest, handling about two-thirds of all imports and exports. Other major ports are Chilung, on the north coast; Hualien and Suao, both on the east coast; and T'aichung, on the west coast. As of 2005, Taiwan's merchant marine consisted of 126 vessels of 1,000 GRT or more, totaling 3,417,768 GRT.

Also in 2004, there were an estimated 40 airports. As of 2005 a total of 38 had paved runways, and there were also three heliports. There are two international airports. The main one, opened in 1979, is Chiang Kai-shek International Airport, at T'aoyüan, southwest of T'aipei; the other serves Kaohsiung. T'aipei Airport handles only domestic flights. Regular domestic flights also reach Hualien, T'aitung, Chiai, T'ainan, and several other cities. Principal air service is provided by China Air Lines, Taiwan's international airline, and other international carriers, and by Taiwan's leading domestic airline, Far Eastern Air Transport.

## **1<sup>2</sup>HISTORY**

Although Taiwan can be seen on a clear day from the China mainland, ancient Chinese accounts contain few references to the island. The earliest inhabitants were Malayo-Polynesian aborigines. Historians have surmised from the brief information available in the early dynastic histories that Chinese emigration to Taiwan began as early as the T'ang dynasty (618–907). During the reign of

Kublai Khan (1263–94), the first civil administration was established in the neighboring Pescadores. Taiwan itself, however, remained outside the jurisdiction of the Mongol Empire. During the Ming dynasty (1368–1644), Japanese pirates and Chinese outlaws and refugees wrested the coastal areas from the native aborigines. The Chinese settled in the southwest region, while the Japanese occupied the northern tip of the island. Significant Chinese settlement, by immigrants from Fujian and Guangdong, began in the 17th century.

In 1517, the Portuguese sighted the island and named it Ilha Formosa (Beautiful Island). The Dutch, who were disputing the monopoly of Far Eastern trade held by the Portuguese, captured the Pescadores in 1622 and used them as a base for harassing commerce between China, Japan, and the Philippines. Two years later, the Chinese offered the Dutch a treaty that gave them certain commercial privileges if they withdrew from the Pescadores and occupied instead a trading post on Taiwan. The Dutch complied by building Fort Zeelandia and Fort Providentia in the southwestern part of the island. The Spaniards, wishing to compete, seized the northern part of Chilung in 1626 and later extended their domain to nearby Tanshui. The Japanese, constrained by the policy of national seclusion adopted by the Tokugawa Shogunate, withdrew voluntarily in 1628. The Dutch captured the Spanish settlement in 1642 and, after putting down a Chinese uprising in 1656 with the aid of the aborigines, gained complete control of the island.

While the Dutch were consolidating their hold on Taiwan, the Ming dynasty on the China mainland was overthrown by the Manchus, who established the Qing (Ch'ing) dynasty (1644–1912). Remnants of the Ming forces, led by Zheng Chenggong (Cheng Ch'eng-kung Koxinga, 1624–62), son of a Chinese pirate and a Japanese mother, decided to establish an overseas base in Taiwan. They landed on the island in 1661 and ousted the Dutch in the following year. It was not until 1683 that the Manchus succeeded in wresting Taiwan from Zheng Chenggong's successors.

From 1683 to 1885, Taiwan was administered as a part of Fujian Province. During this period, Chinese colonization proceeded steadily, as the aborigines were either assimilated into the Chinese population or pushed back into the mountains. The imperial government, however, paid scant attention to the island administration. As a result, official corruption and inefficiency often provoked armed rebellions. In the latter part of the 19th century, the strategic importance of Taiwan for the defense of the South China coast was recognized by the authorities, particularly after the French bombardment and blockade of the island in 1884 during the Sino-French War over Annam. The local administration was reorganized, and the island was made into a separate province in 1885.

Upon the conclusion of the First Sino-Japanese War in 1895, Taiwan was ceded to Japan. Refusing to submit to Japanese rule, the islanders declared their independence and established a republic, although organized resistance against the Japanese lasted only a few months. Ineffective armed resistance, chiefly by aborigines, continued. Under the Japanese, the island's agricultural resources were developed rapidly to supply the needs of the home islands and the transportation infrastructure experienced modernization. A policy of Japanization of the Taiwan population was adopted and, by 1944, 71% of children attended primary school. During World War II, Japanese administrators began to orches-

trate the island's industrialization in support of Japanese expansionism in south Asia.

In accordance with the Cairo Declaration of 1943 and the Potsdam Proclamation of 1945, Taiwan was restored to China in September 1945. The carpetbagging malpractices of the mainland Chinese officials, however, aroused the resentment of the local population. In February 1947, a police incident touched off a popular revolt, which was suppressed with bloodshed. In May, more troops were brought from the mainland and the Taiwanese leadership was systematically killed. Estimates of the dead range from 5,000 to 50,000. On 8 December 1949, as the Chinese Communists were sweeping the Nationalist armies off the mainland, the government of the Republic of China (ROC), led by General Chiang Kai-shek (Jiang Jieshi), was officially transferred to Taiwan.

### The Republic of China

With the removal of the ROC government to Taiwan, two million mainland Chinese came to the island where they instituted an authoritarian rule under martial law. Initially Chiang Kai-shek remained myopically focused on retaking the mainland, but as the stalemate continued, the government gradually shifted its attention to industrializing Taiwan. Strong government policies contributed to steady economic progress, first in agriculture and then in industry. In the 1950s, with US aid and advice, the ROC undertook a successful program of land redistribution. Japan built an infrastructure; the Nationalists brought skills and capital; and the United States poured in excess of \$2 billion in aid by 1968. Furthermore, Japanese investment and procurement boom during the Vietnam War in the 1960s further stimulated economic growth.

In 1951, Japan signed the San Francisco Peace Treaty, thereby formally renouncing its claim to the island of Taiwan. In 1954, the ROC and the United States concluded a Mutual Defense Treaty and the United States and Western nations supported Taiwan possession of a UN Security Council seat, while the Eastern bloc nations supported the People's Republic of China (PRC). Support for Taiwan's representation gradually eroded over the years, and on 25 November 1971 the General Assembly voted 75–36 (with 17 abstentions) to remove recognition from the ROC and recognize the PRC. In a significant policy reversal, the United States voted with the majority to seat the mainland government. Although maintaining full diplomatic ties with Taiwan, the United States took the occasion of President Nixon's visit to China to acknowledge, in what became known as the Shanghai communiqué of February 1972, that "all Chinese on either side of the Taiwan Strait maintain there is but one China and that Taiwan is part of China. The United States government does not challenge that position."

By 1975, most nations shifted recognition from the ROC to the PRC. On 1 January 1979, the United States formally recognized the PRC as the sole legal government of China and severed diplomatic ties with Taiwan. It also announced the unilateral termination of the 1954 US-ROC Mutual Defense Treaty, effective 1 January 1980, and withdrew its remaining military personnel. Nonetheless, the United States continued to sell arms to Taiwan, and commercial and cultural contacts were unofficially maintained through the American Institute in Taiwan and the Coordination Council for North American Affairs. Taiwan successfully

warded off worldwide political and economic isolation by maintaining a host of similar contacts with other countries.

When President Chiang Kai-shek died at age 87 on 5 April 1975, he was succeeded in office by former Vice President Yen Chia-kan (Yan Jiagan). Leadership of the Nationalist Party (Kuomintang, Guomindang) and, hence, of the government, passed to Chiang's elder son, Chiang Ching-kuo (Jiang Jingguo). The younger Chiang was elected to a six-year term as president in March 1978 and reelected in 1984. While control of the central government had remained in the hands of mainlanders in the first decades of the Nationalists' rule on Taiwan, Taiwanese Chinese increasingly won elections at local levels, and Chiang Ching-kuo instituted a policy of bringing more Taiwanese into the Nationalist Party. By the 1980s, economic development had produced a new middle class, and the passage of time, together with intermarriage between mainlanders and Taiwanese, had brought a new generation for which the distinction between mainland and Taiwanese held diminished importance. These factors contributed to popular pressure for a more democratic government. In November 1986, 5,000–10,000 demonstrated in support of an exiled dissident, Hsu Hsin-liang (Xu Xinliang), when he was not allowed to return to Taiwan. Thousands protested the 38th anniversary of martial law in May 1987. And, in March 1990, more than 10,000 demonstrators demanded greater democracy and direct presidential elections. This was followed in the same month by a demonstration involving some 6,000 students.

In 1987 martial law was revoked and with that press restrictions were eased, citizens were allowed to visit relatives on the mainland, and opposition political parties formed. Then in January 1988, Chiang Ching-kuo died and was succeeded as president by the vice president, Lee Teng-hui (Li Denghui, b. 1923). Lee, a protégé of Chiang Ching-kuo, was a native Taiwanese. In March 1990, the National Assembly reelected Lee as president for a six-year term. In July, he was also named Chairman of the Nationalist Party by the Party Congress.

In the early 1990s, as Taiwan increasingly opened its political system to greater democracy, the KMT's corrupt practices were revealed. However, after the 1992 legislative elections, the KMT emerged victorious as it still controlled most national media and opposition parties failed to mobilize voters. Vote-buying and other forms of fraud were also widespread. By the 1995 elections, however, the political environment changed because the KMT lost control of the media. Furthermore, the Control Yuan, the branch of government responsible for oversight, began to assert its independence by investigating KMT corruption. In local elections of 1994, for instance, state prosecutors convicted more than one third of 858 city and county representatives for vote-buying. Just prior to the 1995 national elections, it was revealed that the Minister of Justice had evidence of another extensive ring of vote-buying. The KMT took 54% of the vote (83 seats), its lowest majority ever and its major rival, the Democratic People's Party (DPP) obtained 54 seats and the Chinese New Party (CNP) captured 21 with 6 going to various independents. The constitution was also rewritten in 1995, calling for direct election of the president with the first election slated to be held in 1996.

Amid these democratic reforms, Taiwan faced a major international crisis in 1995 when President Lee was given a US visa to visit Cornell University, his alma mater. China objected vociferously

and threatened military action against Taiwan. In a show of support for Taiwan and in opposition to PR China's launching of missiles into Taiwan's territorial waters, the United States dispatched a naval force to the region, only to further irritate PR China.

Prior to the presidential elections of March 1996, the formerly united KMT began to splinter. Dissidents within the party and those who had previously left the KMT announced their intentions to run against Lee, who had been chosen by a party plenum in August 1995 as the official KMT candidate. Primary among these were Lin Yang-gang, a former Judicial Yuan president and current vice-chairman of the KMT, and Chien Li-an, president of the Control Yuan and former Minister of National Defense. Campaigning was intense, with scandals being revealed on all sides, but Lee received a resounding 54% compared to 21% for his nearest competitor.

President Lee was criticized by political opponents in 1997 as an increased wave of crime swept the island. In May 1997, more than 50,000 protestors gathered in the capital protesting the government's lack of action on issues of crime. Multiple members of the Executive Yuan resigned and Lee reshuffled his cabinet. However, late in 1997, the KMT suffered severe losses in local and magistrate elections. The main opposition, the DPP, won 12 of the 23 constituency positions contested and led to the reorganization of the KMT following the resignation of the party's Secretary General. In 1998, the KMT recovered in the next set of elections but only to suffer a setback in summer elections that year. As the economy weakened from the Asian financial crisis, the government sought to deregulate the economy and decrease taxes. Relations with PR China again worsened as Taiwan prepared for presidential elections in 2000. On 18 March 2000, Chen Shui-bian, the DPP candidate and a former dissident leader imprisoned for his opposition to the KMT was elected president in a hotly contested race. He obtained 39.3% of the vote and Lien Chan (KMT) captured 23.1% while ex-KMT businessman James Soong ran as an independent and garnered 36.8%. Leading up to and following the election, the PRC warned the Taiwanese that the election of a pro-independence DPP candidate would lead to possible military action. In his inaugural address in May, Chen stated that he would not declare independence as long as China did not attack the island. He said he would not call for a referendum on independence, nor abolish Taiwan's plan for an eventual reunion with the PRC. China responded by saying that Chen had evaded the question as to whether he considered Taiwan to be part of China.

In April 2001, the Dalai Lama met with President Chen during a visit which drew strong opposition from China. That month, the United States announced it would sell submarines, warships, and antisubmarine aircraft to Taiwan, but not the Aegis naval combat radar system, as Taiwan had requested. China protested the sale, and US president George W. Bush pledged to come to Taiwan's aid in the event of a Chinese invasion. That November, Taiwan lifted a 50-year ban on direct trade and investment with China.

In parliamentary elections held 1 December 2001, the DPP won 87 out of 225 seats, compared with the KMT's 68. It was the first time the KMT lost its parliamentary majority since 1949. In January 2002, Prime Minister Chang Chun-hsiung led the cabinet to resign en masse, stating he had "accomplished his mission" during a time of political instability in the transfer of power from the KMT to the DPP, and during an economic downturn that was

worse than the Asian financial crisis of 1997–98. President Chen nominated his chief-of-staff, Yu Shyi-ku, as prime minister.

As of April 2002, academics from Taiwan and China were discussing the possibility of building an underwater tunnel to join Taiwan and the mainland. The shortest possible route would be 78 miles. There is no direct passenger access between the mainland and Taiwan by air or sea, although there were "friendship flights" between Taiwan and Beijing in 2005 during the Lunar New Year celebration. All travel between the ROC and the PRC is required by both sides to go through another regional location, usually Hong Kong or Macao. The ROC and the PRC declared that technical considerations for the tunnel posed no problems; the question to be resolved is the political one.

In August 2002, President Chen referred to Taiwan and China as two countries, and stated he supported legislation for a referendum to be held on independence, contrasting with his inaugural pledge not to hold a referendum. In 2003 Taiwan passed a referendum law which allows Taiwanese to hold referendums for the first time. This so called "defensive referendum" allowed the president, on his own authority and without legislative oversight, to initiate a referendum on national-security issues if faced with an external threat to national sovereignty. China was harshly critical because it believed Chen would hold a referendum on independence from mainland China, which as of 2005 had not happened.

President Chen accomplished lowering the amount of corruption, bribery and organized crime which pervaded Taiwanese politics prior to his term. However, allegations of vote buying and electoral inconsistencies remained. The 2004 presidential elections resulted in a surprising electoral result with Chen emerging victorious over the opposition by 0.2%. Hours before the vote, Chen and his vice president, Annette Lu, were shot, although not fatally. The opposition blamed the loss of the presidential election on sympathy votes gained by the shooting and claimed the shooting was staged. A commission was set up in late 2004 to investigate the shooting.

Taiwan participates in a free-market capitalist economy and due to its economic success is part of the four "Asian Tigers." Although many countries were devastated by the Asian financial crisis in 1998, Taiwan was able to escape serious recession due to conservative fiscal spending and its entrepreneurial base. Due to growing ties with China, the Taiwanese economy continued to strengthen as 2004 growth figures were above 6%. China replaced the United States as Taiwan's largest export partner.

### 13 GOVERNMENT

The government of the Republic of China in T'aipei claims to be the central government of all of China. Its constitution was drafted by a constitutional convention at Nanjing (Nanking) on 15 November 1946; it was adopted on 25 December 1946 and promulgated by the national government on 1 January 1947. All governmental powers originally emanated from the National Assembly; however, the powers of the National Assembly have been curtailed. The first National Assembly, which was elected in November 1947, had 2,961 delegates, selected on the basis of regional and occupational representation. The original delegates held their seats "indefinitely," until control of the mainland could be reestablished. Since 1969, the number of seats gradually increased with the ad-

dition of new seats for Taiwan. In April 1990, President Lee Teng-hui revoked the emergency decree of 1948 which had allowed the 1,947 deputies to remain in office and the “indefinite” deputies had to retire by December 1991. With the promulgation of constitutional amendments on 25 April 2000, the National Assembly’s functions are limited to amending the constitution and altering the national territory after a public announcement by the Legislative Yuan. In addition, the Assembly may impeach the president or vice president within three months of a petition initiated by the Legislative Yuan. The National Assembly’s 300 delegates are selected by proportional representation of the political parties in the Legislative Yuan.

The president is the head of state and of the Executive Yuan, which functions as a cabinet. Previously, the National Assembly chose the president. After amendments to the constitution in 1992, however, citizens now elect the president by direct popular vote. The president may serve a maximum of two consecutive four-year terms. Under the president, there are five government branches known as yuans (councils or departments): legislative, executive, control, examination, and judicial. The legislative yuan, elected by popular vote, is the highest lawmaking body. As in the National Assembly, many members of the 1948 legislative yuan held their seats until 1991.

The executive yuan, comparable to the cabinet in other countries, is the highest administrative organ in the government. There are eight ministries, two commissions, and a number of subordinate organs under the executive yuan. The premier—the president of the executive yuan—is appointed by the president of the republic, with the consent of the legislative yuan. The president is empowered to compel the premier to resign by refusing to sign decrees or orders presented by the latter for promulgation.

The legislative yuan is the highest legislative organ of the state. It has a binding vote of no confidence which would lead to the dissolution of the executive yuan. Of its 225 members, 168 are chosen by universal suffrage and the remaining members are appointed through a system of proportional representation; members serve three-year terms. The number of seats in the legislature were reduced from 225 to 113 beginning with the election in 2008.

The control yuan, the highest supervisory organ, exercises censorial and audit powers over the government and may impeach officials. It also supervises the execution of the government budget. It has 29 members, all of whom serve six-year terms and are appointed by the president with the consent of the legislative yuan.

The examination yuan is the equivalent of a civil service commission. It consists of two ministries. The Ministry of Examination appoints government personnel through competitive examination. The Ministry of Civil Service registers, classifies, promotes, transfers, retires, and pensions. Its president, vice president, and 19 commissioners are appointed by the president of the republic with the consent of the control yuan.

## 14 POLITICAL PARTIES

The Chinese Nationalist Party, better known as the Kuomintang—KMT, was, until 2000, the dominant political party in Taiwan. The teachings of Sun Yat-sen (Sun Zhongshan), which stress nationalism, democracy, and people’s livelihood, form the ideology of the party. After the fall of the mainland to the Communists in 1949, a

reform committee was organized to chart a new program for the party.

The KMT’s organization is similar to that of the Chinese Communist Party. The basic unit is the cell, which represents neighborhoods. The next levels include the district, county, and provincial congresses and committees. The highest levels include the National Congress and the Central Committee. The National Congress delegates serve four-year terms and are charged with the tasks of amending the party charter, determining the party platform and other important policies. It also elects the party chairman and the Central Committee members, and approves candidates nominated by the chairman to serve as vice chairmen and members of the Central Advisory Council. When the National Congress is in recess, the supreme party organ is the Central Committee, which holds a plenary session every year.

The Central Standing Committee, which represents the Central Committee when that body is not in session, is the most influential organ in the KMT. The day-to-day affairs of the party are managed by the secretariat. All organization within the KMT are funded by profits from party-owned and operated business enterprises, ranging from newspapers and TV stations to electrical appliance companies and computer firms.

At the party’s 14th National Congress held in August 1993, significant changes to the conduct of party affairs were made. It decided that the party chairman was to be elected by the National Congress through secret ballot. President Lee Teng-hui won 83% of the votes cast and was reelected chairman of the party. In addition, four vice-chairmen were added to the Central Committee after being nominated by the chairman and approved by the National Congress. It also decided that the chairman would appoint only 10 to 15 of the 31 members of the Central Standing Committee, with the remaining members elected by the Central Committee. Finally, it decided to hold the National Congress every two years instead of four years.

Under martial law, from 1949 through 1986, the formation of new political parties was illegal, although there were two nominal, previously formed parties. Non-KMT candidates ran as independents or “Nonpartisans,” with increasing success by the end of the 1970s. In September 1986, a group of “nonpartisans” formed a new opposition party, the Democratic Progressive Party (DPP), which had an orientation toward the Taiwanese population and advocated “self-determination.” Although technically illegal, the DPP’s candidates took 22% of the vote in the December 1986 elections, winning 12 out of 73 contested seats in the Legislative Yuan; the KMT won 59. The lifting of martial law in 1987 made the formation of new parties legal, although a new security law continued to restrict political activity. In the first fully competitive, democratic national elections, in December 1992, the KMT won 53% and the DPP 31% of the votes for the Legislative Yuan. Before the 1995 legislative elections, the KMT began to splinter and in 1994 the Chinese New Party (CNP) was formed by KMT defectors who favored strengthened ties with the mainland. In the 1995 balloting, however, the KMT was able to maintain its majority, winning 83 of the 164 seats in the Legislative Yuan. The DPP took 54, the CNP took 21 and six seats were won by independents. In the National Assembly (334 seats) the KMT took 183, the DPP 99, the CNP 46, and six were won by others.

The Democratic Progressive Party was formed on 28 September 1986. The party's organizational structure closely resembles that of the Kuomintang. The DPP's National Congress elects members to the Central Executive Committee and to the Central Advisory Committee. The Central Executive Committee in turn elects the members of the Central Standing Committee. Its leader is President Chen Shui-bian. At the party's sixth National Congress, held in April and May of 1994, a two-tier primary system was initiated under which ordinary members of the DPP voted for candidates in one primary election and party cadres vote in a second primary. The results of the two would then be combined, with equal weight given to both. At the second plenary meeting of the sixth National Congress held in March 1995, the nomination process for the presidential and gubernatorial candidates was modified to add open primaries for DPP members and nonmembers. It was further decided at the meeting that the party chairman would be elected directly by all members of the party starting in 1998. What most distinguishes the DPP from the two other major parties is its support of Taiwan independence, or the permanent political separation of Taiwan from the Chinese mainland. Although the DPP has incorporated Taiwan independence into its official platform, the urgency accorded to its realization is a source of factional contention within the party.

The Chinese New Party (NP) was formed in August 1993, shortly before the Kuomintang's 14th National Congress by a group of KMT reformers who broke away from the party in protest of the undemocratic practices of the KMT. The NP adopted an anticorruption platform and championed social justice. The goal of the NP was to attract voters who were dissatisfied with the performance of the ruling KMT and opposed to the DPP's advocacy of Taiwan independence.

As of early 2003, there were four significant political parties operating in Taiwan. The DPP, which won the presidential and legislative elections of 2000 and 2001, respectively, was the largest party. It took 87 seats in the Legislative Yuan in December 2001 election. The KMT took 68 seats, and was the second-largest party in the Legislative Yuan. The People First Party (PFP), founded by James Soong following his second-place finish in the 2000 presidential election, was the third-largest party with 46 seats. The fourth major political party, based on its membership in the Legislative Yuan, was the Taiwan Solidarity Union (TSU), winning 13 seats. As of June 2002, a total of 99 political parties had registered with the Ministry of the Interior.

The 2004 elections of the Legislative Yuan resulted in the DPP retaining the largest number of seats with 89; the KMT gained 11 seats to secure 79 overall; the PFP continued to place in third with 34 seats; and the TSU lost one to emerge with 12 seats; other parties and independents retain 11 seats. The next election for the Legislative Yuan was scheduled to be held in 2007.

## <sup>15</sup> LOCAL GOVERNMENT

The Taiwan provincial government holds jurisdiction over the main island of Taiwan, 21 smaller islands in adjacent waters, and the 64 islands of the Penghu (Pescadores) group. The provincial capital is located at T'aichung. The province is divided into 16 county (hsien) administrative areas and 5 municipalities under the direct jurisdiction of the provincial government. In addition, T'aipei (since 1967) and Kaohsiung (since 1979) are self-govern-

ing "special" municipalities. Subdivisions of the county are the township (*chen*), the rural district or group of villages (*hsiang*), and the precinct. Quemoy and Matsu are administered by the military. At the local level and under the Taiwan Provincial Government, there are five cities—Chilung, Hsinchu, T'aichung, Chiai, and T'ainan—and 16 counties, and under each county there are county municipalities.

The province is headed by a governor who is nominated by the president of the executive yuan and appointed by the president of the republic. Department heads and members of the provincial council are recommended by the governor for appointment by the executive yuan. The governor is the ex officio chairman of the appointed provincial council, the policy making body, and holds veto power over its resolutions. The provincial government can issue ordinances and regulations for the administration of the province as long as they do not conflict with laws of the central government. The mayors and city councils of T'aipei and Kaohsiung are elected.

The provincial assembly, an elected body, meets for two yearly sessions of two months each. Nominally it possesses broad legislative powers; however, its prerogatives are circumscribed by a provision in its organic law that in the event of a disagreement between the provincial executive and the Assembly, the former may request reconsideration. Should the assembly uphold its original resolution, the provincial executive may submit the dispute to the executive yuan for final judgment. The executive yuan may dissolve the provincial assembly and order a new election if it holds that the assembly is acting contrary to national policy.

At the end of 1996, the National Development Conference was convened to streamline local government operations. The county government is headed by an elected magistrate (*hsien-chang*) and the municipal government by a mayor (*shih-chang*). Each county or municipality has a representative body called the *hsien*, or municipal assembly. Further down are the councils and assemblies of townships and rural districts, each headed by a chief officer. All of these officials are elected by universal suffrage of citizens over age 20.

## <sup>16</sup> JUDICIAL SYSTEM

The Judicial Yuan is Taiwan's highest judicial organ. It interprets the constitution and other laws and decrees, adjudicates administrative suits, and disciplines public functionaries. The president and vice president of the Judicial Yuan are nominated and appointed by the president of the republic, with the consent of the legislative yuan. They, together with 15 grand justices, form the Council of Grand Justices, which is charged with the power and responsibility of interpreting the constitution, laws, and ordinances. The judicial system is based on the principle of three trials in three grades of courts: district court, high court, and Supreme Court. The Supreme Court, the highest tribunal of the land, consists of a number of civil and criminal divisions, each of which is formed by a presiding judge and four associate judges. The judges are appointed for life.

In 1993 a separate Constitution Court was established. Staffed by the then-16 grand justices of the Judicial Yuan, but with the judicial yuan excluded from the court, the new court was charged with resolving constitutional disputes, regulating the activities of political parties and accelerating the democratization process.

There is no right to trial by jury, but the right to a fair public trial is protected by law and respected in practice. Defendants are afforded a right to counsel and to a right to appeal to the High Court and the Supreme Court in cases in which the sentence exceeds three years. Those sentenced to three years or less may appeal only to the High Court. The Supreme Court automatically reviews all sentences to life imprisonment or death. There is also an administrative court.

In late 2004 the Legislative Yuan approved constitutional changes, effective 2008, which included halving the number of seats in the Legislative Yuan and extending all legislators' terms from three to four years. Taiwan employs a quota system which allows for minorities and aboriginal persons to gain access into government positions. Although banned by law, minorities and aboriginal persons claim to face discrimination in the socio-economic realm.

The judicial system is based on civil law and Taiwan accepts compulsory jurisdiction of the International Court of Justice. Military service is mandatory for Taiwanese males.

Taiwan is a free and fair society. Citizens are able to organize, protest and gain access to any type of material without fear of reprisal. Trade unions are independent and collective bargaining is legal. The law does restrict the right to strike by ordering mediation sessions and banning work stoppages while mediation is in progress.

Taiwan is involved in several land disputes, most notably involved in a complex dispute with China, Malaysia, Philippines, Vietnam, and possibly Brunei over the Spratly Islands. The Paracel Islands are occupied by China, but claimed by Taiwan and Vietnam. In 2003, China and Taiwan became more vocal in rejecting both Japan's claims to the uninhabited islands of the Senkaku-shoto (Diaoyu Tai). Taiwan also disputes Japan's unilaterally declared claim to the exclusive economic zone in the East China Sea.

## 17 ARMED FORCES

In 2005, Taiwan's armed forces had 290,000 active personnel, with reserves numbering 1,653,500. The Army had an estimated 200,000 members including military police. Equipment included more than 926 main battle tanks, 905 light tanks, 225 armored infantry fighting vehicles, 950 armored personnel carriers, over 1,815 artillery pieces and 101 attack helicopters. The Navy numbered 45,000, including 15,000 Marines. Major naval units included four tactical submarines, 11 destroyers, 21 frigates, 59 patrol/coastal vessels and 12 mine warfare ships. The Navy's aviation arm also operated 32 maritime reconnaissance and 20 antisubmarine warfare helicopters. The Air Force had 45,000 active personnel, and operated 479 combat capable aircraft that included 293 fighters and 128 fighter ground attack aircraft. Paramilitary forces included security groups with 25,000 members, a 22,000 member civilian Coast Guard and an estimated 1,000 member Maritime Police. Taiwan's defense budget in 2005 totaled \$8.32 billion.

## 18 INTERNATIONAL COOPERATION

The ROC, a charter member of the UN, became the first government to lose its recognition from that body following a General Assembly vote on 25 November 1971 to recognize the PRC as the sole legitimate representative of China. The ROC subsequently lost its membership in most UN bodies, as well as in several other international organizations—usually with its place taken by the

PRC. Taiwan is a member of APEC, the Asian Development Bank, the International Chamber of Commerce, the International Confederation of Free Trade Unions, the World Confederation of Labor, and the World Trade Organization.

As of 2005, Taiwan had formal diplomatic ties with only 25 countries. The government claims to have "substantive" trade relations with more than 140 countries and territories, however. In November 2001, Taiwan lifted a 50-year ban on direct trade and investment with China.

## 19 ECONOMY

Under the Japanese, the island was developed as a major source of foodstuffs for Japan. Production of rice and sugar increased rapidly, but little effort was directed toward industrialization until after 1937. Immediately after World War II, a number of factors—including repatriation of Japanese technicians, dismantling of industrial plants, and lack of fertilizer for agriculture—caused a rapid deterioration of the economy, which was aggravated by the influx of refugees from the mainland. The situation improved after 1949 with the removal of the ROC government to Taiwan. The arrival of technical and experienced personnel and capital equipment from the mainland facilitated the island's economic rehabilitation. Currency and tax reforms stabilized the monetary situation. The supply of fertilizer from the United States and a land reform program aided the revival of agricultural production.

Energetic government measures in the form of successive four-year plans, at first supplemented by US aid, resulted in substantial economic progress. In the first decade (1951–60), the stress was on agricultural development and the establishment of textile and other labor-intensive industries. From 1961 to 1970, the promotion of industrial products for export was emphasized. In 1963, Taiwan registered its first favorable trade balance. By 1965, the economy appeared stable enough to warrant the cessation of US economic aid programs. Medium and light industry led the expansion, with striking gains registered in electronics, household goods, and chemicals. The decade 1971–80 saw the development of such capital-intensive industries as steel, machinery, machine tools, and motor vehicle assembly. Such industries, based on imports of raw materials, were encouraged through massive government support for major infrastructural improvements in roads, railroads, ports, and electricity. During the 1980s, emphasis was placed on the development of high-technology industries. As a result, between 1981 and 1991, the share of high-technology industries in total manufactures increased from 20% to 29%, making Taiwan the seventh-largest producer of computer hardware on the global market. The 1990s brought an influx of capital-rich investment, especially after 1996 when the first democratic elections were held. High-technology industries accounted for over 73% of total manufacturing, and 67% of exports in 1999. Growth accelerated in the late 1990s, measuring 4.6% in 1998, 5.4% in 1999 and 6% in 2000, spurred by the boom in the PC and IT industries. Exports played an increasing role, accounting for 47.8% of GDP in 1998, 48.3% in 1999 and 54% in 2000. Growth in high-tech exports peaked at 54% in the third quarter of 2000.

Taiwan's GNP advanced at an average annual rate of 9% in real terms between 1952 and 1980. In contrast to Taiwan's industry-led economic growth of previous decades, since the late 1980s the country has undergone a shift towards a services-dominated

economy. As of 2000, services made up about 66% of the GDP, compared to less than 50% in the mid-1980s and 44% in the early 1960s. Taiwan has the world's third-largest foreign exchange reserves and over \$230 billion in two-way trade. Though still expanding in absolute terms, industry's share of the GDP declined from 52% in 1986 to 32% in 2000. Agriculture has continued to claim only a small share of the economy, making up 2% of the GDP in 2000. A lack of domestic resources hampers the development of agriculture and primary industries. An earthquake in September of 1999 caused major damages to Taiwanese lives and property, but reconstruction was complete by 2000. What affected the economy was the burst of the dot.com bubble beginning in late 2000, and the global slowdown in 2001, aggravated by the aftermath of the 11 September 2001 terrorist attacks on the United States. Taiwan experienced its first recorded decline in real GDP, -2.2%. Recovery began in the last quarter of 2001, and in 2002 real growth of 3.2% was recorded. Inflation has been generally falling in the late 1990s, from 3.1% in 1996 to 0% in 2001 and a slightly negative -0.2% in 2002. Unemployment, by contrast, has increased steadily, from 2.6% in 1996 to 5.2% in 2002.

The economy grew by 5.7% in 2004, up from 3.3% in 2003; in 2005, the GDP growth rate was expected to be 3.7%. Inflation remains at negligible levels, and unemployment seems to have been brought under control, decreasing from a rate of 5.2% in 2002 to 4.4% in 2004, and an expected 4.2% in 2005. Increasing trade with China has contributed significantly to the country's economic recovery.

## 2<sup>0</sup> INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Taiwan's gross domestic product (GDP) was estimated at \$610.8 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$26,700. The annual growth rate of GDP was estimated at 3.6%. The average inflation rate in 2005 was 2.3%. It was estimated that agriculture accounted for 1.6% of GDP, industry 29.3%, and services 69%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$45 million.

It was estimated that in 0.9 about 2005% of the population had incomes below the poverty line.

## 2<sup>1</sup> LABOR

The civilian labor force in Taiwan was estimated at 10.31 million in 2005. The share of persons employed in farming, forestry, and fishing has been declining steadily, while the share of the workforce employed in mining, manufacturing, construction, and utilities has increased. As of 2005, about 6% of the labor force was engaged in agriculture, 58.2% in services, and 35.8% in industry. In that same year the unemployment rate was estimated to be 4.2%.

Trade unions are weak and cannot be called unions in the real sense of the term, for the law does not provide for effective collective bargaining and also prohibits strikes, shutdowns, and walk-outs in vital industries. The trade unions, organized under government supervision, tend to be used for carrying out government policies, but they carry on a considerable amount of welfare work.

In 2002, there were 3,854 registered unions in Taiwan, with membership totaling 29% of all employed persons.

The minimum age for employment is 15. Current occupational health and safety regulations provide only minimal protection and have a mixed record of enforcement. The law provides for an eight-hour day (which may be extended to 11 hours for men and 10 for women) and a six-day workweek; overtime is paid at 40–100% above the regular wage. Most large firms give allowances for transportation, meals, housing, and other benefits, which can increase base pay by 60–80%. A minimum of one week's vacation is provided after a year's employment, and there are 14 or 15 other paid holidays. In 2002, the monthly minimum wage was us\$452. This amount provides a decent standard of living in rural areas, but is not sufficient for urban life.

## 2<sup>2</sup> AGRICULTURE

About 24% of the land is under cultivation. Although still important as both an export earner and a domestic food source, agriculture has fallen far from the preeminent position it long held in the Taiwan economy. From 1973 to 1987, the crop production growth rate increased on average only 0.1% per year. In 2004, agriculture accounted for 1.6% of GDP. About 6% of the labor force was employed in agriculture. High production costs and low return have driven much of the agricultural work force away to industry. In 2003, there were 200,246 farm households. Part-time farming households have accounted for over 80% of all farming households since 1980. In 2003, Taiwan imported nearly \$8 billion in food and agricultural products, with 33% coming from the United States, 7% from Australia, and 7% from Japan.

Rice, the principal food crop, is grown along the western plain and in the south. In 2004, paddy rice production was 1,433,611 tons; brown rice, 1,164,580 tons. Taiwan's annual rice production exceeds demand; the island's per capita rice consumption has declined by over 50% since the mid-1970s due to changing diet preferences. Other food crops include sweet potatoes, bananas, peanuts, soybeans, and wheat. Sugar, pineapples, citrus fruits, crude tea, and asparagus are plantation-grown and are the principal cash and export crops. Small amounts of Taiwan's world-famous oolong tea, cotton, tobacco, jute, and sisal are also produced. A fast-rising industry, mushroom canning, led to the development of mushroom cultivation, a specialty crop well suited to Taiwan since it is labor-intensive and requires little space and small investment. Betel nuts have become Taiwan's second most valuable cash crop after rice. In 2004, betel nut production totaled 143,368 tons. In 2004, Taiwan's major crop production was valued at NT\$259 billion, with crops accounting for 63%; vegetables, 14%; mushrooms, 1%; and fruits, 22%. Between 2001 and 2004, fruit and horticultural production increased by 6% and 8%, respectively, while rice production fell by 16.7%.

Generally, Taiwanese agriculture is characterized by high yields, irrigation, terracing, multiple cropping, intertillage, and extensive use of fertilizers. Farms are small, averaging 1.1 hectares (2.7 acres) of cultivable land per farm family. Mechanization, once confined largely to sugarcane and rice production, is increasing rapidly as a result of government subsidies and other incentives. Since there is an oversupply of rice, the government has encouraged farmers to grow soybeans, wheat, and corn, which are more profitable. The growing scarcity of land on Taiwan is causing serious disagree-

ments over land resources between agricultural, industrial, and housing interests.

### **23 ANIMAL HUSBANDRY**

Pastures in Taiwan occupy only 0.1% of the total land area. In 2004, livestock sector production was valued at NT\$125 billion. That year, Taiwan produced 891,776 tons of pork and 631,640 tons of poultry from chickens. Hog production is Taiwan's most valuable farm product. In 2004, Taiwan's pork production was valued at NT\$64.4 billion. In 1997, a major outbreak of hoof and mouth disease affected 6,147 hog farms. As a result, one-third of the hog population had to be destroyed. The government helped compensate pig farmers with \$1.1 billion in low interest loans. Livestock production declined by 13% from 1996 to 2001, and fell another 3.9% from 2001 to 2004. Chickens and ducks are raised by most households.

### **24 FISHING**

Production of fish products totaled 1498,866 tons in 2003 (19th in the world). Exports of seafood products totaled \$1,299 million in 2003. In 2003, Taiwan accounted for 14.9% of the world's fresh, chilled and frozen fish exports, valued at \$1,175 million, and 0.6% of the canned fish exports, valued at \$38.1 million. Squid, skipjack and yellowfin tuna, chub mackerel, shark, and milkfish are the main species of the marine catch. Deep-sea fishing, which was practically wiped out by World War II (1939–45), has shown strong gains following heavy investments in vessels and harbors. Milkfish, tilapias, clams, oysters, and eels are the main species farmed. In 2004, the aquacultural area covered 42,047 hectares (103,898 acres), with production of 299,066 tons, valued at NT\$28.2 billion.

### **25 FORESTRY**

Native stands of cypress, fir, camphor, and oak were cut to help fund Japan's development when Taiwan was under Japanese imperial rule (1895–1945). Logging provided hard currency exports for the Nationalist Chinese regime after its retreat from mainland China to the island in 1949. Nearly 60% of Taiwan is covered with forests, with the total forest area estimated at 2.1 million hectares (5.2 million acres) in 2004. The roundwood harvest was estimated at 40,041 cu m (1.41 million cu ft) in 2004 (90% softwood, valued at NT\$523.8 million). Although forestry production increased by 21.3% between 2000 and 2004, domestic timber production only meets 1% of total demand; the value of wood imports totaled \$1.23 billion in 2004. Taiwan's timber production has declined since the 1980s due to local labor shortages, intensifying environmental concerns, and logging restrictions. In 1992, Taiwan banned all logging from nonplantation forests. Principal timbers are oak, cedar, and hemlock. Taiwan is a major furniture exporter that relies heavily on imported wood products to support the industry.

### **26 MINING**

Mining in 2004, accounted for only 0.1% by value of Taiwan's total industrial output. Iron and steel was the leading metal production sector on the island. Value-added products made from aluminum and copper were dependent upon scrap or imported metals. Dolomite, limestone, and marble were the most important nonfuel mineral commodities. The western third of the island had

adequate amounts of sand, gravel, and limestone for building purposes, although there has been a recent slowdown in the construction sector. The demand for mineral products has increased over the years, while local supplies were dwindling. Mineral production in 2004 included (in metric tons): dolomite, 115,000, up from 54,000 in 2003; limestone, 213,000, down from 1,434,000 in 2003; marble, 22,970,000, up from 21,041,000 in 2003; and serpentine, 229,000, up from 194,000 in 2003. Taiwan also produced hydraulic cement, fire clay, feldspar, precipitated gypsum, lime, mica, marine salt, caustic soda, soda ash, sulfur, and talc. No kaolin clay was produced in 2004.

### **27 ENERGY AND POWER**

Taiwan's domestic energy resources are modest and the country is nearly totally dependent upon imports.

Oil is the biggest part of Taiwan's energy mix, accounting for 48% of energy demand, followed by coal at 34%, nuclear power at 9%, natural gas at 8% and hydroelectric power at under 2%. Taiwan's proven reserves of oil are miniscule. As of 1 January 2004, these reserves were estimated at four million barrels. In 2003, production of oil was estimated at an average of 3,806 barrels per day, of which an average of 800 barrels per day consisted of crude oil. Demand for oil, however, in 2003, was estimated at an average of 896,000 barrels per day, making the country a net importer of oil at an estimated average of 892,200 barrels per day. As of 1 January 2004, Taiwan's refining capacity was estimated at an average of 920,000 barrels per day.

As of 1 January 2004, Taiwan's proven reserves of natural gas were estimated at 2.7 trillion cu ft. In 2002, natural gas output came to an estimated 30 billion cu ft, while demand totaled an estimated 287 billion cu ft, and imports totaled an estimated 257 billion cu ft.

Taiwan's domestic consumption of coal in 2002 was estimated at 55.8 million short tons, while imports for that year were estimated at 54.7 million short tons. Although Taiwan has proven coal reserves of 1.1 million short tons, the active production of coal ended in 2000.

In 2002, Taiwan's installed electric power generating capacity totaled 30.134 million kW, of which conventional thermal fuel sources accounted for 20.568 million kW of capacity and nuclear power for 5.144 million kW. Hydroelectric power accounted for 4.422 million kW of capacity in that same year. Total electric power output in 2002 reached 158.537 billion kWh. Of this total, 72% was from fossil fuels, 3.9% from hydropower, and 23.9% from nuclear power. Consumption of electricity in 2002 was 147.439 billion kWh. Reported as of July 2004, Taiwan had three nuclear power plants (the Maanshan station in the south, and the Kuosheng and Chinshan stations in the north), with a combined installed capacity of 4,884 MW. Construction of the 2,700 MW Kungliao nuclear power station had become a controversial issue by 2000, when the Democratic People's Party government had it halted. However, through legislative and judicial efforts, work on the project was resumed in 2001. The Kungliao station is slated to start operations in 2006.

### **28 INDUSTRY**

Under the Japanese, about 90% of the industrial enterprises were owned by the government or by Japanese corporations with gov-

ernment assistance. After the restoration of Taiwan to China in 1945, the ROC government took over these enterprises. Some were sold to private owners, and the rest were grouped under the management of 18 public corporations, operated either by the national government or by the provincial government, or by both. Added to the confiscated enemy properties were public enterprises evacuated from the mainland. As a result, government-operated enterprises came to dominate Taiwanese industry. Although the proportion accounted for by these enterprises in the production value of manufacturing industries has been falling in recent years in contrast to the private sector, it still accounts for a significant amount of value added. Beginning in 1992, Taiwan authorities have made efforts to reduce the size of the public sector. These efforts have gained momentum after democratization in 1996. By 2002, the government had sold equity shares and reduced public ownership to below 50% in 23 state-owned enterprises (SOEs), mostly banks and insurance companies, but including a steel mill and one fertilizer company. In 1998 and 1999 privatization announcements included the Chinese Petroleum Corp., Chunghwa Telecom Corp., and Taiwan Power Corp. Plans for privatization have been announced for SOEs involved in power, oil, tobacco, wine, railway transport, mining and telecommunications. Since 1998, also, a number of construction projects—the north-south high speed railway, the mass rapid transit (MRT) systems in Kaohsiung (KMRT) and the between T'aipei and the CKS Airport—were given to private firms, including many foreign companies, on a build-operate-transfer (BOT) basis.

The average annual growth rate in manufacturing was 13% during 1953–62, 20% during 1963–72, 9.6% during 1973–85 and 5.9% for 1986–92. The private sector outpaced the public sector during each of these periods. The number of workers in manufacturing rose from 362,000 in 1952 to 736,000 in 1967 and to almost 2.8 million in 1987. By 1992, however, this number declined to about 2.6 million as the rapidly expanding service sector absorbed more of the workforce. Manufacturing for export has been encouraged by the establishment of free-trade export-processing zones (EPZs) in the Kaohsiung harbor area, at Nantze (near Kaohsiung), and at T'aichung. Since the late 1980s rising production costs and a 40% appreciation of the New Taiwan dollar have prompted many export-oriented companies to relocate their manufacturing plants to mainland China and Southeast Asia. In particular, labor-intensive industries, such as toys, footwear, umbrellas, and garments, have relocated. In 1986, industrial production accounted for nearly half of GDP. By 1997 this figure had dropped to about 35% and in 2000, it was an estimated 31.9%, including manufacturing at 26.4% of GDP; construction at 3.4% and electricity, gas and water at 2.1% of GDP. For to June 2001, industrial production accounted for 29.4% of GDP, with manufacturing accounting for 24%.

Production rose spectacularly after the end of World War II, especially between 1952 and the early 1980s. Slower economic growth since the mid-1980s and greater investment emphasis on heavy and high-technology industries as well as services has resulted in declining production figures for traditional manufactures such as cotton yarn and fertilizer. Labor intensive industries have gradually been replaced by capital and technology intensive industries. In 2000 electronics and information technology (IT) products accounted for 27% of industrial output. The two largest made-to-order computer chip manufacturers are Taiwan Semi-

conductor Manufacturing Company (TSMC), Taiwan second-largest company, and United Microelectronics Company (UMC). In 2000, Taiwan global share in scanner production was 90%; in motherboards, 65%; monitors, 57%; in notebook PCs, 57%; in digital cameras, 45%, and in D/DVD drives, 39%. Strong growth in IT products continued in many IT products despite the overall 10.4% contraction in industrial production in 2001. Sales of LCD monitors, for instance, reached \$3.13 billion, a 66% increase over 2000, while sales of digital cameras reached \$7.132 billion, a 95.5% yearly increase. In 2000, Taiwan was the world's fourth-largest computer hardware supplier. Taiwan has become the world's leading supplier of computer peripherals, including motherboards, monitors, mice, interfaces, network cards, and graphic cards; and holds the largest market share of notebook computers and semiconductors. The structure of Taiwan's IT industry is a pyramid with a handful of large companies that make the major investments in research and development, and over 1000 small and medium-sized operations that account for about 85% of the output. The sector employs about 130,000.

Taiwan's petrochemical industry consists of mainly of 45 upper and middle-stream manufacturers, many concentrated in the Kaohsiung special chemical zone. In 1999, Taiwan's petrochemical production capacity was only 51% of domestic demand. As of 2000, this was raised to 79% with the completion of a naphtha cracking plant in the Mailiao industrial zone. The Mailiao zone also includes its newest oil refinery, a 450,000 barrels per day facility built by Formosa Petrochemical Company (FPC), which, with Taiwan's three other refineries—a 270,00 barrels-per-day refinery at Kaohsiung, a 270,000 barrels-per-day refinery at Ta-Lin, and a 200,000 barrels-per-day refinery at Taoyuan—establishes refinery capacity in excess of domestic demand. In December 2002, an export contract was concluded with the mainland China state petroleum company.

In heavy industry, Taiwan has 10 manufacturing companies, most of them contractual joint ventures with Japan. The production value of the automotive industry reached \$10 billion in 2000, about 4% of its aggregate manufacturing. Taiwan's small size and the availability of efficient MRT lines limits the demand for automobiles. Domestic demand for vehicles fell from 542,000 in 1995 to 420,000 in 2000.

Textiles were the leading export until the 1980s when labor costs, land prices and environmental protection concerns led to a relocation of much of the industry to Southeast Asia and China. The domestic industry is based on man-made fibers. In 2000, Taiwan was third in the world in the production of man-made fibers, and second in the production of polyester, which constitutes 80% of its output.

Overall industrial production fell 2.6% in 1998 from an increase of 7.4% in 1997, due largely to the effects of the Asian financial crisis. Industrial production recovered quickly to growth rates of 7.5% and 7.4% in 1999 and 2000, but then slid 10.4% in 2001 in the wake of the dot.com bust. In 2002, the economy recovered, registering a 3.3% growth rate, and in the first quarter of 2003, industrial production had risen 6.4%.

In 2004, the industrial production growth rate was 12.2%, well above the overall growth of the economy. Industry made up 30.9% of the economy, and employed 35% of the working population. Agriculture is an insignificant part of the economy, but services

seem to be the main driving force, with 67.4% participation in the GDP and 57% representation in the labor force.

## 29 SCIENCE AND TECHNOLOGY

In the 1970s, Taiwan instituted its Science and Technology Development Program. Coordinated by the National Science Council, the program seeks to encourage the development of "knowledge-intensive" industries through grants for the training of scientific personnel, subsidies for recruitment of distinguished scientists from abroad, and grants to universities to promote scientific research. Specific goals of the program are to integrate and promote research in geothermal energy, battery-powered vehicles, electronics, cancer treatment, pharmaceuticals, nuclear safety, and the development of high-precision instrumentation and computers.

The Industrial Technology Research Institute is charged with the transfer of pertinent technologies developed to manufacturing and other industries. College students are encouraged to build careers in engineering and science. In 1979, the Science-Based Industrial Park was established at Hsinchu, near the National Tsinghua University, with the objective of encouraging computer manufacturing and other high-technology industries by offering loans, tax incentives, and low-cost housing and factory buildings. By 1990, over 60 companies had established research and development (R&D) and joint production facilities there. These include computer, semiconductor, precision electronics and instrumentation, telecommunications, and biotechnology firms.

The highest institution for scientific research on Taiwan is the Academia Sinica (Chinese Academy of Sciences), founded in 1928 and now located in T'aipei. Its 18 associated institutes carry on research in mathematics, statistics, history and philology, economics, modern history, physics, botany, zoology, ethnology, chemistry, molecular biology, biological chemistry, biomedical sciences, atomic and molecular sciences, earth sciences, information science, nuclear energy, social sciences and philosophy, and American culture. An Atomic Energy Council, founded in 1955, promotes atomic research.

In T'aipei, the National Taiwan Science Education Center has a planetarium and various exhibits; the Taiwan Museum has exhibits on natural history, geology, and ethnography, and a spectroscopic dating laboratory for fossils. Taiwan has 23 universities and colleges that offer courses in basic and applied sciences.

## 30 DOMESTIC TRADE

The marketing system is partly free and partly controlled. Salt, tobacco, alcoholic beverages, and certain commodities are produced and distributed by the government. Prices of basic living commodities are controlled. Retail sales in cities are handled by small department stores, specialty shops, general stores, convenience stores, roadside stands, and peddlers. In 2000, Taiwan had over 1,000 supermarkets and 3,200 convenience stores. Since roadside stands and peddlers have little overhead and are satisfied with a small profit, their prices are generally lower than those of the large stores and shops, if the customer bargains. In recent years, wholesale discounters, hypermarkets and franchises have become significant distribution channels for consumer goods, increasing the efficiency of the marketing system overall. The nation's first shop-

ping malls opened in 1999 and 2001, with development plans to build 20 to 30 more within the next few years.

Chilung and T'aipei are the distribution centers for the northern end of the island, while Kaohsiung and T'ainan are the principal distribution centers for the southern area. Most registered import and export trading firms are located in T'aipei. Accounts are usually settled during festival periods, according to Chinese custom.

Local markets open about 7 AM and close at 6 PM or later. Business firms and stores are usually open from 9 AM to 5:30 PM, and in the morning on Saturdays, and some stores close as late as 10 PM. Most stores are open seven days a week. Banks are open six days a week: Monday–Friday, 9 AM to 3:30 PM, and Saturday, 9 AM to noon. As of January 1998, government employees (excepting the police, health bureau, and customs) and most private companies take the second and fourth Saturday of the month off.

## 31 FOREIGN TRADE

Foreign trade is of ultimate importance to the island economy. To fulfill both production and consumer needs, Taiwan must import large quantities of energy, industrial raw materials, food, and manufactured goods. With rising consumer wealth within Taiwan as well as tariff reductions and other liberalization measures by the government, imports have risen rapidly from \$24 billion in 1986 to an estimated \$122 billion in 2000.

The export pattern has changed significantly since the end of World War II. In 1952, industrial products represented only 10% of Taiwan's total exports and agricultural exports made up the rest; but by 1992, industrial exports (excluding processed agricultural products) had jumped to an overwhelming 95.7% share of the total. Exports increased from \$8.2 billion in 1976 to an estimated \$112 billion in 2000. However, the export growth rate has declined steeply in recent years, from 23% in 1986 to 13% in 1991 and 0.4% in 1992, due to recession in Taiwan's major markets and the movement of export-oriented manufacturing plants to China and Southeast Asia. Exports leveled off in 1997, and dropped by 9.4% in 1998, in part due to the financial crisis in all of Asia. The growth in services has overtaken that of industrial production.

Most of Taiwan's export commodities are electronic equipment and other small manufactured goods.

The United States remains Taiwan's single most important trade partner, although Japan has made major gains, becoming Taiwan's major supplier in the 1970s and 1980s. Over 18% of imports come from the United States, while Taiwan exports more than 27% of goods to the United States. Trade with mainland China via Hong Kong expanded rapidly during the late 1980s and early 1990s, resulting in a sharp increase in Taiwan's trade surplus with the latter country. Following cross-strait tension from 1995 onwards, Taiwan investors have limited their relations with mainland China, resulting in a 50% drop in investment during 1998. Exports to China fell by 13% in 1998.

In 2004, exports reached \$171 billion (FOB—Free on Board), while imports grew to \$165 billion (FOB). The bulk of exports went to China, including Hong Kong (37%), the United States (16%), and Japan (7.7%). Imports included machinery and electrical equipment, minerals, and precision instruments, and mainly

came from Japan (26%), the United States (13%), China, including Hong Kong (11%), and South Korea (6.9%).

### **3<sup>2</sup> BALANCE OF PAYMENTS**

There was a consistent trade surplus after the mid-1970s, which exceeded \$10 billion after the mid-1980s through the mid-1990s. The current account surplus was \$19 billion in 2001 and was forecast to remain substantial in 2003. Taiwan's total foreign exchange reserves are the world's third-largest after Japan and China; they stood at a record \$175.2 billion in May 2003. Total foreign debt was only \$24 million in 2001.

The US Central Intelligence Agency (CIA) reported that in 2001 the purchasing power parity of Taiwan's exports was \$122 billion while imports totaled \$109 billion resulting in a trade surplus of \$13 billion.

Exports of goods and services reached \$173 billion in 2004, up from \$143 billion in 2003. Imports grew from \$119 billion in 2003, to \$157 billion in 2004. The resource balance was consequently positive in both years, reaching \$24 billion in 2003, and \$16 billion in 2004. The current account balance was also positive, deteriorating though from \$29 billion in 2003, to \$19 billion in 2004. Foreign exchange reserves (including gold) grew to \$242 billion in 2004, covering more than one and a half years of imports.

### **3<sup>3</sup> BANKING AND SECURITIES**

Many banking institutions are either owned or controlled by the government. There were 11 public banks in 1998, with total assets of \$261 billion, or 44%. The Bank of Taiwan (with 75 branches) used to issue currency notes, handle foreign exchange, act as the government's bank, and perform central banking functions in addition to its commercial banking activities; before reactivating the Central Bank of China (CBC) in Taipei in 1961. The functions of the Central Bank include regulation of the money market, management of foreign exchange, issuance of currency, and service as fiscal agent for the government. The Bank of China is a foreign exchange bank with branch offices in major world capitals. The Bank of Communications is an industrial bank specializing in industrial, mining, and transportation financing. The Export-Import Bank of China, inaugurated 1 February 1979, assists in the financing of Taiwan's export trade. The Central Trust of China acts as a government trading agency and handles most of the procurements of government organizations. The Postal Savings System accepts savings deposits and makes domestic transfers at post offices.

At the end of 2002 there were 48 domestic commercial banks, five medium business banks, and 39 foreign banks. There were also 48 credit cooperatives, 287 farmers' credit unions, and 27 fishermen's credit unions. The government holds majority status in several of the most important banks, including the Bank of Taiwan, the Cooperative Bank of Taiwan, and the First Commercial Bank. The two largest private banks are the International Commercial Bank of China and the Overseas Chinese Commercial Banking Corp. By 1998, three large government-owned provincial banks were privatized, and others were set to follow.

In 1990 the government announced the goal of establishing the island as a regional financial center. Its original target of 1996 was far too optimistic, and liberalization will have to be far more thoroughgoing than that to which the authorities are at present committed, but various steps are being taken towards this end.

Restrictions on bringing in capital from abroad, limits on capital transfers both in and out of Taiwan by domestic firms and individuals, and the operations of foreign banks have been liberalized. On 18 February 1997, the Finance Ministry set up a 37-member financial reform task force, headed by the finance minister. This group spent 10 months devising proposals in the following four areas: improving the overall efficiency of the banking system; development of capital and derivatives markets, and relaxation of the rules governing the kinds of business banks may conduct; improving market-regulating procedures such as credit evaluation systems, asset management, investor insurance, and insider trading rules; and strengthening banks' internal financial controls.

Taiwan's first private corporate bond issue was floated in 1958. The first stock exchange in Taiwan opened on 4 February 1962. Volume was low until liberalization measures opened the market to foreigners, and the Taiwan stock market surged in the early months of 1997, with the index smashing through the 8,000-point barrier for the first time since 5 March 1990. This milestone immediately prompted rumblings from the CBC that the market was overheated. Yet by May 1997, the market was flirting with the next resistance level, at 8,500 points. Authorities raised the limits to foreign ownership in companies listed on the TAIEX from 30% to 50% in 1999. Most limits on foreign ownership were ended in 2000, and the index was up by the 10,000 mark in that year. However, it has since dropped off considerably, especially in the wake of the Asian financial crisis of 1998. The TAIEX was at 5,551.2 at the end of 2001, and trading value, at \$545 billion, was only slightly more than half of the previous year's level. As of 2004, the TAIEX stood at 6,139.7, up 5% from the previous year. Trading value that year totaled \$718.619 billion. In 2004, a total of 697 companies were listed on the Taiwan Stock Exchange, which had a market capitalization of \$441.436 billion.

### **3<sup>4</sup> INSURANCE**

Insurance in Taiwan is supervised by the Ministry of Finance and may be written only by a limited liability company or a cooperative association. Aside from group insurance operated by the government, life and annuity insurance are comparatively undeveloped in Taiwan. The Chinese tradition that the family should take care of its members in sickness and old age lowered demand in the past, but social change and rapid economic growth have modified this situation, especially in industrial areas. In 1986, the Taiwanese government agreed to allow US companies to compete equally for insurance business. In 1999, nine foreign nonlife insurers were authorized to run full branches in Taiwan. Foreign insurers must receive approval from the government, however, and secure a business license. In Taiwan, third-party automobile liability, health insurance, pension, unemployment insurance, and workers' compensation are all compulsory. In 2003, the value of all direct insurance premiums written totaled \$32.402 billion, of which life insurance premiums accounted for \$23.739 billion. For that same year, Taiwan's top nonlife insurer was Fubon, which had gross written nonlife premiums totaling \$847 million, while Cathay Life was the

country's leading life insurer, with gross written life insurance premiums of \$7,972.7 million.

### 35 PUBLIC FINANCE

Central government revenues come mostly from taxation, customs and duties, and income from government monopolies on tobacco and wines; other revenues are derived from profits realized by government enterprises. Government accounts showed surpluses through the early 1980s. Public authorities anticipated a growing fiscal deficit throughout the 1990s as Taiwan's six-year development plan required over \$300 billion of investment in public infrastructural construction projects and in upgrading industries. In 1996, the government's deficit was equal to 4% of GDP. Growing demands for social welfare spending and increased defense spending (up 20% in 1996/97, the largest rise in over a decade) continued to put pressure on the budget. Outstanding debt reached 16% of GDP in 1998, up from 6% in 1991, and debt service payments consumed 15% of the central budget in 1999. The government was committed to balancing the budget by 2001. Austerity measures included controlling public sector consumption expenditures, limiting expansion of government expenditures, freezing government employment, limiting public employee pay raises, and encouraging private participation in major public projects. The government was also committed to reducing the public sector's role in the economy. National defense expenditures as a portion of the central budget dropped from over 40% in 1960 to 20% in 1999, and were set to fall to 15% in 2000.

The US Central Intelligence Agency (CIA) estimated that in 2005 Taiwan's central government took in revenues of approximately \$70.9 billion and had expenditures of \$80.1 billion. Revenues minus expenditures totaled approximately -\$9.2 billion. Public debt in 2005 amounted to 33.3% of GDP. Total external debt was \$81.64 billion.

### 36 TAXATION

All taxes are collected by the local government and transferred to the relevant provincial or central government agency. Tax revenues reserved for the central government include the income tax, estate (inheritance) tax, gift taxes (4–50%); customs duty, stamp tax, commodity tax, securities transaction tax, and mine tax.

As of 2005, individual income taxes were progressive with a top rate of 40%. Dividends paid to resident individuals is not subject to a withholding tax. Non resident individuals were subject to a 30% withholding rate. Interest and royalty income paid to resident individuals were subject to withholding taxes of 10% and 15%, respectively, but increases for each to 20% for nonresidents.

Corporate income taxes range from 0 to 25%. Capital gains are subject to the same corporate tax rates, although gains incurred by a nonresident company are taxed at a flat rate of 25%. Dividends paid to nonresident firms are also taxed at the flat 25% rate. Banking, insurance and investment services are subject to a 2% turnover tax. Higher rates apply to entertainment.

Taiwan also has a value-added tax (VAT) of 5% on sales and services. Items zero-rated from the VAT include international transport, exports, services performed in Taiwan but for use abroad, and services performed overseas. Basic foodstuffs, land, water, certain agricultural inputs, some financial and insurance products, and education and health are exempt from the VAT. How-

ever, certain businesses not subject to the VAT pay a tax on their gross business receipts that ranges from 0–25%. Sales taxes are 1% for reinsurance activities, 5% for bank activities, insurance and brokerage services; and 15–25% for bars and restaurants. There is a 60% ad valorem merchandise tax on petrol. Other taxes include building, commodity, deed, estate, gift and land value taxes. There are no social security or local income taxes in Taiwan.

### 37 CUSTOMS AND DUTIES

Customs duties are important revenue earners and consist principally of import duties and tonnage dues. The former are levied on dutiable commodities, the latter on ships that call at Taiwan ports. Duties range from 2–60% and are assessed on seven commodity categories that include rubber tires, cement, beverages, oil and gas, electrical appliances, flat glass, and automobiles. Articles imported for military use, for relief, or for educational or research purposes are exempted from import duty. Duties on imported raw materials for business can be rebated. Some agricultural products are prohibited from importation, such as rice, sugar, chicken, some pork cuts, peanuts, and certain dairy products. Imports from Japan and mainland China are restricted due to balance of payments problems. There is also a 5% VAT that is applied to the CIF (cost, insurance, freight) value, plus the duty and a 0.3% harbor fee that is not applied to items arriving by parcel post or air freight duty.

### 38 FOREIGN INVESTMENT

From 1952 to 2000 cumulative foreign direct investment approvals came to \$44.8 billion of which 24% was in the electronics and electrical industries. Other industries attracting relatively heavy foreign investment include banking and insurance services, chemicals, trade and basic metals. The government reported Taiwan received \$3.27 billion in foreign investments in 2002, and had received an average of \$2.7 billion a year 1991 to 1999. The rate of foreign investment has been rapidly accelerating as in preparation for its accession to the World Trade Organization (WTO) Taiwan has liberalized its economy and improve its investment environment. Foreign firms are generally accorded national treatment and trade-related capital flows are unrestricted. In January 2001 the 50% foreign ownership limit was lifted with exceptions in a few designated industries. Most limits on the amount of portfolio investment in companies listed on the Taiwan Stock Exchange (TSE) were also lifted. About 1% of manufacturing industries and 5% of services industries continue to have limits on foreign ownership. Investment incentives are offered for investments in emerging or strategic industries, pollution control systems, production automation, and energy conservation. Since the goal was first announced in 1995, increasing effort has been put in making Taiwan an Asia-Pacific Regional Operations Center (APROC). A goal is to have about 1,000 corporations establish headquarters in Taiwan by 2011.

The United States has been the largest source of foreign investments in Taiwan with investment approvals totaling \$10.7 billion in the period 1952 to 2000, 24% of the total. Another \$9.2 billion is approvals during this time from the British Virgin Islands, the Cayman Islands, and other offshore havens in Central America, should also be largely attributed to US multinationals. Japan has ranked second with approved investments totaling \$9.2 billion or

21% of the total. Twenty-seven percent has been in electronic and electrical products and 20% in services and trade. Investment approvals totaled 1,410 equal to potential investment of \$7.6 billion, an increase of 80% over 1999. Most of these investment applications came from British territories in Central America (mainly the British Virgin Islands, the Cayman Islands, and other conduits of mostly US investments), the United States, Singapore, Japan and the United Kingdom.

Taiwan outward investment has been such that by 2000 over 50% of Taiwan manufacturing was being conducted outside of the country, and by 2001, 53% was being out-sourced. The top five sectors for outward investment were banking and finance, services, electronics and electrical appliances, marketing, and transportation. In 1992, investment in mainland China was legalized and despite a fall off due to tensions in 1996, by 2001 Taiwan had become China's fourth-largest source of foreign investment. In 2002, the government changes its official investment stance towards China from "patience over haste" to "active opening and effective management."

Taiwan uses the cheap labor force from the mainland to assemble and process domestic produced high tech goods, and then exports them to the developed markets (like the United States, Japan, and Europe). Taiwan's direct investments in China grew from \$1.3 billion in 1999 to \$5.4 billion in the first 10 months of 2004. China (including Hong Kong) have thus become Taiwan's largest export market. Capital inflows have also been high, with FDI levels amounting to 20.8% of the GDP in 2003. Investors complain however that the business environment is not as streamlined and transparent as it could be.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Since 1950, the government has adopted a series of economic plans to help guide and promote economic growth and industrialization. The first four-year economic development plan (1953–56) emphasized reconstruction and increased production of rice, fertilizers, and hydroelectric power; it resulted in an increase of 37% in GNP and 17% in income per capita. In the second four-year plan (1957–60), import substitution industries were encouraged. Industry and agriculture both registered significant gains; GNP increased by 31%, and national income per capita by 13%. The third four-year plan (1961–64) emphasized labor-intensive export industries, basic services, energy development, industries contributing to agricultural growth, and exploration and development of the island's limited natural resources. The results were a 42% increase in GNP and a 31% increase in per capita income. US loans and grants, totaling \$2.2 billion, and foreign (mostly overseas Chinese) investment financed these early stages of development.

Following the curtailment of AID assistance in 1965, the fourth four-year plan (1965–68) was introduced, followed by the fifth four-year plan (1969–72); increases in GNP for these periods were 46% and 55%, respectively. By 1971, exports of manufactured goods had registered spectacular increases, and Taiwan's foreign trade pattern changed from one of chronic deficit to consistent trade surpluses. At this point, the government began to redirect its priorities from labor-intensive industries to the development of such capital-intensive sectors as shipbuilding, chemicals, and petrochemicals. The sixth four-year plan (1973–76), adversely affected by the worldwide recession, was terminated in 1975 after

producing only a 19% increase in GNP. It was replaced by a six-year plan (1976–81) that focused on expansion of basic industries and completion of 10 major infrastructural projects, including rail electrification, construction of the North Link railroad, development of nuclear energy, and construction of the steel mill at Kaohsiung and of the new port of T'ainchung.

In 1978, the six-year plan was revised, and 12 new infrastructural projects were added, including completion of the round-the-island railroad, construction of three cross-island highways, expansion of T'ainchung Port's harbor, and expansion of steel and nuclear energy facilities. A subsequent four-year plan (1986–89), designed to supplement a longer-range 10-year plan (1980–89), had as a target average annual GNP increase of 6.5%. Among its goals were price stability, annual growth of 7.5% in the service sector, trade liberalization, encouragement of balanced regional development, and redirection of new industrial growth into such high-technology industries as computers, robotics, and bio-engineering. In response to flagging export growth and a slowdown in private investment following a stock market collapse in 1990, the government devised a six-year plan for 1991–97 aimed at economic revitalization. This plan targeted investment mainly in transportation, telecommunications, power generation, and pollution control. A "Statute for Upgrading Industries" enacted in early 1991 continued the government's efforts to provide incentives for private investment in research and development and high-technology sectors of the economy. Economic development in the late 1990s focused on a continuing privatization of government enterprises, the opening of the Taiwan market to foreigners, and high investment in the technological sector.

Taiwan's six-year national development plan for 2002–08 is titled "Challenge 2008." It is estimated to cost \$75 billion and has seven specified goals: 1) expanding the number of products and technologies that meet the world's highest standards; 2) doubling the number of foreign visitors; 3) increasing expenditures on research and development to 3% GDP; 4) reducing unemployment to less than 4%; 5) increasing the average growth rate to over 5%; 6) increasing number of broadband internet users to over six million; and 7) creating about 700,000 jobs. There are 10 major areas of emphasis, including cultivating talent for the E-generation (with a special emphasis on mastering English); developing the cultural arts industry; developing a digital Taiwan, using information technologies to make government more efficient and industries more competitive; developing Taiwan as a regional headquarters for multinational corporations; and constructing culturally rich hometown communities as a means of retaining talent, in addition to more standard goals of increasing value-added, improving the transportation infrastructure, conserving water resources and doubling the number of tourists.

Taiwan's economy is estimated to grow by 3.7% in 2005, a clear set-back from the 5.7% growth rate registered in the previous year. Reason for this is the weaker growth in the demand for the country's key manufactured exports. However economic expansion is expected to pick-up again in 2006 as a result of increased world trade.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

A social insurance system provides medical, disability, old age, survivor, and other benefits, with employers paying 3.85% of pay-

roll and workers contributing 1.1% of earnings. Benefits are paid in lump sums depending on years of contribution. The retirement age is set at age 60 for men and 55 for women. The National Health Insurance Bureau provides medical care for all workers and dependents. Firms with five or more employers are required to fund a workers' compensation program. Unemployment benefits are funded by employers, employees, and the government.

All enterprises and labor organizations must also furnish welfare funds for workers and "welfare units," such as cafeterias, nurseries, clinics, and low-rent housing. Fishermen, farmers, and salt workers have their own welfare funds. Government programs include relief for mainland refugees, calamity-relief assistance, and direct assistance to children in needy families.

The law provides equal rights to women, and protects against sex discrimination. Sections of the legal code that discriminated against women have been eliminated. Now the law permits married women to retain their maiden names, gives them an equal voice in child custody disputes, and clarifies their property rights. In the workplace, women tend to receive lower salaries and less frequent promotion, and are often denied federally mandated maternity leave. Violence against women, especially domestic abuse, is extremely widespread. Child abuse is also a serious problem. The Child Welfare Act mandates that any citizen aware of child abuse or neglect must report it to the authorities. As of 2004, Taiwan remained a significant transit point for trafficked persons.

Human rights are generally well respected, but some cases of police abuse continue to be reported.

#### **41 HEALTH**

As a result of improved living conditions and mass vaccinations, significant progress has been made in controlling malaria, tuberculosis, venereal disease, leprosy, trachoma, typhoid, diphtheria, and encephalitis. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 14.2 and 6.1 per 1,000 people. In 2005 the infant mortality rate was 6.4 per 1,000 live births and life expectancy was 77.26 years. Taiwan's public health facilities include 55 general hospitals and approximately 900 health stations. In 1990, there were 22,300 doctors.

#### **42 HOUSING**

The evacuation of more than two million persons from the mainland to an already densely populated island in 1949 made the provision of low-cost housing an early priority. By 1979, more than 150,000 units of public housing had been built. Since the 1970s, government housing programs have focused on the cities, with slum clearance and the construction of high-rise apartment dwellings for low-income groups the major priorities. Two new towns were constructed in the early 1980s and a third was planned. The government set a target of 600,000 new housing units for the 1979–89 decade, but only 236,106 units were completed as of 1986. In 2000, the total housing stock was at about 6,977,770 units with about 3.4 people per dwelling. Some 29% of all housing was built in the period 1971–80; about 32% was built in the period 1991–2000. About 83% of all dwellings were owner occupied.

#### **43 EDUCATION**

All children receive nine years of free and compulsory education provided at government expense, including six years in public

primary school and three years in junior high. After completing nine years of compulsory schooling, approximately 90% of students continue their studies at a senior high (general studies) or vocational school. Agriculture, engineering, commerce, maritime navigation, home economics, and nursing are some of the skills taught in vocational schools, which offer three-year programs. In order to attend high school, students must pass an examination after junior high. Salaries of the teaching staff are paid by local governments.

In 2003/04, there were 1,912,791 students enrolled in primary schools and 1,676,970 students enrolled in secondary schools. The same year, there were 103,793 primary school teachers and 97,738 secondary school teachers.

As of 1997, Taiwan had over 100 institutions of higher education. More than 100,000 students take the joint college entrance exam each year. Approximately 61.9% of the candidates are admitted to a college or university. The government relaxed many restrictions which prevented students from studying abroad in the 1980s. Although Taiwan has a highly developed college curriculum, many students do travel abroad to study. Taiwanese college and graduate students are particularly interested in engineering, computer science, natural science, and business management. In the latter half of the 1990s, about 13,000 students annually pursued graduate study in the United States. In 2003/04, there were 981,169 students enrolled in universities and colleges with 45,702 teachers.

#### **44 LIBRARIES AND MUSEUMS**

The National Central Library in T'aipei holds more than 1,615,000 items, including a collection of rare Chinese books (180,000 volumes). The National Taiwan University in T'aipei has more than 1,500,000 volumes in collected holdings. The T'aipei Public Library of Taiwan consists of a main library, 30 branch libraries, and 12 neighborhood reading rooms within the metropolitan area with a combined collection of about 4,386,601 volumes, plus periodicals and multimedia materials.

The major museums, all in T'aipei, are the National Palace Museum, National Museum of History, and the Taiwan Museum. The National Palace Museum houses one of the world's largest collections of Chinese art—the collection consists primarily of treasures brought from the mainland. The T'aipei Contemporary Arts Museum was completely renovated in 2001. The National Museum of History, founded in 1955, has more than 30,000 items in its collections of oracle bones and ritual vessels of the Shang and Chou dynasties, earthenware of the Sui and T'ang dynasties, stone engravings of the Han dynasty, and jade articles of the Chou dynasty. The Taiwan Museum has the most complete collection of natural history specimens in the country. The National Taiwan Science Education Center in T'aipei houses a planetarium and scientific exhibits.

#### **45 MEDIA**

Telecommunications services are owned by the government. Nearly all telephone service is automatic. In 2003, there were 13.3 million mainline phones and 25 million mobile phones in use na-

tionwide. The postal service is managed by the Directorate General of Posts under the Ministry of Communications.

Radio broadcasting stations in Taiwan are under the supervision of the Ministry of Communications. As of 1999 there were 218 AM and 333 FM radio stations and 29 television stations. In 2004, there were about 100 cable television stations. The largest network is the Broadcasting Corp. of China, which operates three systems: an overseas service, known as the Voice of Free China; the mainland service, known as the Central Broadcasting Station, aimed at the Chinese mainland; and the domestic service. These stations broadcast in 14 languages and dialects. Television was introduced in 1962. In 1997 there were 386 radios and 48 television sets per 1,000 population. In 2005, there were 13.8 million Internet subscribers.

The leading newspapers with their estimated 2002 daily circulation rates are: *United Daily News*, 1,200,000; *China Times*, 1,200,000; *Central Daily News*, 600,000; *Min Sheng Daily*, 556,640; *Liberty Times*, 500,000; *Taiwan Hsin Sheng Pao*, 460,000; *China Times Express*, 400,000; and *China Daily News*, 670,000. The Central News Agency was established on the mainland by the KMT in 1924.

Though authorities generally respect constitutionally provided rights to free speech and free press, these rights are formally circumscribed by a law excluding the advocacy of communism or division of national territory. Controls over radio and television are said to be under a process of liberalization and privatization.

#### 46 ORGANIZATIONS

The most influential private organizations are the occupational or trade associations. These include associations of farmers, fishermen, trade unions, business leaders, and professional persons. Organizations devoted to social welfare and relief work are sponsored by the government, by religious groups, and by civic clubs. The Taiwan Federation of Chambers of Commerce has branches in all the principal cities.

Cooperatives are an important adjunct to economic life, especially in the urban centers. In rural areas, agricultural cooperatives help the farmers transport and market special farm products such as fruits, tea, citronella oil, and handicrafts. Cooperative farms, organized with the help of the government, operate either on a community basis, with the products distributed among the members, or on an individual basis, with the cooperative functioning as a purchasing, processing, and marketing agency.

Agricultural services and 4-H clubs in various parts of Taiwan provide training and social activities for boys and girls. Both the YMCA and YWCA are active in Taiwan, as is Little League baseball. There is an active Junior Chamber in Taiwan and there are several other sports associations based in T'aipei.

Cultural and educational organizations include the Historical Research Commission of Taiwan, the National Science Council, Academia Sinica, and Modern Fine Arts Association of Southern Taiwan. The Taiwan Medical Association is one of many professional organizations that also promotes research and education in medical and scientific fields.

Social action groups include the Taiwan Grassroots Women Worker's Center and the Taiwan Association of Human Rights. Volunteer service organizations, such as the Lions Clubs and Ki-

wanis International, are also present. There are national chapters of Amnesty International and the Society of St. Vincent de Paul.

#### 47 TOURISM, TRAVEL, AND RECREATION

T'aipei is the chief tourist attraction, with such popular sites as the seat of government in Presidential Square, Lungshan Temple, and the nearby National Palace Museum and famous Yangmingshan National Park. Attractions outside the capital include the Shihmen Dam recreation area, Lake Tzuhu, and the mausoleum of Chiang Kai-shek. The many temples and Dutch relics of T'ainan, Taiwan's oldest city, and Sun Moon Lake near T'aichung also attract numerous visitors. The national sports are baseball, football (soccer), and basketball.

In 2003, tourist arrivals totaled 2,248,117, of whom 60% were from East Asia and the Pacific. Tourism receipts totaled us\$3.5 billion. Hotel construction has boomed as a result of government investment. That year hotel rooms numbered 21,896 with an occupancy rate of 56%. All visitors need a valid passport and visa.

In 2005, the US Department of State estimated that the daily expense for a stay in T'aipei was us\$298.

#### 48 FAMOUS TAIWANESE

Among the many Chinese scholars who have lived in Taiwan since 1949 are Hu Shih (1891–1962), philosopher and president of the Academia Sinica; Chiang Monlin (1886–1964), educator and chairman of the Joint Commission on Rural Reconstruction; Li Chi (1896–1979) and Tung Tso-pin (1895–1963), archaeologists, whose discoveries at the Anyang site laid the foundation for modern Chinese archaeology; and Tsiang Ting-fu (Ting-fu Fuller Tsiang, 1895–1965), historian and long-time delegate to the UN. Chang Ta-chien (1899–1983) is known for his painting of landscapes and figures and his copies of the famous Buddhist mural paintings of Tunhwang caves in Gansu Province. Lin Yutang (1895–1976), poet, philosopher, lexicographer, and historian, was one of China's foremost interpreters for Western cultures.

The outstanding political and military figure of Nationalist China and postwar Taiwan was Chiang Kai-shek (Chiang Chung-cheng, 1887–1975), who was responsible for sustaining the spirit of anticommunism in Taiwan. His son, Chiang Ching-kuo (1910–88), assumed leadership of the Taiwan government from Chiang Kai-shek's death to his own. Chen Shui-bian (b.1950) became president in 2000; his controversial views regarding Taiwanese independence have caused consternation with mainland China.

#### 49 DEPENDENCIES

Taiwan has no territories or colonies.

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# TAJIKISTAN

Republic of Tajikistan  
*Jumhurii Tojikistan*



**CAPITAL:** Dushanbe

**FLAG:** The flag consists of a broad white horizontal stripe in the center, with a red stripe at the top and a green stripe at the bottom. The national emblem is centered in the white stripe.

**ANTHEM:** The flag consists of a broad white horizontal stripe in the center, with a red stripe at the top and a green stripe at the bottom. The national emblem is centered in the white stripe.

**MONETARY UNIT:** The Tajik ruble (TR) was replaced by the somoni in October 2000. s1 = \$0.32051 (or \$1 = s3.12) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1 January; Navruz ("New Day"), 21 March; Independence Day, 9 September.

**TIME:** 6 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Tajikistan is located in central Asia, between Uzbekistan and China. Comparatively, it is slightly smaller than the state of Wisconsin with a total area of 143,100 sq km (55,251 sq mi). Tajikistan's boundary length totals 3,651 km (2,269 mi).

Its capital city, Dushanbe, is located in the western part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Tajikistan features the Pamir and Alai mountains which dominate the landscape. The western Fergana Valley lies in the north with the Kafirnigan and Vakhsh valleys in the southwest. The major geographic feature in the south is the Panj River, which separates southern Tajikistan from northern Afghanistan. The country is located in a seismically active area near the borders of the Eurasian and Indian Tectonic Plates. Earthquakes are common in this region.

## <sup>3</sup>CLIMATE

The climate ranges from semiarid to polar. In the semiarid regions, extreme temperatures have reached 48°C (118°F) in the summer. In the eastern Pamirs, winter temperatures have dropped as low as -60°C (-76°F). The national mean temperature in July is 30°C (86°F). The mean temperature in January is 0°C (32°F). Rainfall in most of the country averages 70 to 160 cm (28 to 63 in).

## <sup>4</sup>FLORA AND FAUNA

Most of the forested areas are coniferous, with some walnut trees found in stands at lower mountain slopes. The western steppes contain low shrubs and drought-resistant grasses and serve as habitats for such animals as deer, wolves, foxes, and badgers. Wildflowers, such as poppies and even tulips, can be found in the

valleys. Marco Polo sheep, yak, snow leopards, Siberian horned goats, and a rare markhor can be found in mountains. Bears, wild boar, and lynx are also common in the lower mountain regions. As of 2002, there were at least 84 species of mammals, 210 species of birds, and over 5,000 species of plants throughout the country.

## <sup>5</sup>ENVIRONMENT

Industrial emissions and excessive use of pesticides are leading causes of environmental damage in Tajikistan. Over the last 30 years, increased irrigation to support agricultural activity has resulted in harmful levels of soil salinity, which damage the soil and threaten its productivity. The nation's water supply is threatened by pollution and inadequate sanitation facilities. Overutilization of the shrinking Aral Sea for irrigation purposes has caused it to become polluted.

As of 2003, 4.2% of the country's total land area was protected, including five Ramsar wetland sites. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included seven types of mammals, nine species of birds, one type of reptile, three species of fish, two species of invertebrates, and two species of plants. Threatened species include the argali, Aral salmon, Tad-jik markhor, tiger, and snow leopard.

## <sup>6</sup>POPULATION

The population of Tajikistan in 2005 was estimated by the United Nations (UN) at 6,813,000, which placed it at number 99 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 40% of the population under 15 years of age. There were 99 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.3%. Despite the fact that population growth has slowed significantly

since the mid-1990s, the government viewed the current rate as too high, specifically in the area of fertility, which stood at 4.25 births per woman. The projected population for the year 2025 was 9,181,000. The overall population density was 47 per sq km (123 per sq mi), with the northern and western lowlands having the greatest population density.

The UN estimated that 27% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 0.82%. The capital city, Dushanbe, had a population of 554,000 in that year. Khudzhand (formerly Leninabad) had a population of about 175,000.

## 7 MIGRATION

As a result of the civil war that began in 1991, more than 600,000 people were internally displaced, and 60,000 were forced into Northern Afghanistan by January 1993. Also between 1991–95, 300,000 Russians, 30,000 Ukrainians, and 10,000 Belarussians all left Tajikistan. By April 1997, virtually all of the internally displaced people had returned to their homes. When the peace agreement was reached in June 1997, the United Nations High Commissioner for Refugees (UNHCR) completed the repatriation of Tajik refugees from northern Afghanistan to Tajikistan. In 1998 the UNHCR started the voluntary repatriation of Tajik refugees from other countries. By 1999, some 20,000 refugees had returned to their places of origin. The total number of migrants in 2000 was 330,000 including refugees. In 2004, there were 3,306 refugees, 785 asylum seekers, and 80 returned refugees. The net migration rate in 2000 was -10.3 migrants per 1,000 population, in 2005 it was estimated as -2.67. Worker remittances in 2003 were \$187 million.

## 8 ETHNIC GROUPS

According to a 2000 census, Tajiks account for about 79.9% of the population and Uzbeks (who live in the northwest) for about 15.3%. The Russian population, declining because of emigration, comprises only about 1.1%; the Kyrgyz also accounted for 1.1% of the population. Other varied ethnic groups made up the remaining 2.6%.

## 9 LANGUAGES

Tajiki, the official language is an Indo-European language, related to Farsi and Pashto. Russian is widely used as the language of international communication in government and business. Uzbeki is spoken in regions predominantly inhabited by Uzbeks.

The Tajiki language has no genders or cases, and its vocabulary is borrowed from Arabic, Uzbeki, and Russian. Since the 1940s, the Tajik alphabet has been a modified version of the Russian Cyrillic alphabet. Since the adoption of Tajiki as the national language, instruction of the Arabic-based Persian alphabet in schools has been encouraged, with teaching materials provided by Iran.

## 10 RELIGIONS

An estimated 95% of citizens are nominally Muslims. About 90% of the Muslim population is Sunni and about 7% are Shia. There are approximately 230,000 Christians, mostly ethnic Russians. The largest Christian group is the Russian Orthodox Church; however, there are also Baptists, Roman Catholics, Seventh-Day Adventists, Korean Protestants, Lutherans, and Jehovah's Witnesses. Other re-

ligious minorities include Baha'is, Zoroastrians, Hare Krishnas, and Jews, each totaling less than 1% of the population.

The constitution provides for religious freedom, but there have been some restrictions on this right in practice. All religious groups must register with the State Committee on Religious Affairs (SCRA). The SCRA monitors the activities of all religious groups in order to insure that they are not becoming overtly political.

## 11 TRANSPORTATION

As of 2004, there were some 482 km (298 mi) of railroads in common carrier service (not including industrial lines) in Tajikistan, all of it broad gauge. A 258-km (160-mi) line connects Dushanbe with Termez, Uzbekistan, and ultimately with the other rail systems of the former Soviet Union.

In 2002, there were some 29,900 km (18,580 mi) of roadways, of which 21,400 km (13,298 mi) were hard-surfaced. The major roads connect Khudzhand in the north to Kulyab in the south via Dushanbe. Only one main road services the eastern Gorno-Badakhshanskaya region, meandering from Khrough to Kyrgyzstan. Transportation in urban areas has suffered in recent years, primarily because supplies of gasoline from Russia have become unreliable. Roads connecting residential suburban areas with cities are not designed to handle large volumes of commuter traffic. Dushanbe has a system of electric trolleys and gas powered buses, but operation has been erratic due to a lack of spare parts and fuel. As of 2003, Tajikistan had 200 km (124 mi) of navigable inland waterways along the Vakhsh River.

Tajikistan had an estimated 55 airports as of 2004, of which 17 had paved runways as of 2005. In 2003, the country's airlines carried about 413,000 passengers on scheduled domestic and international flights.

## 12 HISTORY

The territory of Tajikistan has been continuously inhabited since the early Stone Age. The first Central Asian states of Sogdia and Bactria in the first millennium BC, included portions of Tajikistan. The territory was Persian-controlled from the 6th century BC, until conquered by Alexander the Great in 329 BC. Much of Tajikistan was included in the Greco-Bactrian kingdom in 3rd century BC, and after displaced by the Tochari tribes who invaded Sogdia a century later. The Kushana kingdom was established in the first centuries of the Christian era, when a number of cities were established, and agriculture and commerce grew. In the 5th and 6th centuries, parts of Tajikistan were conquered by nomadic tribes, the Chionites and, later, the Ephthalites.

At the end of the 6th century the large Ephthalite empire was displaced by the Eastern Turkic Kaganate. Arabs conquered the area in the 8th century, introducing Islam. Later in the 9th century they were displaced by the Samanides, who encouraged the development of trade and of material culture. From the 10th to the 13th centuries a number of kingdoms succeeded one another in Central Asia; among the ones which included parts of Tajikistan were the Ghaznavids, the Karakhanids, the Ghorids, the Karakitai, and the Khwarazmites.

In 1219–21 Genghiz Khan's troops conquered the entire area, destroying many cities. Tajikistan became part of the lands given to Genghiz Khan's son, Chagatai. In the 14th century Timur (Tamerlane) created a large empire, with its capital in Samarqand



LOCATION: 15°0' N; 39°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,651 kilometers (2,269 miles); Afghanistan, 1,206 kilometers (749.4 miles); China, 414 kilometers (257.3 miles); Kyrgyzstan, 870 kilometers (541 miles); Uzbekistan, 1,161 kilometers (721.4 miles).

(Samarkand). In the 16th century Tajikistan was conquered by the Sheibanids, who had their capital in Bukhoro (Bukhara). Portions of territory were included later in the Ashtarkhanid state and then in the Kokand Khanate, which emerged in the Fergana Valley in the mid-18th century. Present-day Tajikistan was split between the Khanates of Bukhoro (Bukhara) and Kokand in the 18th and 19th centuries.

In 1863, Russia asserted a right to exercise dominance in Central Asia, and began the military conquest of the khanates. Bukhoro (Bukhara) and Samarqand (Samarkand) were incorporated into Russia in 1868. Kokand was eliminated in 1876, and the border with Afghanistan was set by accord with England in 1895. At that point, part of Tajikistan was in the Emirate of Bukhara, part was in Turkestan. When the Tsar's draft call-up of 1916 was an-

nounced, rebellions broke out all over Central Asia, including in Tajikistan. These were suppressed, at great loss of life.

Northern Tajikistan was conquered by the Bolsheviks in 1918, who extended control to the rest of the country when Bukhara was captured, in 1920. Muslim guerrilla warfare termed the Basmachis Rebellion was finally suppressed in 1924. Tajikistan was established as an autonomous republic within the Uzbek Soviet Socialist Republic in 1924. The republic became a full Soviet Socialist Republic in 1929.

Border delineations in Central Asia were very arbitrary. For several hundred years educated Central Asians had used Persian and Turkic languages essentially equally, so that separation into Turkic-speaking Uzbeks and Persian-speaking Tajiks, as if to create separate nationalities, was primarily administrative. Bukhoro

(Bukhara) and Samarqand (Samarkand), the major Tajik cities, were included in Uzbekistan, while Tajikistan was left only with smaller cities, and little arable land. People were forced to assume one nationality or another.

In the late Soviet period Tajikistan was the poorest and least developed of the republics. It comprised four separate areas, the elites of which competed for power. Traditionally power was held by people from Khojent, which is geographically and culturally closest to Uzbekistan's Fergana valley. They were contested by families and clans from Kulyab, south of Dushanbe. Poorest were people from the Gorno Badakhshan Autonomous Province, most of which is in the Pamir Mountains. The final area was Kurgan-Tyube, in the extreme south, where the influence of Islam was strong; public calls for establishing an Islamic state were heard there as early as 1976.

In 1985, Mikhail Gorbachev replaced longtime republic leader Rakhmon Nabiyev with Kakhar Makhkamov, whose control never penetrated to the most local levels. Riots in February 1990 exposed his weaknesses, and encouraged a proliferation of political parties and groups. When the August 1991 Soviet coup attempt came, Makhkamov was the only republic leader to welcome it. When the coup failed, Makhkamov was forced to resign, and Nabiyev returned to power.

The republic declared independence on 9 September 1991, and presidential elections were hotly contested 27 October 1991. Nabiyev used communist control of the media and cells in the workplace to influence the election. Despite this influence, his opponent Davlat Khudonazarov, a popular filmmaker, received more than 30% of the vote. Opposition to Nabiyev continued, however, resulting in massive demonstrations and the formation of a national guard by Nabiyev and militias by the oppositionists. In April 1992, demonstrators for and against Nabiyev took over two public squares in Dushanbe, about a mile apart. Clashes between the two caused several deaths, and tensions mounted. In May, the Russian garrison in Dushanbe stepped in to mediate tensions, brokering a compromise that called for Nabiyev to form a coalition government in which one-third of the ministerial posts would go to oppositionists. Nabiyev named his supporter, Akbarsho Iskandarov, the new legislative speaker to help form a coalition government, and brought token democrats and Islamists into the government, including Kazi-kolon Khojiakbar Turajonzoda, the senior Muslim cleric in the republic.

Civil disorder grew throughout summer 1992. In August 1992, Nabiyev was seized at gunpoint and forced to resign, and Iskandarov assumed control of the government. By this time full civil war had erupted, with thousands of casualties. In November, Iskandarov gave up his efforts to govern, and Uzbekistan and Russia joined in the efforts by hard-liners to drive the Iskandarov government and its supporters out of the country, mostly into neighboring Afghanistan. The rump Supreme Soviet, dominated by hard-liners, met in Khudzhand, and Imomali Rakhmonov became the leader. Rakhmonov, a Kulyabi, was a former collective farm chairman linked to a major hard-line warlord. Kulyabi and Khojenti hard-liners, assisted by Uzbekistan and Russia, launched a successful counteroffensive that by the end of 1992 had resulted in 20,000–40,000 casualties and up to 350,000 refugees or displaced persons, about 80,000 of whom fled to Afghanistan.

In 1993, the Commonwealth of Independent States (CIS) authorized "peacekeeping" in Tajikistan under the auspices of its Collective Peacekeeping Forces (CPF) treaty to protect what Russia terms "CIS borders." CPF consisted of Russia's 201st Rifle Division, based in Tajikistan, and token Kazakh, Kyrgyz, and Uzbek troops (the Kyrgyz and Uzbek troops pulled out in 1998–99). Russian media reported in late 1999 that there were about 20,000 CPF, border, and other Russian troops in Tajikistan. The commander of the CPF troops in August 1999 stated that the role of his forces had largely shifted to the delivery of humanitarian cargos, clearing mines, and giving medical assistance. Nonetheless, plans to withdraw the CPF have not been announced, perhaps because in April 1999, Russia and Tajikistan signed a basing agreement for the 25-year presence of Russian troops.

After Tajik government and opposition emissaries agreed to a cease-fire in September 1994, the UNSC formally established a UN Mission of Observers in Tajikistan (UNMOT) in December 1994 with a mandate to monitor the cease-fire, later expanded to investigate cease-fire violations, monitor the demobilization of opposition fighters, assist ex-combatants to integrate into society, and offer advice for holding elections. The UN reported in late 1999 that UNMOT comprised 167 civilian staff and 37 military observers. The mission successfully accomplished its assigned tasks and on 15 May 2000 its mandate was terminated.

In November 1994, Rakhmanov held presidential elections in an attempt to legitimize his government. The main Tajik opposition groups boycotted this election and a constitutional referendum because they had no say in drawing up the draft constitution and would not be allowed to field their own candidates. Only one candidate besides Rakhmanov was permitted to run, Abdumalik Abdullojanov, a prominent politician in the northern Leninabad region and a former Tajik prime minister. Rakhmanov was elected president by a wide margin and his constitution was overwhelmingly approved. The Organization for Security and Cooperation in Europe (OSCE) declined to send monitors because it viewed the electoral process as not meeting its standards. Elections to a new 181-member legislature took place in February 1995. Four parties were allowed to compete, but restrictive nomination procedures ensured that about 40% of candidates ran unopposed. The election excluded virtually all opposition parties, and Western groups refused to monitor the "seriously flawed" vote.

In December 1996, the two sides agreed to set up a National Reconciliation Commission (NRC), an executive body composed equally of government and opposition emissaries. On June 27, 1997, Rakhmanov and United Tajik Opposition (UTO) leader Seyed Abdullo Nuri signed the comprehensive peace agreement, under which Rakhmanov remained president but 30% of ministerial posts were allocated to the opposition and Nuri headed the NRC.

As part of the peace process, in early September 1999, the Tajik legislature set presidential elections for 6 November 1999. Only after a popular referendum approved constitutional changes in late September, however, were the opposition Islamic Renaissance and Democratic parties legalized and allowed to gather 100,000 signatures to register nominees. Nominees complained that they did not have enough time to gather signatures and that Rakhmanov's appointees at the local level blocked signature-gathering. The Central Electoral Commission (CEC), controlled by Rakhmanov,

then pronounced him the only candidate. This prompted the resignation of opposition members of the NRC and calls for an electoral boycott. To provide the gloss of a multi-candidate race, the CEC "registered" IRP nominee Davlat Usmon, though he refused to run. The CEC announced that 98% of 2.85 million Tajiks had turned out and 96.9% had voted for Rakhmanov, and only 2% for Usmon. Seeking to avert renewed civil war, Nuri agreed on 5 November to respect the outcome of the election and rejoin the NRC in return for pledges by Rakhmanov to allow fair legislative elections that were held in March 2000.

On 26 March 2000, Tajikistan disbanded its National Reconciliation Commission (NRC), created to implement 1997 peace accords ending the civil war. The accords set legislative elections held in March as the culmination of the peace process. Former rebel Seyed Abdullo Nuri, chairman of the NRC, called for quick settlement of remaining peace issues. The UN Security Council on 21 March praised the legislative elections and work of the NRC, and withdrew UN observers in May 2000. Although benchmarks of the peace process were largely met, including the return of refugees, demilitarization of rebel forces, legalization of rebel parties, and the holding of presidential and legislative elections, stability in Tajikistan remained fragile.

The Islamic Movement of Uzbekistan (IMU), a radical Islamic organization seeking to establish an Islamic state in Central Asia, carried out operations in Tajikistan in the summer of 2000. Tajik authorities increased the number of customs checkpoints and deployed additional military troops to prevent the infiltration of Islamic militants. In addition to the IMU, the Hizb-ut-Tahrir ("Freedom Party"), another radical Islamic organization, operates in the country, although unlike the IMU, it is nonviolent. Following the 11 September 2001 terrorist attacks on the United States, and its subsequent military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces, all radical Islamic groups in the Central Asian nations were linked to terrorism. Tajikistan became a strategic partner in the US-led antiterrorism campaign when it offered the use of its airports. Leaders of Tajikistan's opposition Islamic Renaissance Party (IRP) have vigorously denied Rakhmanov's claim that it promotes extremism, and accuse him of using the US-led campaign against terrorism to neutralize his mainstream Islamic political opponents.

In April 2001, Rakhmanov and Russian President Vladimir Putin agreed on the establishment of a 3,000-man tactical air base in Tajikistan. Russia announced it would increase its border troops along the Tajik-Afghan border. It is Russia's goal to establish a rapid reaction military presence in Central Asia. As of 2005 there were also American and French troops stationed in Tajikistan.

In June 2003 a constitutional referendum was approved by a reported 93 % of voters. The referendum consisted of 56 constitutional amendments, the most controversial of which permits the president to serve two additional seven-year terms beyond the presidential election in 2006. Rakhmonov, therefore, could theoretically remain in office until 2020.

Tajikistan is the poorest country of the ex-USSR and one of the poorest countries in the world. Its economy is heavily dependent upon cotton exports and international assistance remained an essential source of support. With 2001 came the second year of severe drought which resulted in a severe shortfall of food, although the situation marginally improved since then. The use of child-

labor for cotton harvesting is also common. Narcotic trafficking across the border from Afghanistan has risen dramatically since the collapse of the Taliban. Groups involved in narcotics trafficking allegedly have connections with members of the country's security and police forces. The unemployment rate for 2004 was estimated to be at least 40%.

### <sup>13</sup> GOVERNMENT

The Tajik government has been in a state of flux as it has implemented the comprehensive peace settlement. President Rakhmanov retains extensive power and his supporters from the Kulyab region remain dominant in the government, though some high-level posts have been given to the opposition.

According to a Rakhmanov-designed constitution approved by referendum in November 1994, the Oliy Majlis (legislature) enacts laws, interprets the constitution, determines basic directions of domestic and foreign policy, sets dates for referenda and elections, and approves key ministerial and other appointments. The legislature also approves the state budget, determines tax policy, ratifies treaties, and approves a state of war or emergency as decreed by the president. The constitution also calls for creation of a presidium to "organize work," to be elected by the legislators and to be headed by the speaker. Laws are required to be passed by a two-thirds majority of the total number of deputies, and a presidential veto may be overridden by the same margin. The prime minister is appointed by the president. The Tajik legislature in June 1999 rubber-stamped constitutional changes proposed by Rakhmanov calling for a seven year presidential term, a two-house Supreme Assembly (legislature), and the legalization of religious parties. A popular referendum approved the changes on 26 September 1999.

An electoral law was approved with input from the opposition on 10 December 1999. The law calls for the upper legislative chamber, the National Assembly (representing regional interests), to consist of 33 members, and the lower chamber, the Assembly of Representatives, 63 members.

Elections to the lower legislative chamber were set for 27 February 2000 (and a runoff on 12 March). In all, 191 candidates contested 41 single mandate seats and 107 candidates on six party lists competed for 22 seats. Turnout was reported by the CEC at 93.23% of 2.87 million voters. In the party list voting, Rakhmanov's People's Democratic Party (PDP) won 15 seats, the Communist Party won five seats, and the Islamic Renaissance Party won two seats. Twenty-seven single mandate seats were filled in the first round, and 12 in the second. Most winners of these seats are PDP members. Over 107 UN and OSCE observers monitored the race. They praised the "political pluralism" of the vote, since voters "were presented with a genuine and broad range of alternatives," but concluded that the electoral process must be improved "to meet the minimum democratic standards for equal, fair, free, secret, transparent, and accountable elections." They raised questions about freedom of the media, the independence of electoral commissions, the questionable de-registration of some candidates, apparently inflated turnout figures, and the transparency of vote tabulation. Thirty-three upper legislative chamber seats were filled on 23 March by indirect voting by local assemblies and the appointment of eight members by Rakhmanov. The UN Security

Council on 21 March praised the legislative elections and work of the NRC, and withdrew UN observers in May 2000.

According to the US State Department's *Country Reports on Human Rights Practices for 2001*, Tajikistan is an authoritarian regime that has established some nominally democratic institutions. Although the 2000 parliamentary elections improved citizens' right to change their government, this right remained restricted. Tajik government security forces in 2001 were responsible for some killings and beatings of detainees, and also engaged in threats, extortion, looting, and other abuse of civilians. Opposition forces were responsible for serious abuses of civilians, including killing, kidnapping, threats, and extortion. The November 1999 presidential election was not viewed by the OSCE as "free and fair."

Although three opposition parties, the Socialist Party, Social Democratic Party, and the Islamic Renaissance Party, formed a coalition in April 2004, the opposition had few chances of gaining seats in the upcoming elections. While the goal of the coalition was to ensure the electoral fairness, the three parties announced that they would field separate candidates, weakening their chances of capturing enough votes to enter parliament.

The final results for the 2005 elections showed that the party of President Rakhmanov was the clear winner, winning 52 of 63 seats. The remaining seats were divided between the Communist Party (4 seats), the Islamic Revival Party (2 seats) and independents (5 seats), considered by most observers to be supporters of the incumbent president. Turnout was reported by the CEC at 92.6% of voters. UN and OSCE observers praised some developments in electoral education and the general peacefulness of the elections, but still announced that the elections failed to meet many OSCE commitments and other international standards for democratic elections. The next presidential election was scheduled for November 2006 and the next legislative election was scheduled for 2010.

## <sup>14</sup> POLITICAL PARTIES

As part of the ongoing peace process, all parties had to undergo re-registration by March 1999. The parties registered at that time were the People's Democratic Party (PDP), Communist Party (TCP), the Party of Justice and Progress, Socialist Party, the Democratic Party ("Tehrān platform"), Agrarian Party, and the Party of Justice and Accord. The main opposition parties were registered later. In late 1994, Rakhmanov orchestrated the creation of the PDP, and in April 1998 became its head. The TCP is headed by former Rakhmanov client Shodi Shabdolov. The TCP has fallen into Rakhmanov's disfavor, and some of its assets were nationalized in May 1998. A social democratic Party of Justice and Progress was formed by intellectuals and others in April 1998. The Democratic Party, founded in 1990, was banned in 1993. It split in 1994, with one new group forming the "Tehrān platform." The remaining wing ("Almaty platform") was reregistered in December 1999. The main parties of the United Tajik Opposition (UTO) are the Democratic Party (Almaty platform) and the Islamic Rebirth Movement (primarily the Islamic Renaissance Party, IRP). The Society of Lali Badakhshan split from the UTO in 1999. The IRP was registered in September 1999. The IRP has traditionally drawn its strength from many unofficial (as opposed to state-sponsored) Islamic clerics. Emboldened by international support for Tajikistan's role in aiding the US-led coalition in its war against terrorism begin-

ning in 2001, Rakhmanov has implied that connections exist between the IRP and the radical Islamic organizations Hizb-ut-Tahrir and the Islamic Movement of Uzbekistan (IMU). The IRP has vigorously denied any connections to these groups.

## <sup>15</sup> LOCAL GOVERNMENT

In the late Soviet era the republic was divided into three oblasts or regions and the Gorno Badakhshan Autonomous Region. The region surrounding the capital, Dushanbe, also was separately administered by the central government. A new region, Khatlon, was formed by Rakhmanov, comprising the former Qurghontepa and Kulyab regions. There are two provinces (*viloyat*), Khatlon and Sughd, and one autonomous province, Gorno Badakhshan. Uzbekistan has some influence in the northern Leninabad (Khojenti) region, while Russian troops patrol the borders with Afghanistan and China. Regions, districts (*nohiya*, of which there are 52), and cities (*shahr*, of which there are 17), are governed by elected assemblies of people's deputies headed by a chairman. The chairman is appointed by the president, and the national legislature can dissolve local assemblies if it decides they are breaking the law. The self-governing authority of settlements (*shahrak*, of which there are 46) and villages (*deha*, of which there are 358) is the *jamoat* (local organization).

## <sup>16</sup> JUDICIAL SYSTEM

The judicial system from the Soviet period remains largely in place. There are courts at the city, district, regional, and national levels with a separate but parallel system of military courts. National level courts include a Supreme Court, a Constitutional Court, a Supreme Economic Court, and a Military Court. Regional and national level courts function in an appellate capacity to the lower courts. The establishment of extraordinary courts is forbidden.

The president appoints judges and the procurator general to five-year terms with confirmation by the legislature, and the president has the power to dismiss them. The court system suffers from a lack of trained judges and lawyers and from pressures applied by local political factions and the central government.

The law requires public trials except in cases involving national security or protection of minors. There is a right to appointed counsel in criminal cases. As in the Soviet period, the procurators are responsible for arrests, investigations, and prosecutions of defendants.

Prison conditions were life threatening, and the judicial system was subject to political and paramilitary pressure.

In December 1999, Rakhmanov issued a decree pledging to "contribute in every way possible to the exercise of freedom of speech, freedom of the press, and the right of access to the news media" as part of the comprehensive peace settlement. However, the penal code criminalizes publicly defaming or insulting a person's honor or reputation, and so many journalists self-censor their reports so as to avoid prosecution. Some opposition newspapers, like *Charogi Ruz*, are banned in Tajikistan for its antigovernment stance.

The constitution allows the freedom of collective bargaining and does not restrict the right to strike. It is necessary, however, to apply to local authorities for permission to organize strikes. In 2004, Rakhmanov signed a moratorium on the death penalty, replacing capital punishment with a 25-year prison term.

Violence against women is common, but rarely are cases reported to the authorities and even rarer are they investigated. Tajikistan is a source and transit country for women and children trafficked for prostitution. In 2004, Rakhmonov signed a new law against human trafficking and in November 2004 a Tajik court applied the law for the first time in a trafficking case.

Tajikistan is a member of many international organizations and is a member of the United Nations and an observer at the World Trade Organization.

## 17 ARMED FORCES

In 2005, Tajikistan's Army had 7,600 active personnel. Equipment used by the service included 44 main battle tanks, 34 armored infantry fighting vehicles, 29 armored personnel carriers and 31 artillery pieces. The Air Force had over 800 personnel, operating four attack and 12 support helicopters, and a single transport aircraft. In addition, the country's paramilitary force totaled an estimated 5,300 personnel, all of whom acted as border guards under the Ministry of Interior. The defense budget for 2005 was \$50.3 million. The French and Indian air forces, and the Russian Army each have forces stationed in Tajikistan. An opposition Islamic movement of 5,000 signed a peace agreement with the government in 1997 and was in the process of being integrated into the government forces.

## 18 INTERNATIONAL COOPERATION

Tajikistan became a member of the United Nations on 2 March 1992; it is part of ESCAP, and several nonregional specialized agencies, such as the FAO, ILO, UNESCO, UNIDO, the IAEA, the World Bank, and the WHO. Tajikistan is also a member of the Asian Development Bank, the Commonwealth of Independent States (CIS), the Euro-Atlantic Partnership Council, the European Bank for Reconstruction and Development, OSCE, and the Organization of the Islamic Conference (OIC). It has observer status at the WTO.

In June 2001, leaders of Tajikistan, China, Russia, Kazakhstan, Kyrgyzstan, and Uzbekistan met in China to launch the Shanghai Cooperation Organization (SCO) and sign an agreement to fight terrorism and ethnic and religious militancy while promoting trade. Kazakhstan, Russia, Belarus, Kyrgyzstan, and Tajikistan established the Eurasian Economic Community in 2000. Tajikistan is part of the NATO Partnership for Peace.

In environmental cooperation, Tajikistan is part of the Convention on Biological Diversity, Ramsar, the Montréal Protocol, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Tajikistan is the poorest of the post-Soviet republics with a per capita income in 2005 of \$1,200 in purchasing power parity terms (PPP) and an estimated 80% of the population below the poverty line. Two thirds of the labor force is still in agriculture, which is dominated by cotton production and accounts for 24% of GDP. Industry is poorly developed, providing 28.4% of GDP and only 7.5% of total employment, and consists of one large aluminum smelter operating at a fraction of its capacity, electric power facilities producing only a fraction of the country's potential hydroelectric power, and small plants engaged in food processing and light industry, virtually all in need of upgrading and moderniza-

tion. Imports provide the large majority of manufactured consumer goods. Deposits of nonferrous metals are significant but undeveloped.

Tajikistan's economy was among the worst affected by the problems of transition from a command economy, with hyperinflation and the collapse of industrial production aggravated by a five-year, three-way civil war (1992–97) that claimed 150,000 lives, produced thousands of refugees, and delayed the reforms needed to make the adjustment. Already beginning to falter in the late 1980s, GDP declined 0.6% and 8.7% in 1990 and 1991. Legislation in 1992 aimed at laying the groundwork for the transition to a market economy and creating conditions hospitable to foreign investment was overtaken by spiraling inflation and the outbreak of civil war that summer. The economy emerged dependent—on volatile world prices for cotton and aluminum, on neighbors Russia and Uzbekistan, on imports of capital goods, and on international humanitarian assistance for much of its basic subsistence needs. Inflation spiraled to 1500% in before being brought down to single digits—5% in 1996 and 2.7% in 1997—by a tight monetary policy, but GDP continued to shrink, by 12.4% in 1995 and by almost 17% in 1996. In all, GDP fell 32.6% 1991 to 1996. The financial crisis in Russia, source of 16% of Tajikistan's imports and market for 30% of its exports, was transmitted to the economy, throwing it back into double digit inflation. End of period inflation as measured by the consumer price index (CPI) reached 30.1% in 1999 and 60.6% in 2000 before being brought down by corrective actions to 12.5% in 2001. Nevertheless, after the ceasefire in 1997 Tajikistan has had five years of real GDP growth, 5% in 1998 and 3.7% in 1999, accelerating to 8.3% in 2000, 10.1% in 2001 and 9% in 2002.

Despite accumulated growth of more than 32% from 1997 to 2001 output had still only reached 43% of the 1991 level. Besides the damage done to the infrastructure during the civil war, the economy became saddled with a large external debt, estimated at 113% of GDP in 2000. By early 2003, progress had been made in reducing the relative size of the foreign debt to 88% of GDP (\$985 million), down from 98% the year before. Despite the concessional nature of most of its external finance, the grace periods expired and substantial repayments are due. The increased cotton and aluminum production that is the basis of recent growth, moreover, has contributed little to solving the country's unemployment and underemployment problems. The official unemployment rate for 2003 was 50% but observers estimate that the true figure is higher. Many Tajiks are forced to go abroad for work; an estimated 500,000 to 700,000 live and work abroad, permanently or seasonally. With the formal economy failing to lift most of the population out of poverty, it is not surprising that added to the country's problems are reports of increased drug smuggling from neighboring Afghanistan. Tajikistan has rich mineral resources, including silver and tungsten and huge hydroelectric potential, but foreign investment in this politically and economically unstable region has been small to date, amounting to less than \$30 million in 2002.

Although not without risks, Tajikistan's economy offers opportunities to exporters and investors. By 2006, the steady growth of the late 1990s and early 2000s had continued: average GDP growth was about 8% in 2005, and the inflation rate stood at 7.1%, up from 6.8% in 2004, but was expected to decline to 5% in 2006. Opportunities existed in the following sectors of the economy:

construction and engineering services, equipment, and materials; fruit and vegetable processing management, equipment, and technology; and telecommunications equipment and services.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Tajikistan's gross domestic product (GDP) was estimated at \$8.8 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,200. The annual growth rate of GDP was estimated at 8%. The average inflation rate in 2005 was 8%. It was estimated that agriculture accounted for 24% of GDP, industry 28.4%, and services 47.7%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$146 million or about \$23 per capita and accounted for approximately 9.4% of GDP. Foreign aid receipts amounted to \$144 million or about \$23 per capita and accounted for approximately 9.9% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Tajikistan totaled \$1.36 billion or about \$213 per capita based on a GDP of \$1.6 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of -1.4%. In 2001 it was estimated that approximately 48% of household consumption was spent on food, 10% on fuel, and 14% on education. It was estimated that in 2004 about 60% of the population had incomes below the poverty line.

## 21 LABOR

Tajikistan's labor force in 2003 numbered 3.7 million. In 2000 (the latest year for which data was available), it was estimated that agriculture accounted for 67.2% of the workforce, with services at 25.3%, and industry at 7.5%. Unemployment in 2003 was estimated at 50%.

With the demise of the Soviet Union, there is no longer the mandate for a single labor union structure. As of 2002, the Federation of Trade Unions remained the dominant labor organization even though it no longer is subordinate to the Communist Party. Approximately 90% of workers were unionized in 2002. Strikes are permitted after mandatory arbitration. Collective bargaining is permitted and practiced, although it is becoming less prevalent in the economic decline.

Employment in Tajikistan may legally begin at age 16, or at age 15 with local trade union permission. Children from the age of seven often help with harvests, but their work is considered "family assistance." The 40-hour workweek is standard. The minimum monthly wage was \$1.60, which does not provide a decent standard of living for the worker and family. An estimated 20% of industrial laborers worked in unhealthy or otherwise hazardous conditions, although it is believed that the number of persons working in substandard conditions is vastly underreported.

## 22 AGRICULTURE

Tajik agriculture relies extensively on irrigation. About 7.6% of the total area is cropland, although 23% is used for permanent pastures. A network of canals expands agriculture into semidesert areas. Agriculture accounted for 23% of GDP in 2003. During 1990–2000, agricultural output shrank by an annual average of 5.8%. However, crop production during 2002–04 was 28.7% higher than during 1999–2001.

Cotton is the major commercial crop; three irrigated valleys (Vakhsh, Kofarnihon, and Zeravshan) are the sites of most production. As a result of chronic problems with machinery and the lack of spare parts, machine harvesting is declining. The 2004 cotton harvest was 174,000 tons; seed cotton production that year was 557,000 tons.

Wheat is the staple grain and is grown mainly in the northern and southern plains. About one-third of the wheat crop is irrigated. In 2004, wheat production was 672,000 tons. Production has been declining in recent years because of lack of machinery and civil war. During the 1996/97 growing season, the government eliminated most of the state order for wheat, legalized contract farming, freed wheat prices, established commodity markets, and privatized 50,000 hectares (124,000 acres) of land in order to encourage wheat production. Barley, potatoes, vegetables, and various fruits and melons are widely grown for domestic consumption.

Horticulture has been important since antiquity. Most orchards and vineyards are located in the northern valleys, where apricots, pears, plums, apples, cherries, pomegranates, figs, and nuts are grown.

## 23 ANIMAL HUSBANDRY

Livestock herding is a major part of Tajikistan's economy. As of 2005, the livestock included 2,296,000 chickens, 1,782,000 sheep, 1,303,000 cattle, 975,000 goats, and 74,600 horses. Meat production in 2005 included 24,000 tons of beef, 18,700 tons of mutton, and 2,600 tons of poultry. Livestock products in 2005 included cow's milk, 460,000 tons; goat's milk, 40,800 tons; cheese, 11,435 tons; wool (greasy), 2,900 tons; and silk, 300 tons.

## 24 FISHING

Some fishing occurs in the upper Amu Darya River; the Kayrakum Reservoir, and the Syrdar'ya River. The total catch was 325 tons in 2003, primarily carp.

## 25 FORESTRY

Tajikistan's forests and woodlands occupied about 2.8% of the total land area in 2000. Forestry is of little commercial importance. Forestry imports totaled \$30 million in 2004.

## 26 MINING

Although Tajikistan is an important gold producer, the possessor of the largest deposits of antimony in the former Soviet Union, and had more than 400 explored mineral deposits, containing 70 types of minerals, it is primary aluminum that is the country's most important mineral-based product. In 2002, exports of aluminum, by value, totaled more than \$397 million (total exports for 2002: \$737 million by value), or more than 50% of all exports.

By volume, Tajikistan exported 304,191 metric tons of aluminum in 2002, nearly the entire output for that year, which was estimated at 308,000 metric tons.

In 2002, gold production was estimated at 5,000 kg, unchanged from 2001. Silver production in 2002 totaled 50,000 kg, up from an estimated 5,000 kg in 2001. In 2002, Tajikistan also produced antimony, lead, and mercury. Gypsum production in 2002 totaled 35,000 metric tons, unchanged from 2001. Tajikistan also produced cement, and fluorspar. No copper, molybdenum, tungsten, or zinc has been produced in recent years. The Darvaz joint venture did not mine for gold in 1997–99, because its equipment was severely damaged by hostilities in the region. Gold was mined southeast of Gharm, in the Pamir Mountains, in the Yakhsu Valley, in Chkalovsk, and in the Jilau, Taror, and Aprelevka deposits; mercury was mined at the Dzhizhikrutskiye deposit, north of Dushanbe; antimony, at Isfara and Dzhizhikrutskiye; arsenic, cadmium, tungsten, and lead-zinc, in the Yuzhno-Yangikanskiy deposit, north of the Zeravshan River; and uranium and graphite, northeast of Khudzhand. Uranium mining ceased in the mid-1980s.

Other metal and industrial resources included alunite, bauxite, iron, manganese, nepheline syenite, nickel, rare metals, selenium, strontium, tin, barite, boron, construction materials, dolomite, phosphates, precious and semiprecious stones, and salt.

## 27 ENERGY AND POWER

Tajikistan has only modest reserves of oil, natural gas and coal, thus the country is heavily dependent upon imports to meet its hydrocarbon needs.

As of 2002, hydroelectric power accounts for 97.7% of Tajikistan's electricity production, of which seven large hydroelectric facilities produced most of the country's power. In 2002, Tajikistan's electric power generating capacity totaled 4.443 million kW, of which hydropower accounted for 4.054 million kW, with the remainder dedicated to conventional thermal fuel sources. Production of electricity in 2002 amounted to 15.071 billion kWh. Consumption of electricity in 2002 was 15.197 billion kWh. Electric power imports and exports in that year totaled 5.200 billion kWh and 4.019 billion kWh, respectively.

Coal production totaled 32,000 short tons in 2002, with imports accounting for 113,000 short tons. Demand for coal totaled 146,000 short tons, that same year.

Tajikistan's output of natural gas in 2002 totaled 0.71 billion cu ft. However, demand that year came to 42.020 billion cu ft, necessitating the import of 41.32 billion cu ft of natural gas. Imports and demand for refined petroleum products in 2002, each averaged 25,450 barrels per day. Tajikistan opened its first oil refinery, with a capacity of 400 barrels per day, in 2001.

## 28 INDUSTRY

A small number of state-owned enterprises dominate Tajikistan's industrial sector. The government's postindependence plans to extensively privatize industry have been hampered, first, by the five-year civil war 1992–97, and then by the effects of the Russian financial crisis in mid-1998 that put concerns about financial stability ahead of privatization. By early 1992, the state accounted for about 84% of asset ownership in the industrial sector, as compared to a high of 98% in the late 1980s. The civil war damaged an already

weakly developed industrial sector, and basic security remains a concern. Industry in Tajikistan consists in sum of one large aluminum smelter, hydroelectric power installations and a number of small plants engaged in light industry and food processing. Virtually all are in need of upgrading and modernization.

Tajikistan's aluminum plant, the Tursunzade Aluminum Smelter (TADAZ), built in 1975 and located in Tajikistan because of access to cheap electric power, is one of the largest in the world, with a capacity of over 520,000 tons a year. However, it operates at a fraction of that capacity. Almost all of its output is exported, though there are small downstream cable and foil operations. The plant directly employs 12,000 to 14,000, and indirectly supports a community of 100,000. The government announced its intention to sell shares in TADAZ, retaining a majority control. However, the plant has accumulated a large external debt, probably over \$100 million, lessening its attractiveness to outside investors. As of 2005, the SUAL Group, Russia's second-largest aluminum company, had made a bid for TADAZ, but Tajik authorities had not yet formulated conditions for the privatization tender for the smelter.

Tajikistan is the world's third-largest producer of hydroelectric power, behind the United States and Russia. However, TADAZ uses about 40% of the country's electricity production, and Tajikistan has the lowest electricity usage rates among the former Soviet countries, enough for only a few hours a day of electricity in the winter. Furthermore, only about 5.5% of its hydroelectric power production potential has been developed. About 12 power projects are at some stage of construction but most are stalled for lack of financing. The energy shortage in turn has shut down much of the country's industry. About 85% of Tajikistan's current hydroelectric power is produced by stations along the Vakhsh River. The largest of these is at Nurik (11 billion kWh/y capacity. A larger facility (13.3 billion kWh/y) at Rogun on the Vakhsh is unfinished because of lack of financing related to concerns about both security and vulnerability to earthquake. If completed, the Rogun Dam would be the tallest in world at 335 m (1,105 ft). Even larger, although only in the planning stage, is a 14.8 billion kWh/y facility for Dashtijum on the Panj River along the Afghan border.

The production, transportation and distribution of electricity is under the state-owned joint-stock company Barki Tojik. In 1999, Glavkhlopkoprom, the state organization that controlled the ginning and partly the selling of cotton fiber, was liquidated and bought by a number of private investors. The food industry is the second-largest contributor to gross industrial output, processing domestically harvested fruit, wheat, tobacco, and other agricultural products. Aside from aluminum and other processed metals, the country's small intermediate and heavy industry subsectors produce engineering goods, hydroelectricity, power transformers, cables, and agricultural equipment.

## 29 SCIENCE AND TECHNOLOGY

The Tajik Academy of Sciences, founded in 1951 at Dushanbe, has departments of physical-mathematical, chemical, and technical sciences; earth sciences; biological and medical sciences; and 10 associated research institutes. Tajik State University has faculties of mechanics and mathematics, physics, chemistry, geology, and biology. Tajik Abu-Ali Ibn-Cina (Avicenna) State Medical Institute was founded in 1939. Tajik Agricultural Institute was founded

in 1951. Tajik Technical University was founded in 1956. All four educational institutions are in Dushanbe. In 1987–97, science and engineering students accounted for 17% of college and university enrollments. For the period 1990–2001, Tajikistan had 660 scientists engaged in research and development per million people. High technology exports in 2002 were valued at \$37 million, or 42% of the country's manufactured exports.

### 30 DOMESTIC TRADE

Although trade is still dominated by the state sector, the government has been working on programs to transfer of much of the retail and wholesale trade sector into private ownership. Most small enterprises are in private hands. Privatization of medium and large-sized businesses, land reform, and banking reforms are still in the works. Price liberalization lifted controls on most consumer and wholesale trade, although subsidies and lowered ceilings have been applied to staple goods like flour, sugar, oil, bread, meat, and children's footwear. Most large towns have large marketplaces, or bazaars, where individual merchants sell a variety of consumer goods, many of which are imported. Trade on the black market has expanded significantly in the growing economic disarray since independence.

### 31 FOREIGN TRADE

Aluminum, raw cotton, and textile products account for about 70% of Tajikistan's exports. Other exports include fruits and vegetable oils. Fuel, chemicals, intermediate industrial goods and equipment, manufactured consumer goods, textiles, and food are its principal import items.

In 2004, Tajikistan's primary export partners were: the Netherlands (41.4%); Turkey (15.3%); Uzbekistan (7.2%); Latvia (7.1%); Switzerland (6.9%); and Russia (6.6%). The major import partners were: Russia (20.2%); Uzbekistan (14.2%); Kazakhstan (12.8%); Azerbaijan (7.2%); the United States (6.7%); China (4.8%); and Ukraine (4.5%).

### 32 BALANCE OF PAYMENTS

Foreign income earnings depend highly upon cotton exports; since independence, the centrally planned economy has suffered from the effects of civil war, the severing of trade relations with other former Soviet republics, and a series of natural disasters. Short term, high interest debt accumulated in 1993–94 resulted in a national debt exceeding \$780 million with debt service totaling \$12 million in 1995. About \$440 million of the total was owed to Russia, Uzbekistan, and Kazakhstan. Other major creditors include the United States, Turkey, China, and India. External debt totaled \$1.23 billion in 2000 and \$888 million in 2004. In 2001, Tajikistan received \$60.7 million from the United States in economic aid.

In 2005, exports were valued at an estimated \$950 million, and imports at \$1.25 billion. The current-account balance was estimated at -\$92 million in 2005. Reserves of foreign exchange and gold totaled \$195 million.

### 33 BANKING AND SECURITIES

The National Bank of Tajikistan (NBT) is the country's bank charged with implementing a monetary policy and issuing currency. It was formally established as the central bank in 1991.

Commercial and state banks include the Bank for Foreign Investment, three large banks formed from the former Soviet state bank, and three branches from the Russian Commercial Bank. The Law on Banks and Banking Activities, adopted in February 1991, allows banks to compete for resources freely (including the setting of deposit rates) and lifts specialization boundaries. However, competition is very limited. Under IMF pressure, the Tajik government is now seeking to introduce tighter regulation over the banking sector.

There is no securities exchange.

### 34 INSURANCE

Originally, the insurance sector in Tajikistan consisted of the state insurance company Gosstrakh only. The market was opened up in 1992. Gosstrakh remains the dominant provider of insurance,

#### Principal Trading Partners – Tajikistan (200)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	692.3	644.0	48.3
Russia	258.8	104.1	154.7
Netherlands	178.2	0.5	177.7
Uzbekistan	97.8	185.2	-87.4
Switzerland-Liechtenstein	72.2	0.6	71.6
Italy-San Marino-Holy See	19.5	17.3	2.2
Latvia	14.3	...	14.3
Slovakia	9.9	...	9.9
United Kingdom	6.0	2.6	3.4
Greece	5.9	...	5.9
Kazakhstan	5.7	82.4	-76.7

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Tajikistan (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-4.8</b>
Balance on goods		-119.5
Imports	-1,025.7	
Exports	906.2	
Balance on services		-33.0
Balance on income		-70.3
Current transfers		218.1
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>62.7</b>
Direct investment abroad		...
Direct investment in Tajikistan		31.6
Portfolio investment assets		...
Portfolio investment liabilities		0.3
Financial derivatives		...
Other investment assets		-15.6
Other investment liabilities		46.3
<b>Net Errors and Omissions</b>		<b>-29.9</b>
<b>Reserves and Related Items</b>		<b>-27.9</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

however. It provides compulsory insurance of agricultural production, insurance of passengers, insurance for accidents, property, cargo, and residential homes. In addition, it offers insurance on life, livestock, state enterprises, collateral, marriage, and children.

### 35 PUBLIC FINANCE

Revenues from domestic taxes and resources are limited. Expenditures are largely for grain, the supply of fuel and raw materials for industry, and to maintain the military. Despite proposals to liberalize the economy, the government continued to subsidize inefficient state enterprises. Only 11% of medium and large enterprises were privatized as of 1997. In December 1999, the government announced that all small enterprises had been privatized; privatization of medium and large enterprises continued to be a priority as of 2005.

The US Central Intelligence Agency (CIA) estimated that in 2005 Tajikistan's central government took in revenues of approximately \$442.3 million and had expenditures of \$542.6 million. Revenues minus expenditures totaled approximately -\$100.3 million. Total external debt was \$888 million.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, central government revenues were \$288.66 million and expenditures were \$292.54 million. The value of revenues was \$122 million and expenditures \$123 million, based on a official exchange rate for 2001 of \$1 = \$2.372 as reported by the IMF. Government outlays by function were as follows: general public services, 37.6%; defense, 9.4%; public order and safety, 8.8%; economic affairs, 14.4%; housing and community amenities, 0.8%; health, 1.6%; recreation, culture, and religion, 3.6%; education, 3.7%; and social protection, 20.3%.

### 36 TAXATION

Tajikistan's maximum personal income tax rate is 40%. Corporate taxes range from 25–60% with a standard rate of 30%. Also levied are a 20% value-added tax (VAT), a 10–90% excise tax, and a social security combination of 37% by employers and 1% by employees.

### 37 CUSTOMS AND DUTIES

The government maintains a list of commodities and services subject to import licensing and quotas. Generally, imports are free of restrictions, including tariffs and quotas, with the exception of narcotics and firearms, which are forbidden. Goods traded within the former Soviet Union are mostly free from import duties. There is a 28% VAT and excise taxes are levied on some products.

### 38 FOREIGN INVESTMENT

After independence, Tajikistan's government emphasized the promotion of foreign investment particularly to develop labor-intensive manufacturing industries. With civil unrest, however, few investments flowed into the country and most foreign aid had been stalled. Difficulties also exist with currency convertibility, a prohibition on land ownership, and repatriation of profits and capital. In 1996 the government amended the foreign investments law to offer a two year exemption from taxes on profits to enterprises with investments of \$100,000–\$500,000, and a four year exemption to enterprises with investments totaling \$2–\$5 million. The peace agreement of 1997 did not bring in an immediate rush of

#### Public Finance – Tajikistan (2001)

(In millions of somoni, central government figures)

<b>Revenue and Grants</b>	<b>288.66</b>	<b>100.0%</b>
Tax revenue	210.28	72.8%
Social contributions	53.11	18.4%
Grants	...	...
Other revenue	25.28	8.8%
<b>Expenditures</b>	<b>292.54</b>	<b>100.0%</b>
General public services	109.9	37.6%
Defense	27.46	9.4%
Public order and safety	25.72	8.8%
Economic affairs	42.09	14.4%
Environmental protection	...	...
Housing and community amenities	2.33	0.8%
Health	4.55	1.6%
Recreational, culture, and religion	10.44	3.6%
Education	10.75	3.7%
Social protection	59.3	20.3%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

foreign investment capital. Only \$20 million was invested in that year.

Through 2004, Tajikistan was only able to attract on average \$27 million in foreign direct investments (FDI) per year. From 1997–2004 Tajikistan attracted \$224 million in FDI. The largest direct investors (by country of origin) in 2003 were: Russia (\$10.9 million); Cyprus (\$10.1 million); Italy (\$3 million); US (\$2.5 million); and Canada (\$1.2 million). The top three investors by country of origin from 1997–2004 were: the United Kingdom (\$105.1 million); South Korea (\$53.4 million); and Italy (\$50 million). The top three destination sectors for FDI in 2003 were the chemical industry, agribusiness, and textiles. President Rakhmanov made numerous statements calling for increased foreign investment in the early- and mid-2000s, particularly in the hydropower sector, but his administration as of 2006 had yet to fully implement key reforms and regulations to create an attractive business climate.

### 39 ECONOMIC DEVELOPMENT

Soviet development policy in Tajikistan prioritized the development of the country's agricultural and other primary resources, while capital goods and manufactured consumer goods were imported from elsewhere within the former USSR. Since the late 1970s, greater development of small food processing and consumer plants had been urged by local government officials in order to absorb more of the republic's rural labor force; however, these proposals found little favor with Soviet central planners. After independence, the government targeted the development of hydroelectric power production and a number of other industries (silk, fertilizer, fruit and vegetables, coal, nonferrous metals, and marble production), seen as particularly important for improving the country's export base.

In 1991, a "Program of Economic Stabilization and Transition to a Market Economy" was adopted by the newly independent government. In accordance with the program's principles, price liberalization, privatization measures, and fiscal reform were initi-

ated in 1991 and 1992. The government's overthrow in the course of civil war in 1992, however, brought economic development to a virtual standstill and slowed the pace of economic reform. Renewed efforts during 1996–97, as the civil war was brought to a formal end, to move from a state-directed economy to a market-oriented one resulted in proposals to convert medium and large state enterprises to joint-stock companies and to create a securities market. Other proposals were aimed at turning land over to private farmers and at privatizing the cotton industry, which continues to dominate agricultural production. In 1997, the private sector accounted for less than 30% of GDP. That percent had risen to about 40% in 2001, about half in the formal economy and half in the informal, family-run economy. In 2000 18 cotton ginneries were auctioned off, bringing about \$9 million dollars. Local silk operations have also been privatized. The majority of enterprises have been bought by insiders rather than outside investors. Despite the return of real growth in 1997, the Russian financial crisis brought financial problems—inflation and external debt—to the top of the agenda ahead of market-oriented restructuring. As of early 2003, in fact, the IMF was advising against privatizing either the TADAZ aluminum plant or the country's hydroelectric facilities; however, as of 2005, the SUAL Group, Russia's second-largest aluminum company, had made a bid for TADAZ, but Tajik authorities had not yet formulated conditions for the privatization tender for the smelter. In agriculture, the government has remained undecided between allowing privatization and maintaining the large-scale, industrialized cotton operations. Private farmers, however, show promise of leading the way to greater diversification in agriculture, expanding into higher value-added fruits and vegetables. However, a lack of credit facilities and distrust of the privatization process hampers movements towards diversification.

In pursuit of financial stability, on 24 June 1998 the government entered into a three-year arrangement under the IMF's Poverty Reduction and Growth Facility (PRGF) to run from 1998 to 2001. However, the IMF staff was unable to complete the third and fourth reviews of the third year of the program because of slow progress in improving the operations of the treasury and tax administrations, problems with the lack of transparency, and problems with the lack of independence of the Tajik Central Bank. However, in January 2002, a more successful structural reform program was implemented, including the creation of a new Ministry of State Revenues and Duties that improved tax and customs collections. As the IMF program concluded in June 2002, the Tajikistan parliament adopted a three-year National Poverty Reduction Strategy (NPRS). The objectives of NPRS are to increase real income, achieve a fair distribution of growth benefits, and ensure a rise in living standards among the poorest groups. On 11 December 2002, the IMF Executive Board approved a second three-year program under the PRGF that ran in tandem with the Tajikistan's NPRS.

The government's Economic Development Strategy for 2005–15 emphasizes economic and industrial growth. The continued privatization of medium and large state-owned enterprises would further increase productivity. However, weak government, widespread poverty and unemployment, and the huge debt burden make for a fragile economic situation.

## 40 SOCIAL DEVELOPMENT

The government's social security systems have been threatened by war and economic turmoil. Refugees returning from Afghanistan after the war suffered from malnutrition and had high mortality rates in resettlement camps. Resettlement payments to refugee families had been promised by the government, but were not implemented in practice. Financial constraints have also led the government to fall behind in the payment of pensions. More than 80% of the population fall below the poverty line, while the monetary crisis devalues benefits.

Women are employed in business in government, and in institutes of higher learning. Although under law women are supposed to receive the same pay for equal work as men, in practice this does not always occur. Women in rural areas are less likely to receive a higher education or work outside the home, and were likely to marry early. Violence against women, including spousal abuse, is a serious social problem and appears to be particularly prevalent in rural areas. Islamic law is increasingly prevalent which negatively impacts gender equality. Although the government is committed to children's rights, the government inadequately funds programs. In 2004 it was estimated that one third of the nation's children were malnourished.

Serious human rights abuses continue to be committed by the government and security forces. Ethnic tensions persist and prison conditions remain life-threatening.

## 41 HEALTH

As of 2000, Tajikistan retained the centralized health care system instituted during the Soviet era, with the state funding and providing for most health care services through the Ministry of Health. Although most hospitals have remained open, the number of beds decreased by about one-third during the 1990s. Training of medical personnel is a priority, as the country lost many skilled workers during its civil war. The shortage of skilled nurses is especially pressing. As of 2004, there were an estimated 218 physicians and 438 nurses per 100,000 people. Total health care expenditure was estimated at 6.1% of GDP.

In 2005, there was an infant mortality of 110.76 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 33 and 8.5 per 1,000 people. The total fertility rate of 5.7 in 1980 had decreased to 3.1 in 2000. The maternal mortality rate was 65 maternal deaths per 100,000 live births. Life expectancy was 64.56 years in 2005. The immunization rates for a child under one were as follows: tuberculosis, 69%; diphtheria, pertussis, and tetanus, 82%; polio, 74%; and measles, 97%.

Diphtheria has spread widely throughout the former Soviet Union. Most cases were reported from the southern region of Kurgan Tyube, which borders Afghanistan. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 200 people living with HIV/AIDS in the country. There were an estimated 100 deaths from AIDS in 2003.

## 42 HOUSING

The government's 1994 Conceptual Plan for the Provision of Housing called for the construction of 1,390,000 square meters

of housing per year until the year 2000. Unfortunately, by 1995, only about 10% of the goal had been reached. Part of the housing shortage was brought on by the civil war, which accounted for the destruction of over 35,000 homes. The government was able to rebuild about 21,000 homes by the end of 1995 through international assistance. In 1993, the government also initiated a fund for no-interest credit to help war victims in the reconstruction and repair of their own homes. However, as of 2004, a poor economy has basically brought new housing construction to a halt and the existing stock continues to deteriorate.

The most common building materials for new homes are prefabricated ferro-cement slabs. In rural areas, traditional materials of paksha, brick, mortar, and stone are used.

### 43 EDUCATION

Before the country came under Soviet control in 1920, there were no state-supported schools, only Islamic ones. Since then, many schools have been built. Education is free and compulsory between the ages of 7 and 17. Primary school covers four years of study, followed by eight years of secondary school. Vocational and technical programs are offered at the secondary level. Since 1989, there has been an increased emphasis on Tajik language, literature, and culture.

In 2001, about 9% of children between the ages of three and six were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 97.5% of age-eligible students. In 2003, secondary school enrollment was about 83% of age-eligible students; 90% for boys and 76% for girls. It is estimated that nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 22:1 in 2003; the ratio for secondary school was about 17:1.

There are 10 schools of higher education including the Universities of Dushanbe and Khudzhand. In 2003, it was estimated that about 16% of the tertiary age population were enrolled in tertiary education programs; 24% for men and 8% for women. The adult literacy rate for 2004 was estimated at about 99.5%.

As of 2003, public expenditure on education was estimated at 2.8% of GDP, or 17.8% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The Fardousi Tajik National Library in Dushanbe holds nearly three million volumes. The Republican Scientific and Technical Library of Tajikistan has holdings that include two million volumes and 11 million patent records, and the Tajik State University holds 1.03 million volumes. The Behzed Museum of History, Regional Studies, and Arts is in Dushanbe, as is the Ethnographic Museum of the Academy of Sciences, both in Dushanbe. There are regional museums in Chodsent, Sorog, Isfara, Kulyab, Nurek, Pendzikent, and Ura Tyube.

### 45 MEDIA

Telephone links to other former Soviet republics is by land line or microwave and to other countries through Moscow. Service is considered to be poorly developed and is not adequately maintained. Several towns are not within reach of the national network.

In 2003, there were an estimated 37 mainline telephones for every 1,000 people; about 5,900 people were on a waiting list for telephone service installation. The same year, there were approximately seven mobile phones in use for every 1,000 people.

Tajik Radio broadcasts in Russian, Tajik, Persian, and Uzbek; Tajik Television, with four channels, broadcasts in Tajik, Russian, and Uzbek. Repeater television stations relay programs from Russia, Iran, and Turkey. Satellite earth stations receive Orbita and INTELSAT broadcasts. There are only a few private radio stations and no private television stations. In 2003, there were an estimated 141 radios and 357 television sets for every 1,000 people. The same year, only one of every 1,000 people had access to the Internet.

In 2005, there were over 200 registered newspaper, but none of them were dailies. Though there are several privately owned papers, government control of most of the nation's printing presses certainly has an added influence on the press. The government owns three major papers: *Jumhuriyat*, published in Tajik; *Khalq Ovozi*, published in Uzbek; and *Narodnaya Gazeta*, published in Russian; all three papers are published three times a week. *Minbar-i Khalq* is published by the People's Democratic Party, *Golos Tajikistana* is a Russian language paper published by the Communist Party, and *Najot* is published by the Islamic Rebirth Party.

Despite a 1991 law protecting already constitutionally provided free speech and press, the government is presently said to restrict these freedoms severely. Editors and journalists practice careful self-censorship, and supplies of newsprint, broadcasting facilities, and operating monies are controlled by the authorities.

### 46 ORGANIZATIONS

The Tajikistan Chamber of Commerce and the Tajikistan Industrial Association are important economic organizations. The most important mass movement in the country is the People's Front. The members of the Writers Union and intellectuals in the country formed the "Rascokbez" (Rebirth) Popular Front, an opposition movement opposed to the government of Tajikistan.

Tajikistan's Academy of Science coordinates and finances the scientific research of 19 affiliated natural sciences, social sciences, and humanity research institutions. The Ali Somon Foundation, established in 1994, works to promote economic development and modernization while preserving national culture.

Youth organizations include the Scout Association of Tajikistan; the Aurora Children and Teenagers' Club, focusing on social and educational development programs; and the Tajikistan Youth Center, focusing on vocational training programs. There are several sports associations promoting amateur competition for athletes of all ages in a variety of pastimes.

The Women for Progress Association and the Association for Women and Society promote health, education, and equality for women. There are national chapters of the Red Crescent Society, UNICEF, and Habitat for Humanity.

### 47 TOURISM, TRAVEL, AND RECREATION

Civil strife has dampened Tajikistan's potential as a tourist site, which was already limited by the destruction of most ancient monuments and buildings by numerous earthquakes. Visas are required for entry into Tajikistan and are obtainable upon arrival

or through the embassies of Russia, Germany, the United States, Turkey, Austria, Iran, and China. There are weekly flights from Germany and Turkey to the capital city of Dushanbe.

According to 2004 US Department of State estimates, the cost of staying in Dushanbe was \$119 per day.

#### **48 FAMOUS TAJIKISTANIS**

Outstanding representatives of culture and literature in Tajikistan are the Tadzhik poet Rudaki (d. 941) and the scientist and poet Avicenna (Hussayn ibn 'Abd' Addallah ibn Sine, 980?–1037), born near Bukhoro (Bukhara). Avicenna wrote an encyclopedia of science. Pre-Soviet Tajik cultural figures include the author Abdal-rauf Fitrat, who wrote *Last Judgement*, and Sadridalin Aymi, author of the novels *Slaves* and *Dokhunala*.

#### **49 DEPENDENCIES**

Tajikistan has no territories or colonies.

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# THAILAND

Kingdom of Thailand

*Prates Thai*



**CAPITAL:** Bangkok (Krung Thep)

**FLAG:** The national flag, adopted in 1917, consists of five horizontal stripes. The outermost are red (symbolizing the Thai people); those adjacent are white (symbolizing Buddhism); the blue center stripe (representing the monarchy) is twice as high as each of the other four.

**ANTHEM:** There are three national anthems: *Pleng Sansen Phra Barami* (Anthem Eulogizing His Majesty); *Pleng Chard Thai* (Thai National Anthem); and *Pleng Maha Chati* (Anthem of Great Victory), an instrumental composition.

**MONETARY UNIT:** The baht (฿) is divided into 100 satang. There are coins of 1, 5, 10, 25, and 50 stangs and 1, 5, and 10 baht, and notes of 50 satang and 1, 5, 10, 20, 50, 60, 100, and 500 baht. ฿1 = \$0.02442 (or \$1 = ฿40.95) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional units also are used.

**HOLIDAYS:** New Year's Day, 1 January; Chakkri Day, 6 April; Songkran Day, mid-April; Coronation Day, 5 May; Queen's Birthday, 12 August; Chulalongkorn Day, 23 October; King's Birthday, 5 December; Constitution Day, 10 December. Movable holidays include Makabuja Day, Plowing Festival, and Visakabuja Day.

**TIME:** 7 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Comprising an area of 514,000 sq km (198,456 sq mi) in Southeast Asia, Thailand (formerly known as Siam) extends almost two-thirds down the Malay Peninsula, with a length of 1,648 km (1,024 mi) N–S and a width of 780 km (485 mi) E–W. Comparatively, the area occupied by Thailand is slightly more than twice the size of the state of Wyoming. It is bordered on the NE and E by Laos, on the SE by Cambodia and the Gulf of Thailand (formerly the Gulf of Siam), on the S by Malaysia, on the SW by the Andaman Sea, and on the W and NW by Myanmar, with a total boundary length of 8,082 km (5,022 mi), of which 3,219 km (2,000 mi) is coastline.

Thailand's capital city, Bangkok, is located on the Gulf of Thailand coast.

## <sup>2</sup>TOPOGRAPHY

Thailand may be divided into five major physical regions: the central valley, the continental highlands of the north and northwest, the northeast, the southeast coast, and the peninsula. The heartland of the nation is the central valley, fronting the Gulf of Thailand and enclosed on three sides by hills and mountains. This valley, the alluvial plain of the Chao Phraya River and of its many tributaries and distributaries, is 365 km (227 mi) from north to south and has an average width of 160–240 km (100–150 mi). On this plain, and most especially on its flat delta land bordering the Gulf, are found Thailand's main agricultural wealth and population centers.

The continental highlands lie north and west of the central valley. They include North Thailand, surrounded on three sides by Myanmar (Burma until June 1989) and Laos, which is a region of roughly parallel mountain ranges between which the Nan, Yom,

Wang, Ping, and other rivers flow southward to join and create the Chao Phraya in the central valley. In the northernmost tip, drainage is northward to the Mekong River; on the western side, drainage runs westward to the Salween in Myanmar. Most of the people of North Thailand live in small intermontane plains and basins that are generally widenings in the major river valleys. Doi Inthanon (2,576 m/8,451 ft) is the highest point in Thailand. Along the Myanmar border from North Thailand to the peninsula is a sparsely inhabited strip of rugged mountains, deep canyons, and restricted valleys. One of the few natural gaps through this wild mountain country is Three Pagodas Pass along the Thailand-Myanmar boundary, used by the Japanese during World War II for their "death railway" (now dismantled) between Thailand and Myanmar.

The northeast, much of it often called the Khorat, is a low, undulating platform roughly 120 to 210 m (400–700 ft) above sea level in the north and west, gradually declining to about 60 m (200 ft) in the southeast. Hill and mountain ranges and scarps separate the northeast from the central valley on the west and from Cambodia on the south; its northern and much of its eastern boundaries are marked by the Mekong River. Most of the northeast is drained by the Mun River and its major tributary, the Chi, which flow eastward into the Mekong. The northeast, in the rain shadow of the Indochina Cordillera, suffers from shortage of water and from generally thin and poor soils.

The small southeast coast region faces the Gulf of Thailand and is separated from the central valley and Cambodia by hills and mountains that rise in places to over 1,500 m (5,000 ft). This is a well-watered area, and the vegetation is, for the most part, lush and tropical. Most of the people live along the narrow coastal plain and the restricted river valleys that drain southward to the Gulf.

Peninsular Thailand extends almost 960 km (600 mi) from the central valley in the north to the boundary of Malaysia in the south and is anywhere from 16 to 217 km (10–135 mi) wide between the Gulf of Thailand on the east and the Andaman Sea (Indian Ocean) and Myanmar on the west. At the Isthmus of Kra, the Peninsula itself is only 24 km (15 mi) wide. A series of north-south ridges, roughly parallel, divide the Peninsula into distinct west and east coast sections. The west coastal plain is narrow—nonexistent in many places—and the coast itself is much indented and often very swampy. The east coastal plain is much wider, up to 32 km (20 mi) in sections, and the coast is smooth, with long beach stretches and few bays. Well-watered (especially the west coast), hot, and densely forested, the Peninsula, unlike most of Thailand, lies within the humid tropical forest zone.

A disastrous tsunami struck southern Thailand and its neighboring Asian countries on 26 December 2004. Stemming from an underwater earthquake about 324 km (180 mi) south of Indonesia's Sumatra island, the tsunami caused more than 5,000 deaths and 4,000 injuries in Thailand. Many of the beaches were severely damaged as well as the island of Phi Phi Lei, which was almost completely leveled.

### **3 CLIMATE**

Thailand has a tropical climate. For much of the country there are three distinct seasons: the hot season, from March through May; the rainy or wet monsoon, June to October; and the cool season, November through February. While continental Thailand receives most of its precipitation from June through October, rain occurs at all seasons in peninsular Thailand, the largest amount along the west coast from May to October, and along the east coast from October to January. For most of Thailand the temperature rarely falls below 13°C (55°F) or rises above 35°C (95°F), with most places averaging between 24°C and 30°C (75°F and 86°F). The annual rainfall ranges from 102 cm (40 in) in the northeast to over 380 cm (150 in) in the peninsula. Bangkok has an average annual temperature of 28°C (82°F); monthly mean temperatures range from a low of around 25°C (77°F) in December to a high of around 30°C (86°F) in May, and annual rainfall is about 150 cm (59 in).

### **4 FLORA AND FAUNA**

Many distinctive forms of plant and animal life are found. Forestlands support hardwoods (notably teak), pine, bamboos, and betel and coconut palms; in the coastal lowlands, mangroves and rattan abound. There are over 11,600 plant species found in the country. Among the larger mammals are the bear, otter, and civet cat. Climbing animals include the gibbon and many species of monkeys. There are also sheep, goats, oxen, single-horned rhinoceroses, deer, tapirs, wild cattle, wild hogs, and snakes. There are over 285 bird species and over 265 mammal species. Crocodiles, lizards, and turtles are numerous. Fish abound in the rivers and coastal waters.

### **5 ENVIRONMENT**

The Promotion and Enhancement of Environmental Quality Act of 1975 charges the National Environment Board with coordination of environmental protection programs in Thailand. The nation's water supply is at risk due to contamination by industry, farming activity, sewage, and salt water, especially in the Bangkok

area. Thailand has 210 cu km of renewable water resources, with 91% of annual withdrawals used for farming activities and 4% for industrial purposes. Only 80% of the rural dwellers have access to improved water sources.

Land use in urban areas is regulated by the City Planning Act of 1975, the Control of Construction of Buildings Act of 1936, and the 1960 Act for Cleanliness and Orderliness of the Country. Thailand's cities produce an average of 2.5 million tons of solid waste per year. Watershed regions, undergoing rapid deforestation as a result of increased cultivation of upland areas, have been targeted for protection in the fourth and fifth national plans; overexploitation and pollution of freshwater and marine fisheries have yet to be remedied. Parts of Bangkok have been reported as sinking at a rate of 10 cm (4 in) a year because of depletion of the water table. By the 1980s, Thailand had lost about 25% of its original mangrove area.

Urban air and noise pollution is also severe, largely as a result of increasing automobile traffic. In 1992 Thailand was among 50 nations with the world's highest levels of industrial carbon dioxide emissions, which totaled 112.4 million metric tons, a per capita level of 2.02 metric tons. In 2000, the total of carbon dioxide emissions was at 198.6 million metric tons.

Wildlife is partially protected under the Wild Animals Preservation and Protection Act of 1960, but species have been depleted through illegal hunting and trapping. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 36 types of mammals, 42 species of birds, 19 types of reptiles, 3 species of amphibians, 36 species of fish, 1 type of mollusk, and 84 species of plants. Threatened species in Thailand include the pileated gibbon, tiger, Asian elephant, Malayan tapir, Sumatran rhinoceros, Fea's muntjac, Thailand brow-antlered deer, kouprey, green turtle, hawksbill turtle, olive ridley, leatherback, river terrapin, estuarine crocodile, Siamese crocodile, false gavia, and the Javan rhinoceros. Schomburgk's deer and the redbellied shark have become extinct.

### **6 POPULATION**

The population of Thailand in 2005 was estimated by the United Nations (UN) at 65,002,000, which placed it at number 19 in population among the 193 nations of the world. In 2005, approximately 7% of the population was over 65 years of age, with another 23% of the population under 15 years of age. There were 96 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 0.7%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 70,150,000. The overall population density was 127 per sq km (328 per sq mi), but there are great regional variations in density.

The UN estimated that 31% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.99%. The capital city, Bangkok (Krung Thep), had a population of 6,486,000 in that year. Outside of Bangkok, most major cities are provincial capitals, each generally centered in a *changwat* (province or county) with the same name as the city.

### **7 MIGRATION**

Immigration to Thailand, except for the Chinese, has traditionally been comparatively small. The decade of the 1920s was a period

of large-scale Chinese immigration of 70,000 to 140,000 a year. Strict immigration regulations have all but stopped the legal flow of Chinese into the country, but during the Franco-Indochinese war some 45,000 Vietnamese refugees settled in Thailand. An immigration quota, introduced in 1947, now limits migration from any one country to 100 persons annually.

In 2003, immigration authorities arrested 280,937 illegal foreigners, including 189,486 unauthorized workers; the workers were from Myanmar, Cambodia, and Laos. In 2004, some 1.3 million foreigners, from Cambodia, Laos and Myanmar, registered as migrant workers in Thailand under a government effort to better regulate their presence. They were further required to re-register in 2005, but to do so they needed a Thai employer. No new immigrants were to be admitted in 2005, and unauthorized migrants were subject to fines and prison.

As of December 1992, the United Nations (UN) estimated that 63,600 refugees were living in Thailand; these represented part of the flood of over four million refugees who had left Cambodia, Laos, and Vietnam since the 1970s. Some 370,000 Cambodians on the Thai-Cambodian border were repatriated during 1992-93. The 36,000 Cambodian refugees who fled their country after the political and military events of 1997 were repatriated by 1999, and three border camps were subsequently closed. In 1986, the Thai government began forcibly repatriating many refugees from Laos. The last refugee camp for Vietnamese was closed in February 1997.

In June 1998, the Thai government formally requested increased assistance from United Nations High Commissioner for Refugees (UNHCR) for some 100,000 Karen and Karenni refugees living in 11 camps in Thailand along the Myanmar border. A comprehensive registration of the border population was completed through the joint efforts of the Thai government and UNHCR in 1999. In 2004, there were 121,139 refugees almost entirely from Myanmar, and 1,044 asylum seekers.

The net migration rate in 2005 was estimated as zero migrants per 1,000 population. Worker remittances in 2003 were \$2.8 billion.

## 8 ETHNIC GROUPS

Thailand contains more than 30 ethnic groups varying in history, language, religion, appearance, and patterns of livelihood. However, the Thai, akin to the Lao of Laos, the Shan of Myanmar (Burma); and the Thai groupings of southern China comprise about 75% of the total population of Thailand. The Thai may be divided into three major groups and three minor groups. Major groups are the Central Thai (Siamese) of the Central Valley; the Eastern Thai (Lao) of the Northeast (Khorat); the Northern Thai (Lao) of North Thailand; and the Southern Thain (Chao Pak Thai) of peninsular Thailand. Minor groups are the Phuthai of northeastern Khorat, the Shan of the far northwestern corner of northern Thailand, and the Lue in the northeastern section of northern Thailand. The several branches of Thai are united by a common language.

A major ethnic minority are the Chinese, who account for about 14% of the total population. They are generally engaged in business and commerce throughout the country. Other varied ethnic groups account for the remaining 11% of the population. Malays (3-4%) live in the southern peninsula near the border and, to a lesser extent, along the southeast coast; Khmers (1%) are settled



LOCATION: 97° to 106°E; 6° to 21°N. BOUNDARY LENGTHS: Cambodia, 803 kilometers (499 miles); Laos, 1,754 kilometers (1,090 miles); Malaysia, 506 kilometers (316 miles); Myanmar, 1,799 kilometers (1,118 miles).

all along the Cambodian border from the Mekong to the Gulf of Thailand and Vietnamese or Annamese are found in the southern Khorat and on the southeast coast. Small numbers of residents from India, Europe, and the United States live mainly in urban areas. Principal tribal groups, mainly hill peoples, include the Kui and Kaleung, in the northeast; the Mons, living mainly on the peninsula along the Burmese border; and the Karens, living along the northern Burmese border. There are, in addition, some 20 other minority groups, including the Akha, Musso, Meo, Kamuk, Tin, Lawa, and So; most of these peoples, primitive and small in number, live by shifting cultivation in rugged, isolated mountain or dense forest terrain.

Many of the hill tribe members, called "highlanders" by some, have faced government restrictions due to lack of legal documentation of nationality and citizenship. Citizenship is not granted automatically to children born of undocumented parents. The government has been working to ease requirements for documentation of highlanders, but progress has been slow; an estimated 500,000 highlanders are still undocumented as citizens, and so do not have the right to own land or to equal protection under labor laws.

## **9 LANGUAGES**

The Thai language, with northern, eastern, central (Bangkok or official Thai), and southern dialects, all distantly related to Chinese, prevails throughout the country. Thai, written in a distinctive alphabet, is thought to be part of the Sino-Tibetan language family, although links to Indian languages are also evident. The Thai dialects for the most part are mutually intelligible only with difficulty. Although the ethnic minorities (including the Malays) generally speak their own languages, Thai is widely understood. The Chinese population is largely bilingual. All official documents are in the central Thai language and script, although English, taught in many secondary schools and colleges, is also used in official and commercial circles.

## **10 RELIGIONS**

According to government statistics, Theravada Buddhism is the religion of about 94% of the population. However, other nongovernmental agencies and religious groups estimate that the number of Buddhists is only about 85–90%, and in practice, the religious life of Thailand may be described as spirit worship overlaid or mixed in varying degrees with Buddhist and Brahman beliefs imported from India.

While the government estimates that 5% of the population are Muslim, nongovernmental agencies place the number at about 10% of the population, including the Malay ethnic minority. Among the other ethnic minorities, the Chinese practice a traditional mixture of Mahayana Buddhism, Taoism, Confucianism, and ancestor worship. Most Vietnamese are Mahayana Buddhists and most Indians are Hindus (0.1% of the population). Christians have been active in Thailand since the 17th century and account for an estimated 1–2% of the population. Christian churches are primarily Protestant and belong to one of four umbrella organizations in the country, the largest of which is the Evangelical Foundation of Thailand. There are small Baha'i and Jewish communities.

At least six tribal groups which include 500,000–600,000 people; they practice a variety of syncretic customs that draw from animism, Buddhism, Christianity, and Taoism.

Though the constitution does not designate a state religion, Theravada Buddhism is basically practiced as such. The constitution stipulates that the monarch must be a Buddhist and only Buddhists are employed by the government. Religious groups must register under the Religious Affairs Department. Some government subsidies are offered to Buddhist, Islamic, and Christian groups. The government has made efforts to promote interfaith understanding, particularly through regular meetings of the Subcommittee on Religious Affairs, organized through the National Identity Promotion Office.

## **11 TRANSPORTATION**

Thailand's transportation system is not fully developed, but it is growing rapidly. Owned and operated by the government, the railways, consisting in 2004 of 4,071 km (2,530 mi) of track (all of it narrow gauge), radiate from Bangkok to Malaysia in the south, to the Cambodian border in the east, to Ubon Ratchathani and Nong Khai in the northeast, and to Chiang Mai in the north.

The highway system, significantly expanded during the 1960s and 1970s, serves many areas inaccessible to railway. In 2001 there were 64,600 km (40,142 mi) of roadway, including 62,985 km (39,139 mi) of paved road. Modern two-lane highways now connect Bangkok with the rest of the country. In 2003, registered motor vehicles totaled 7,695,000, including 3,115,000 passenger cars and 4,580,000 commercial vehicles.

Waterways, both river and canal, are Thailand's most important means of inland transport. They carry much of the nation's bulk freight over a network of some 4,000 km (2,500 mi). The Chao Phraya River with its tributaries is the main traffic artery, and Bangkok is its focal point. The modern port of Bangkok at Klong Toey is the chief port for international shipping. Lying some 40 km (25 mi) inland from the sea, its harbor is navigable for vessels up to 10,000 tons, but constant dredging of the Chao Phraya is necessary. To relieve the congestion at Klong Toey, a new modern port was being developed at Sattahip, a former US naval base, and new seaports at Laem Chabang and Hap Ta Phut. Phuket Harbor in southern Thailand has been improved to accommodate 15,000-ton cargo ships. An extensive shipping service also exists along the Gulf of Thailand, and a small Thai merchant fleet plies between local and neighboring ports. In 2005, there were 386 oceangoing vessels of more than 1,000 GRT, totaling 2,038,597 GRT.

Since the end of World War II, Bangkok has become an important center of international aviation. In 2004 there were an estimated 109 airports. As of 2005, a total of 65 had paved runways, and there were three heliports. Principal airports include Bangkok International at Bangkok, Chiang Mai, Hat Yai at Haadyai, and Phuket International at Phuket. The government-owned Thai Airways International and Thai Airways Co. handle international and domestic air traffic, respectively. In 2003, scheduled airline traffic carried about 16.632 million passengers and 1,764 million ton-km of freight.

## **12 HISTORY**

Archaeological excavations in the 1970s in Ban Chiang, northeastern Thailand, yielded traces of a Bronze Age people, dating

as far back as 3600 BC predating Bronze cultures in China and the Middle East. The technical achievements of the Ban Chiang society, as surmised from archaeological evidence, indicate the existence of a settled agrarian people with advanced knowledge of bronze and iron metallurgy. Moreover, the skills demonstrating in their pottery, housing, and printing of silk textiles reflect at least 2,000 years of prior development, a finding that challenges previous concepts of incipient civilization and technology, and Southeast Asia's role in it.

The Thai descended from the ancient Pamir plateau peoples. The Pamir, who are racially related to the Chinese, migrated from southern China to mainland Southeast Asia. While in southern China, the Thai created the powerful Nan-Chao kingdom, but continued pressure from Chinese and Tibetans and the final destruction by Kublai Khan in 1253 forced the Thai southward across the mountain passes into Southeast Asia. After entering the valley of the Chao Phraya River, they defeated and dispersed the Khmer settlers, ancestors of the Cambodians, and established the Kingdom of Thailand.

By the mid-14th century, the Thai expanded and centralized their kingdom at the expense of the Lao, Burmese, and Cambodians. Although Thailand developed trading contacts with the Dutch and Portuguese and with the French and British in the 16th and 17th centuries respectively, it remained a feudal state with a powerful court of nobles. During the reigns of Mongkut (1851–68) and his son Chulalongkorn (1868–1910), however, Thailand emerged from feudalism and entered the modern world. A cabinet of foreign advisers was formed; commercial treaties of friendship were signed with the British (1855) and with the United States and France (1856); the power of nobles was curtailed, slavery abolished, and many court practices, such as prostration in the royal presence, were ended.

The Thai government continued as an absolute monarchy despite the progressive policies of Mongkut and Chulalongkorn. In 1932, however, a bloodless revolution of Westernized intellectuals led to a constitutional monarchy. Since then, Thailand has experienced multiple constitutions, changes of government, and military coups. With the government in a state of flux, political parties tended to cluster around strong personalities rather than political ideologies. At the start of World War II, Thailand, after annexing Burmese and Malayan territories, signed an alliance with Japan and declared war on the United States and the United Kingdom. From 1932 through the 1940s, political life in Thailand centered around Pridi Banomyong and Marshal Phibul Songgram and thereafter around Marshal Sarit Thanarat, until his death in 1963. Sarit's handpicked heir, Marshal Thanom Kittikachorn, subsequently emerged as the country's political leader.

After the war, Thailand became an ally of the United States through their common membership in the Southeast Asia Treaty Organization (SEATO), and various other bilateral treaties and agreements. In January 1965, China announced the formation of the Thailand Patriotic Front, whose purpose was "to strive for the national independence" of Thailand. A limited insurgency subsequently developed in the North and Northeast, growing in intensity in the late 1960s and early 1970s as the Southeast Asian conflict raged on Thailand's northern and northeastern borders. As a SEATO member, Thailand took a direct role in the Vietnam war and supplied a small number of troops in support of the Repub-

lic of Vietnam (RVN). Furthermore, it granted US forces the use of air bases in Thailand for massive bombing sorties against the Democratic Republic of Vietnam and the Vietcong. US forces stationed in Thailand increased to as many as 25,000 by the end of 1972. With the termination of the direct US combat role in Vietnam in early 1973, the United States began a gradual withdrawal of military personnel from Thailand. In March 1976, the Thai government ordered the United States to close its remaining military installations in the country and to remove all but a few military aid personnel by July. The communist insurgency continued, with sporadic armed attacks on the government in remote northeastern border provinces.

Internally, Thailand weathered a series of political upheavals in the 1970s. In November 1971, Marshal Thanom, who had been reconfirmed as prime minister in the 1969 general elections, led a bloodless military coup that abrogated the constitution and imposed a state of martial law. In December 1972, an interim constitution that preserved military rule caused student and labor groups to agitate for greater representation in Thai politics. By early October 1973, demonstrations erupted into riots, and on 14 October, Marshal Thanom resigned and quit the country. King Bhumibol Adulyadej stepped into the vacuum and named a national legislative assembly to draft a new constitution. On 7 October 1974, the new constitution—the tenth such document to be promulgated in Thailand since 1932—went into effect. On 26 January 1975, Thailand held its first truly open parliamentary elections since 1957. Some 42 parties competed in the balloting, which produced a coalition government under Seni Pramroj. In March 1975, Seni's government resigned following a no-confidence vote and a right-wing coalition government led by Kukrit Pramroj (Seni's brother) subsequently assumed control, but it too resigned in January 1976. Elections held in April restored Seni Pramroj to power as head of a four-party coalition, but when civil disorder again erupted among students in Bangkok, he was overthrown by the military. The military-led government declared martial law, banned strikes and political parties, and enacted yet another constitution. Promulgation of a subsequent constitution in December 1978 paved the way for elections in 1979, 1983, and 1986. On 9 September 1985, the military swiftly diffused an abortive military coup within several hours. General Prem Tinsulanonda was appointed for a third term as prime minister following the 1986 elections.

Insurgents based in Laos and Cambodia contributed to the nation's political instability by launching guerrilla attacks on the country. Furthermore, an upsurge in the number of refugees from Laos and Cambodia contributed to a humanitarian crisis. In 1979, the government estimated the number of insurgents at 10,000. Following the Vietnamese victory in Cambodia in January 1979, thousands of insurgents took advantage of a government offer of amnesty and surrendered to Thai security forces while others were apprehended subsequently. By the beginning of 1986, fewer than 1,000 Communist insurgents remained active, according to government estimates.

During 1985 and 1986, the Progress Party gained power when cabinet ministers were replaced. A parliamentary defeat over proposed vehicle tax legislation resulted in the dissolution of the House of Representatives. In July 1986 a general election for an enlarged house took place. General Prem formed a coalition government and served as prime minister but opposition parties ac-

cused his government of corruption and mismanagement. Additional dissent arose over proposed copyright legislation aimed at controlling counterfeiting of Western products and intellectual property. In 1988 General Prem dissolved summarily the House of Representatives and announced a general election. In the July 1988 election, the Chart Thai gained the largest number of seats. Although its leader, General Chatichai Choonhavan, declared his unsuitability for prime minister, he was appointed to the position. General Chatichai took an active role in foreign affairs and made bold initiatives to improve relations with Laos, Vietnam, and Cambodia. His support declined as his preoccupation with foreign affairs was considered a detriment to his handling of domestic issues, especially regarding government response in the aftermath of a devastating typhoon in November 1989. In July 1990, accusations of corruption led to a motion of "no confidence" that failed to muster a majority in the House of Representatives. In December of that year, General Chatichai resigned as prime minister, only to be reappointed the next day, enabling him to form a new coalition government.

On 23 February 1991, a bloodless military coup led by the National Peace Keeping Council (NPKC) ousted Chatichai's government alleging massive and systemic corruption. The NPKC declared martial law, abrogated the constitution, and dissolved the cabinet. An interim constitution approved by the king was published in March 1991. A former diplomat and business executive, Anand Panyarachun, was appointed prime minister. Despite public protest, a draft constitution presented in November was approved on 7 December 1991.

In March 1992, General Suchinda became prime minister amid continued unrest. Two months later, Major General Chamlong called for the resignation of Suchinda and an amendment to the constitution at a rally attended by 100,000 demonstrators. Chamlong pledged that he would fast to death, but gave the government a one-week grace period to amend the constitution to prohibit the appointment of an unelected prime minister. When it appeared that the government might renege on this agreement, the peaceful demonstrations resumed. On 17 May 1992, about 150,000 demonstrators met at Sanam Luang parade grounds in central Bangkok. Leaders called for the demonstrators to walk toward Government House down Ratchadamnoen Avenue. Demonstrators broke through roadblocks established by the police and set fire to vehicles and a nearby police station. At 4 AM on 18 May the demonstrators were counterattacked with armored vehicles and machine-guns. Government forces arrested Chamlong and killed over 100 demonstrators and detained several thousands. Four days of violence ended with intervention by the king. On 24 May, Suchinda resigned after political leaders guaranteed amnesty to military officers that participated in quelling the demonstrations. On 10 June, the national assembly approved the constitutional amendments, including the prohibition of unelected politicians from forming a cabinet. A general election followed on 13 September 1992, and Chuan Leekpai, leader of the winning Democratic Party, became prime minister.

Chuan's policies emphasized four goals: to eradicate corrupt practices, to reduce the powers of the appointed Senate, to decentralize government from Bangkok to the provinces, and to enhance rural development. Beginning in 1993 and into 1994, Chuan's government faced two "no confidence" motions in par-

liament, but the government emerged stronger after they failed. In 1994, Chamlong and Palang Dharma became more assertive in demands for constitutional reform, decentralization of state power, and progress in solving Bangkok's traffic problems, which are some of the worst in the world—some commutes reportedly taking up to six hours.

Ultimately corruption charges brought Chuan's governing coalition down. In late 1994, the New Aspirations Party (NAP), led by Chavalit Yongchaiyadh, left the ruling coalition over a planned electoral reform. In May 1995, prior to a vote of no confidence, Chuan dissolved parliament and called for new elections. Having served two years of a four-year term as prime minister, Chuan became Thailand's longest serving civilian leader in the modern era.

During the campaigning leading to the July 1995 elections, politicians spent 17 billion baht buying votes, a seemingly intractable problem. However, the otherwise fair balloting was won by the Chart Thai party, which took 92 (of 391) seats. The former PM, Chuan's Democrats secured 86; the NAP took 57; and Palang Dharma lost heavily, going from 47 to 23 seats. Chart Thai selected as its PM Banharn Silpa-archa. In appointing his cabinet, however, Banharn was immediately perceived as favoring the old corrupted elite, especially when he gave important ministerial posts to Montri Pongpanich and Chalerm Yubamroong, both of whom were well known for their ill-gotten wealth. Even the king, who is revered by Thai society, expressed dissatisfaction with the caliber of the new ministers.

Not surprisingly, Banharn's government collapsed before the end of 1996 and elections took place on 17 November 1996. Chart Thai went from 96 seats to 39 as the NAP, led by coalition parties, and Minister of Defense Chavalit Yongchaiyudh, emerged victorious. They swept into power going from 57 seats to 125. Placing second in the balloting was the Democratic Party. Chavalit, one of Thailand's more respected politicians, vowed to appoint a cabinet of technocrats (he called them the "dream team") rather than cronies, and to rescue the Thai economy which had been faltering. Despite his pledge, however, 1997 was a disastrous year for the Thai economy. In mid-May, the stock market collapsed and speculative currency trading hammered the baht. The government intervened, but conditions deteriorated so badly that by July the government decided to float the baht, which had been pegged to the US dollar, causing a precipitous drop. In one day, the currency fell more than 17% against the dollar. The floating of the baht caused international headlines as neighboring Asian countries frantically scrambled to protect their own currencies. By September 1997, the crisis had spread to Singapore, the Philippines, Malaysia, and Indonesia.

Failing to adjust to the crisis, the Minister of Finance Thanong resigned in October 1997 while students demanded the resignation of Chavalit. Despite a reshuffling of the cabinet in an attempt to placate Chart Pattana, Prime Minister Chavalit resigned on November 6. In November, Chuan Leekpai formed a coalition government that included his Democratic Party, Chart Thai, the SAP, Ekkaparb, the Seiratham Party, Palang Dharma, the Thai Party, and a majority of the Prachakorn Thai Party. Despite the perceived integrity of Chuan, the Thai baht continued to experience devaluation. The fragile government survived a no confidence vote in March 1998.

By May 1998, the Thai economy stabilized and began to recover slowly despite the swirling of allegations of corruption that led to the resignation of two ministers. The government accepted a significant International Monetary Fund bailout package and promised to deregulate the economy and adopt transparency. In March 1999, a major privatization bill passed the National Assembly, which allowed government enterprises to become corporate entities without legislative action. On 5 October 1998, Chuan reorganized the government and invited Chart Pattana into the government, extending the coalition's majority in the House of Representatives to 257. In April 1999, the leader of the NAP, Chavalit temporarily resigned as leader of the party in order to prepare for upcoming general elections.

In March 2000, the first ever Senate elections took place in accord with the 1997 constitution. The nonpartisan elections fielded 1,521 candidates who, by law, refrained from campaigning.

In general elections held in January 2001, media tycoon Thaksin Shinawatra's Thai Rak Thai (Thais Love Thais) Party won a major victory, making him prime minister. The new party took 248 of 500 seats in the House of Representatives, and Thaksin formed a coalition government with the Chart Thai (Thai Nation) Party and New Aspiration Party. The elections were marked by voting irregularities. Thaksin promised to help small businessmen and farmers in Thailand, pledging to postpone farmers' debts for three years and allocate credit of approximately US\$23,000 each to more than 70,000 villages.

In March, a plane that Thaksin was due to board in Bangkok exploded, in what was regarded as an attempted assassination plot.

During 2001 and 2002, relations between Myanmar and Thailand improved. The two countries held talks in June 2001, attempting to ameliorate disagreements over the drug trade and border tensions. By September, Myanmar pledged to eliminate drug trade in the Golden Triangle by 2005. Thailand committed funds to finance a crop substitution program, and the two countries regarded themselves as good neighbors. However, in May 2002, Myanmar closed its border with Thailand after the Thai army fired shells into Myanmar's territory during a battle between Myanmar's army and ethnic Shan rebels. The border was reopened in October.

On 29 January 2003 riots broke out in the Cambodian capital of Phnom Penh over comments attributed to a Thai actress that Cambodia's Angkor Wat temple complex was stolen from Thailand. Thailand initially suspended all economic cooperation and business dealings with Cambodia, and closed the border. Cambodian Prime Minister Hun Sen promised to pay US\$46.7 million in compensation for the damage done to Thai businesses. Thailand was due to partially reopen its border with Cambodia on 8 February.

Thailand became a focal point for unrest in January 2004, when a militant movement revived an insurgency in the predominantly Muslim southern part of the country. Southern Thailand is a popular vacation spot for American and European tourists, and the revenue that this region generates for the country is substantial. In an effort to contain the violence, the Thai government imposed emergency powers on the region. This action has had little effect on quelling the insurgency, and as of late 2005, violence related to Islamic insurgent activity had claimed more than 1,000 lives. Although the insurgency did not appear to be drawing support from international Islamic terrorist organizations, fear that such

groups would enter the conflict persisted in 2005. In hopes of easing unrest, the Thai government also launched an unusual attempt at peace making when it invited schoolchildren in 2004 to fold origami paper cranes to be dropped by airplane over the troubled province. Nearly 120 million cranes were dropped on 6 December 2004 by 50 warplanes, as a gesture that also honored the 77th birthday of King Bhumibol Adulyadej. Militants responded to the gesture by attempting to set off a 22-pound bomb near an area where people had gathered to wait for the cranes. The bomb was discovered and safely defused.

Outbreaks of bird flu between 2002 and 2005 posed further threats to Thai tourism and had claimed 13 lives as of October 2005. The Thai Public Health Ministry announced on 25 October that it would send 400,000 health workers and 900,000 volunteers to scour the country's 21 provinces in search of signs of the deadly virus.

On 26 December 2004, the tourism industry suffered an even deeper blow. Catastrophic tsunami waves triggered by a massive earthquake swept the nation's southwestern area, causing devastation at many of its resorts. More than 5,400 people were killed in the disaster, and Thai officials reported in June 2005 that losses to the tourism industry could run as high as \$1.2 billion. The economic impact of the tsunami disaster and continuing unrest in southern Thailand made the Thai Rak Thai government's hold on power increasingly fragile in 2005.

### <sup>13</sup>GOVERNMENT

Thailand has been a constitutional monarchy since 1932. The present king, Bhumibol Adulyadej, ascended to the monarchy in 1946 and became Rama IX on 5 May 1950. Until 1958, Thailand was governed under a constitution originally promulgated in December 1932. In October 1958, however, the constitution was suspended, and three months later the king proclaimed an interim basic law providing for a constituent assembly to draft a new constitution. Nine years in the making, a new constitution was promulgated in June 1968, and the first elections under it were held in 1969. In November 1971, Marshal Thanom Kittikachorn overthrew the document despite being chosen by its rules.

A period of martial law under a national executive council ensued, with the military continuing in power through an interim constitution. A new constitution, promulgated in 1974, was suspended and replaced by martial law in 1976 when civil disorder ensued. The 1976 constitution was abrogated after an October 1977 coup and under an interim constitution, the king empowered a legislative assembly to draft a new governing document. This constitution, approved by the legislature on 18 December 1978, lifted the ban on political parties and eased some of the martial law provisions imposed in 1976.

On 23 February 1991, the National Peacekeeping Council (NPKC), led by the supreme commander of the Royal Thai Armed Forces, General Sundhara Kongsompong, took over the administration of the country. On 9 December 1991, the NPKC promulgated a new constitution. It provided for a national assembly comprised of elected representatives and an appointed senate, and a cabinet headed by an appointed prime minister. This charter was sympathetic to the needs of the military and gave the junta power over the senate. Protests that resulted in the deaths of pro-democracy demonstrators between 17–20 May 1992 quickly led to

a constitutional amendment to provide for an elected prime minister and to curb some of the appointed senate's power. This constitutional amendment was approved by the national assembly on 10 June 1992 and required the prime minister to be a member of the house of representatives. In addition, the revised constitution significantly cut back the powers of the senate by ruling that the speaker of the lower house will be president of the parliament (previously it was the speaker of the senate). The senate is also barred from initiating, or taking part in, "no-confidence" motions. The first elections under these reforms were held on 13 September 1992.

Efforts to amend the constitution again came before parliament in April 1994, and the seven government-sponsored amendments were defeated. These amendments sought to reform Thailand's political structure by institutionalizing political parties and increase the role of the legislature. Prolonged debate and political indecision prevented the passage of these amendments until 27 September 1997, when the new constitution passed with the king's endorsement. According to this constitution, the house of representatives would consist of 500 members, with 400 selected by respective constituencies and 100 seats allocated by proportional representation of all parties exceeding the 5% threshold of popular votes. In an attempt to stabilize the political situation and institutionalize parties, the new constitution requires representatives to resign their seat if they renounce or switch their party membership. The senate, to consist of 200 nonpartisan members, requires all members to hold at least a baccalaureate. Members of both the house and senate serve four-year terms.

#### **14 POLITICAL PARTIES**

Constitutional government in Thailand has been hindered by traditional public apathy, and political parties generally have been formed by military personalities rather than around political issues and programs. Military leader Phibul Songgram, who became prime minister in 1938, did not favor political parties. Phibul's immediate postwar successor, the pro-Japanese Pridi Banomyong, encouraged the growth of parties, but these were generally ineffective, primarily because of Thai inexperience with such institutions.

Upon Phibul and other military leaders' return to power in 1947, parties were banned. In a move designed to undercut a growing threat from other soldiers, Phibul reinstated political parties in 1955 in preparation of the elections for 1957. A new coup, led by Marshal Sarit Thanarat, deposed Phibul in 1957 and again banned political parties. Following the promulgation of a new constitution in June 1968, parties were again legalized and hotly contested the 1969 parliamentary elections. Prime Minister Thanom Kittikachorn's United Thai People's Party won a plurality (76) of the 219 seats in the House of Representatives, giving it a majority in partnership with 72 "independents" supported by Deputy Premier (and army chief) Praphas Charusathien. The Democrat Party, led by civilian politician Seni Pramoj, won 56 seats, becoming the chief opposition party. Following Marshal Thanom's 1971 coup, political activity again subsided in favor of the military. The collapse of military rule in October 1973 led to a resurgence of civilian political groups. In the parliamentary elections of 26 January 1975, 2,193 candidates from 42 political parties contested 269 seats in the House of Representatives. Voter apathy remained a

problem, however, as only 47% of the electorate (33% in Bangkok) took part. The conservative Bangkok-based Democrat Party emerged with a meager plurality of 72 seats, thereby failing to secure a majority coalition. On 13 March, Kukrit Pramoj, leader of the Social Action Party (SAP), which held 18 seats, was elected prime minister in a controversial vote; he formed a ruling right-wing coalition with the Social Justice Party (45 seats), the Chart Thai (28 seats), and four smaller groups. The coalition collapsed in January 1975, and in new elections held on 4 April, Seni Pramoj gained the premiership.

In the bloodless military coup of 23 February 1991 by the National Peacekeeping Council (NPKC), General Chatichai's government was turned out. The NPKC promulgated a provisional constitution, and after a brief period paved the way for a civilian interim government headed by Anand Panyarachun. A general election was held 22 March 1992, with 15 parties contesting 360 seats with 2,185 candidates. Persistent vote buying marred an election in which 59.2% of the electorate voted. Results were: Samakkhi Tham (79), Chart Thai (74), New Aspiration Party (72), DP (44), and Palang Dharma (41). A coalition government controlling 195 seats in the House of Representatives was comprised of Samakkhi Tham, Chart Thai, Pratchakorn Thai, the SAP and Rasadorn parties. Narong Wongman was proposed as prime minister until the United States made allegations of Narong's involvement in illegal drug trafficking. In April 1992, General Suchinda was named prime minister. His appointment as an unelected prime minister met with immediate protest. Agreement was reached to amend the constitution to prevent an unelected prime minister, but an apparent change of mind by the government resulted in violent rioting. Suchinda resigned and constitutional amendments were approved by parliament on 10 June. The National Democratic Front, four parties that had opposed the military government, the DP, the New Aspiration Party, Palang Dharma, and Ekkaparb, formed an alliance to contest the elections called for in September 1992. In the wake of the 1976 coup, massive arrests were made of liberal and leftist political elements; political parties were banned, and martial law instituted. Political activity was restored and martial rule partially relaxed under the 1978 constitution. Subsequent elections, held on 22 April 1979, gave no party a clear majority. The SAP won a plurality of 82 seats, and the Thai Nation Party finished second with 38. Gen. Prem Tinsulanonda, who became prime minister in March 1980, formed a new coalition government after the April 1983 elections, in which the SAP emerged with a plurality of 92 seats. Several days after the elections, the Thai Nation Party, which had won 73 seats, subsumed the Siam Democratic Party, which controlled 18. In subsequent elections on 27 July 1986, the Bangkok-based Democrat Party improved its position greatly, winning 100 seats. The Thai Nation Party won 63, and the SAP, 51. These three parties, along with the small Rasadorn—or People's—Party which won 18 seats, formed a new coalition, but with Gen. Prem again as prime minister. The election campaign and balloting were marred by scattered incidents of violence.

In the 13 September 1992 general election 12 parties contested 360 seats in the House of Representatives. Voter turnout was 62.1%. Election results were: the DP (79), Chart Thai (77), Chart Pattana (60), New Aspiration Party (51), and SAP (22). The DP formed a coalition party with Palang Dharma (47 seats) and

Ekkaparb (Solidarity) for control of 185 of the 360 seats. The SAP was invited to join the coalition. The leader of the DP, Chuan Leekpai, was named prime minister. Chuan served for two years—the longest continuous civilian rule in modern times—before scandal brought his government down in May 1995. Elections were held in July 1995 which were won by Chart Thai, taking 92 of the expanded body's 391 seats. Chuan's Democratic Party was next with 86 seats; the NAP took 57 and Phalang Dharma slipped from 47 to 23 seats. Banharn Silpa-archa was appointed prime minister, and was almost immediately assailed by the press—and even the king—for assembling a government of largely discredited cronies.

Banharn's coalition lasted barely 14 months and new elections were held in November 1996, the results of which were as follows: NAP, 125 seats; Democratic Party, 123; Chart Pattana, 52; Chart Thai, 39; SAP, 20; Prachakorn Thai Party, 18; Solidarity Party, 8; Seritham Party, 4; Muan Chan Party, 2; Phalang Dharma, 1; Thai Party, 1. Chavalit Yongchaiyudh became prime minister in January 1997. He resigned in November, and Chuan Leekpai once again formed a coalition government including his Democratic Party, Chart Thai, the SAP, Ekkaparb, the Sirtham Party, Palang Dharma, the Thai Party, and a majority of the Prachakorn Thai Party. Constitutional changes, promulgated on 11 October 1997 increased party discipline and loyalty. It requires representatives to resign their seat if they switch or renounce their party affiliations.

General elections were held on 6 January 2001, which were won by the new Thai Rak Thai ("Thais Love Thais") Party, led by Thaksin Shinawatra, who became prime minister. Thaksin, a multi-millionaire telecommunications tycoon, took almost twice as many seats as his rivals, but fell short of an outright majority. Thai Rak Thai took 248 of 500 seats in the House of Representatives, and the Democratic Party of outgoing Prime Minister Chuan Leekpai won 128 seats. Thaksin's coalition included the New Aspiration Party and the Chart Thai Party. The elections were marred by allegations of fraud and vote-buying. The results of 62 constituencies were thrown out because of voting irregularities, more than half of the disqualifications earned by candidates from Thai Rak Thai. Those constituencies held reelections on 29 January. Thaksin was indicted by the National Counter Corruption Commission (NCCC) in December 2000 for failing to report some of his wealth. In August 2001, the Thai constitutional court voted eight to seven to acquit Thaksin of assets concealment.

Thaksin retained a secure grip on power, and was re-appointed prime minister on 11 March 2005 following the Thai Rak Thai's victory in the lower House of Representatives on 6 February 2005. The Thai Rak Thai's showing in the elections was unusual; it marked only the second time in Thailand's 73 years of democratic elections that a single party controlled the country. The election outcome also made Thaksin the first prime minister in Thailand's history to have completed a full four-year term. The Thai Rak Thai leadership is supported by the Machachon Party, with the Democrat and Chart Thai parties comprising the main opposition. Senate elections were scheduled for March 2006, and the next House of Representatives election was to take place in 2009.

## <sup>15</sup> LOCAL GOVERNMENT

Thailand is divided into 76 administrative provinces (*changwats*), each under the control of an appointed governor responsible to the Ministry of the Interior. Bangkok is sub-divided into 50 dis-

tricts or "*khets*." As of 2001, in addition to the provinces, there were 795 districts, 81 minor districts, 7,255 subdistricts or *tambon* and 70,865 villages. Numerous changes went into effect with the promulgation of the new constitution in 1997. All local administrators are now elected directly by popular suffrage or by the approval of a local assembly. Furthermore, local government officials are prohibited from holding a permanent national position or receiving additional compensation from government related positions.

## <sup>16</sup> JUDICIAL SYSTEM

The 1997 constitution provided for an independent judiciary and the guarantee of basic civil liberties. Courts of the first instance, juvenile courts, and magistrates' courts exist in Bangkok and in each of the provincial capitals. There are nine regional courts of appeal, and a Court of Appeal, sitting in Bangkok, hears cases for the entire kingdom. The Supreme Court, also in Bangkok, consists of at least three judges and decides only on points of law. Judges in Thailand are appointed (and removed) by the king. All appointments are subject to initial approval by a judicial commission. There is no trial by jury in Thailand.

The constitution also provided for establishment of a constitutional tribunal to adjudicate disputes among the courts. Military courts deal primarily with military justice, but have broader jurisdiction when martial law is in force. There is no appeal of decisions by military courts. Defendants in ordinary criminal courts are afforded a wide range of procedural due process protections. Although there is no right to counsel during the investigative phase of cases, detainees are afforded access to counsel during trial.

Islamic courts hear civil cases concerning members of the Muslim minority, whose comprise approximately 6.4% of the country's population. The legal system is based on civil law with common law influence.

## <sup>17</sup> ARMED FORCES

The armed forces of Thailand in 2005 consisted of 306,600 active duty personnel and 200,000 reservists. The Army numbered 190,000 personnel and whose equipment inventory included 333 main battle tanks, 515 light tanks, over 32 reconnaissance vehicles, 950 armored personnel carriers, more than 2,473 artillery pieces and five attack helicopters. The Air Force was estimated to have 46,000 active personnel with 165 combat capable aircraft, that included 87 fighter/fighter ground attack aircraft, plus transport, training, and helicopter units. The Navy had 70,600 active personnel, which included 23,000 Marines and 1,940 naval aviation personnel. Major naval vessels included one aircraft carrier, 12 frigates, five corvettes and 110 patrol/coastal vessels. The naval aviation arm included seven fighter ground attack aircraft, nine maritime patrol aircraft and six antisubmarine warfare helicopters. Paramilitary forces had an estimated manpower of 113,700, which included the 41,000 member Border Patrol Police, the 2,200 member Marine Police and the 45,000 member National Security Volunteer Corps. In 2005, Thailand's defense budget totaled \$1.95 billion.

## <sup>18</sup> INTERNATIONAL COOPERATION

Thailand, a member of the United Nations since 16 December 1946, is the headquarters for ESCAP and belongs to several non-

regional specialized agencies, such as UNSECO, UNHCR, the FAO, the World Bank, ILO, IAEA, and the WHO. The country is a member of the Asian Development Bank, ASEAN, the Colombo Plan, G-77, and the WTO. Thailand has observer status in the OAS and the Organization of the Islamic Conference (OIC), and is a partner in the OSCE.

Thailand is identified more closely than most Asian countries with the Western nations largely because of its alliance with the United States. The nation is part of the Nonaligned Movement. In 1995 Thailand, Cambodia, Laos, and Vietnam established the Mekong River Commission (MRC) to coordinate development in the region. In environmental cooperation, Thailand is the Basel Convention, Ramsar, CITES, International Tropical Timber Agreements, the Kyoto Protocol, the Montréal Protocol, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Thailand's economy more than tripled in the decade after 1986, achieving approximately 9% real growth annually from 1989 to 1996, before it became an epicenter of the Asian financial crisis of 1997, a regional crisis of investor confidence. Thailand's real GDP declined 1.4% in 1997, and then plunged 10.5% in 1998. In early 1997, the Bank of Thailand spent about \$30 billion in foreign exchange reserves trying to defend the baht's value in terms of a basket of currencies against speculation against it, and then on 2 July 1997 abandoned the peg, and allowed the currency to float. The subsequent rapid fall in the baht's value—from 25 bahts to 1 US dollar down to a low of about 53 bahts to 1 US dollar by January 1998—was the proximate cause of the financial crisis that left most business in Thailand technically bankrupt. A \$17.2 billion international bailout package was quickly arranged through the IMF, which seeded the loans with a stand-by line of credit running from 20 August 1997 to 19 June 2000 of about \$2 billion, subject to a program of economic reform conditionals. Moderate growth returned in 1999 and 2000 (4.4% and 4.6%, respectively), but then dropped to an anemic 1.8% in 2001 in the face of the global economic slowdown and the halving of foreign direct investment worldwide following the 11 September 2001 terrorist attacks on the United States.

Nevertheless, by 2002 the economy had recovered to its pre-crisis level, with a 5.41% GDP growth rate. The GDP growth rate stood at 6.74% in 2003, 6.2% in 2004, and was estimated at 4.6% in 2005. The drop from 2004 to 2005 was caused in part by high oil prices, a drought, the 26 December 2004 Indian Ocean tsunami, unrest in the Muslim south of the country, and a downturn in the global electronics industry. Growth was projected to average 4.7% a year in 2006–07, driven by higher investment demand as the government embarked on an ambitious infrastructure development program, including electricity generation, transportation, housing, irrigation, health, and education.

Structurally the economy has continued to mature. From 1986 to 1996, agriculture employed about 57% of the labor force while agriculture's contribution to the GDP dropped from 16.7% to about 10%. In 2005, agriculture accounted for 9.3% of the GDP, and as of 2000 employed 49% of the labor force. Thailand has developed a mobile labor market in which many workers migrate

between agricultural jobs in the country and self-employment and/or light industry jobs in the cities and industrialized zones. Official unemployment was at a low of 1.5% in the last boom years, 1996 and 1997, and then peaked at 4.4% in 1998. Postcrisis, unemployment rates have slowly declined to 4.2% in 1999, 3.6% in 2000, 3.3% in 2001, 2.4% in 2002, 2.2% in 2003, and to 1.4% as of September 2005. The government's decision not to forcibly repatriate a large number of foreign workers, implementing instead its first "amnesty" program in September 2001 (which gave work permits to about 360,000 foreign migrants employed mostly in semi-skilled jobs in the fisheries and construction), has helped slow the decline of the unemployment rate. Official figures, moreover, do not adequately reflect the seasonal unemployment of about two million agricultural workers during one third of the year. Overall, the shift of workers out of agriculture continues particularly in the northeast, where agriculture is less productive, providing a steady inflow of workers to Bangkok and other industrialized areas who contribute to Thailand's expanding and diversified manufacturing and construction sectors. Manufacturing grew by 17% in 1995 and accounted for 33% of GDP, up from 22% in 1992. In 2002, manufacturing's share of GDP was up to 36.5%. In all, industrial production in 2002 was at 22% above the level attained in 1995 according to the country's industrial production index. The industrial production growth rate was estimated at 8.2% in 2005.

The Thai manufacturing sector is notable for its wide diversity, with rapid growth in the production of computers and electronics, automobiles, garments, footwear, synthetic fibers, furniture and wood products. In its efforts to recover economic momentum, Thailand faces strong competition from China, Indonesia, Vietnam, Pakistan and Bangladesh, where cheap labor diminishes the competitiveness of Thailand's labor-intensive industries.

Inflation appears to be under control. In the last years of the 1986–96 boom, the annual inflation rate averaged between 5% and 6% as measured by the consumer price index (CPI). The rate increased to 8% in 1998, but in 1999 had fallen to a negligible 0.3%. In 2000 and 2001, inflation was less than 2% (1.6% and 1.7%), and was only 0.6% for 2002. By 2005, the inflation rate had risen to an estimated 4.8%, but lower global oil prices from mid-2006 were projected to lead to lower inflation in 2007.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Thailand's gross domestic product (GDP) was estimated at \$545.8 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$8,300. The annual growth rate of GDP was estimated at 4.6%. The average inflation rate in 2005 was 4.8%. It was estimated that agriculture accounted for 9.3% of GDP, industry 45.1%, and services 45.6%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.601 billion or about \$26 per capita and accounted for approximately 1.1% of GDP. Foreign aid receipts amounted to \$966 million or about \$16 per capita and accounted for approximately -0.7% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Thailand totaled \$81.01 billion or about \$1,307 per capita based

on a GDP of \$143.0 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.4%. In 2001 it was estimated that approximately 23% of household consumption was spent on food, 5% on fuel, 3% on health care, and 13% on education. It was estimated that in 2004 about 10% of the population had incomes below the poverty line.

## 2<sup>1</sup> LABOR

Thailand's labor force in 2005 was estimated at 35.36 million (compared with 21.7 million in 1981 and 15.1 million in 1967). In 2003, agriculture and related occupations accounted for 44.9% of the workforce, with industry at 19.7%, services at 35.3%, and 0.1% in undefined occupations. In September 2005, unemployment was put at 1.4%.

Because of persisting government opposition to unions, organized labor was not a major factor in Thai life prior to the 1970s. Labor legislation in 1969 delineated certain basic workers' rights, and unions were granted greater freedom to organize under the Labor Relations Act of 1975. The Thai Trade Union Congress is the largest labor federation. As of 2002, only 2% of the labor force (11% of industrial workers) was unionized. Minimum daily wage rates in 2002 ranged from \$3.01 to \$3.71 depending on the cost of living in different provinces. Legislation regulating hours and conditions of labor, workers' compensation, and welfare also exists, however, these laws are weakly enforced.

While forced labor is prohibited by the Thai constitution, there are reports that workers are physically prevented from leaving some sweatshops, especially ones which employ illegal immigrants from Laos, Cambodia, and Burma. These same sweatshops have also been accused of using physical coercion to meet production goals.

The minimum working age was raised to 15 in 1998, but this law has not traditionally been effectively enforced. As of 2002, it was estimated that there were one million children working on family farms. Another 240,000 to 410,000 children were working in urban areas.

## 2<sup>2</sup> AGRICULTURE

With some 17.7 million hectares (43.7 million acres) of farm land, of which about 9.2 million hectares (22.7 million acres) are under rice cultivation, Thailand continues to rely heavily on agriculture, although the country has suffered from declining export prices in recent years. Rice is the major crop grown; Thailand is the world's biggest rice exporter. Total rice production amounted to 17.07 million tons in 2004/05. The government has embarked on large-scale irrigation projects and introduced higher-yielding varieties of rice in an effort to increase production. In 2004, agricultural products accounted for 12.4% of exports and Thailand's agricultural trade surplus was over \$8 billion (8th in the world).

Rubber, also a major export, is grown on the peninsula and, to a lesser extent, on the southeast coast. Total production in 2004 was 3,030,000 tons, the highest in the world and accounting for 31% of all production that year. Demand for natural rubber is growing along with the international concern about AIDS. Sugarcane pro-

duction reached 67.9 million tons, while output of cassava (tapioca), traditionally important in Thailand, totaled 20.4 million tons. Thailand provides about 95% of the world's cassava exports. Much of the harvest is processed into chips and pellets and exported to the EU for fodder. Higher EU tariffs, however, have caused the Thai government to promote dairy, fruit, rubber, and cashew farming instead. Corn production, which has increased significantly in recent decades, reached 4.09 million tons in 2004. One third of annual corn production is consumed annually as fodder, with the remainder being exported to Europe and Japan. Kenaf, tobacco, cotton, and kapok are cultivated mainly for domestic use, but quantities of jute, cocoa, peanuts, soybeans, and medical plants are exported. Canned pineapple and fresh flowers, especially orchids, are important exports. The Thai government's official policy of encouraging mountain villagers to grow coffee, apples, strawberries, kidney beans, and other temperate crops instead of the lucrative opium poppy and marijuana has had some success; another aim of the project is to discourage deforestation through slash-and-burn cultivation. In 1987, King Bhumibol Adulyadej received a Magsaysay Award for International Understanding for his 20 years of effort in this area.

In the mid-1970s, farmers began to organize to express their discontent over the disparity between farm and nonfarm incomes. To improve farm conditions, the government legitimized squatters' rights to nearly 500,000 hectares (1,236,000 acres) of land classified as forest reserve and established credit and crop insurance programs for farmers. The government Marketing Organization for Farmers, founded in 1975, allows farmers to buy fertilizers, machinery, and equipment at the lowest possible prices and assists in crop marketing. It is also government policy to channel revenues from agricultural export taxes to a welfare fund called the Farmers Assistance Fund.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Cattle, used for plowing and harrowing, are important to rice farming, and most rural households have some cattle as well as hogs, chickens, and ducks. In 2005, Thailand had 5.5 million head of cattle, 1.8 million head of buffalo, 7.2 million hogs, and 50,000 sheep. Other livestock included 260 million chickens and 17 million ducks. Elephants, important as draft animals in rural areas, are used to haul teak. Crocodiles, raised for their skins, are a specialty livestock product; in 2003, 10,987 tons of Siamese crocodile were produced. Production of animal products in 2005 included (in tons): meat, 1,896,859; milk, 900,000; eggs, 694,000; cattle skins, 48,300; and silk, 1,600.

## 2<sup>4</sup> FISHING

Fish is a major protein element in the Thai diet. Freshwater fish, abundantly found in rivers and canals, and marine fish (from the waters along the lengthy coastline) produced a catch of 3,590,452 tons in 2003 (7th in the world), as compared with 846,600 tons in 1967. Leading marine species in the 2003 harvest included (in tons): sardines, 148,564; anchovies, 157,556; Indian mackerels, 150,800; and threadfin breams, 104,505. Thailand exports cured fish to neighboring countries, and frozen shrimp and prawns mainly to Japan. In 2003, Thailand accounted for 6.1% of the world's exports of fish and fish products, valued at over \$3,906

million. Giant tiger prawn, tilapias, hybrid catfish, and green mus-sels accounted for most of the aquacultural volume.

## 2<sup>5</sup> FORESTRY

Thailand's forested area declined from 53% of the nation's land area in 1961 to only 28% by 2000, mainly as a result of the continued use of slash-and-burn practices by farmers. The government's 2002–06 development plan has the objective for forests once again to cover 40% of the land area, of which 25% would be conservation forest and 15% would be for timber. Of Thailand's 17.01 million hectares (42.03 million acres) of forest in 2004, over 50% lies in the north, where teak and pine predominate. About 96% of the forest area is natural forest and the rest is reforestation and secondary growth. Rubber trees, planted mostly in the south, make up 10% of the forest area. The remainder consists of yang (keruing) plantations and rosewood, other species used as fuel, and smaller mangrove forests and conifers. Teak, once a major export, has declined in importance, largely because of government restrictions on cutting and past depletion of the forests through excessive harvesting and inadequate replanting. Yang, pradu, takien, krabak, and krabok are other traditional hardwoods that have suffered severe production declines. Thailand imposed a ban on logging government-owned timber in 1989. Lac, a resinous insect substance found on trees, has always had value for the Thai, but its derivatives—seedlac, sticklac, and shellac—have also found a ready international market. Other important forestry products include charcoal, gums and resins, and kapok fiber and seed.

In 2004 production of roundwood was estimated at 27.8 million cu m (980.9 million cu ft), with 72% used as fuel. Production of tropical hardwood products in 2004 included (in cubic meters): sawn wood, 288,000; veneer, 165,000; and plywood, 100,000. Thailand is a negligible exporter of tropical logs and lumber. However, Thailand now exports primarily value-added wood products (mostly furniture, picture frames, utensils, and other items). Exports of wood products in 2004 totaled \$870.9 million. Imports of logs, timber, and wood products in 2004 were valued at \$1,033 million.

## 2<sup>6</sup> MINING

Thailand in 2004, was one of the world's leading producers of feldspar and gypsum and was a leading exporter of each, as well as of cement. In addition to feldspar and gypsum, tin metal, tantalum powder and zinc metal were leading export minerals for Thailand. The country also had considerable resources of diatomite, dolomite, limestone, potash, rock salt, and a wide variety of other industrial minerals. In 2000, Other important minerals were barite, natural gas, gemstones, lead, crude petroleum, and silica. Except for gypsum, and tin and its by-products (ilmenite, monazite, struverite, tantalum, and zircon), most mineral production was for domestic consumption. Thailand is a net importer of minerals, mainly because of its large import bills for coal, crude petroleum, iron and steel, primary aluminum, refined copper, gold, refined lead, and silver. Thailand's resources of most metallic minerals and fuel minerals are small. The mining and quarrying sector, which accounted for 2.2% of gross domestic product (GDP) in 2004,

grew by 4.9% in that year, and accounted for approximately 3% of the nation's labor force.

Tin concentrate production (gross weight) in 2004 totaled 724 metric tons, down from 980 metric tons in 2003. Tin was mined mainly on the southern peninsula, of which 52% was produced from offshore dredging. Tin production has been steadily declining in the face of falling world prices and output curbs. Tungsten concentrate output (gross weight) in 2004 was 337 metric tons. Other metal minerals exploited on a small scale included antimony, cadmium, iron ore, lead, manganese, tantalum, zinc, and zirconium. Iron ore production (gross weight) which totaled 50 metric tons in 2001, leaped to 570,110 metric tons in 2002, fell to 9,675 metric tons in 2003 and then shot upward again in 2004 to 135,580 metric tons. Gold and silver output in 2004 totaled 4,500 kg and 10,700 kg, respectively. There was no production of monazite rare earths from 2000 through 2004.

Among industrial minerals in 2004: feldspar output was 1,001,053 metric tons, up from 824,990 metric tons in 2003; gypsum production was 7.619 million metric tons, up from 7.291 million metric tons in 2003; hydraulic cement production was 35.626 million metric tons, up from 32.530 million metric tons in 2003. Thailand also produced barite, ball clay, kaolin clay, diatomite, metallurgical-grade fluorspar, gemstones, phosphate rock, salt, silica sand (glass), stone (calcite, dolomite, limestone, marble, marl, quartz, and shale), and talc and pyrophyllite. In addition, resources of bentonite and copper have been identified. Exploration in the past five years has focused on copper, gold, and potash. Thailand could soon become an important producer of potash in Asia and the Pacific region. The Somboon deposit was estimated to contain more than 300 million tons of sylvinitic ore, with prospects for a two million ton per year potash mine, and the Udon deposit was estimated to contain more resources than the Somboon deposit. One copper deposit, at the Puthep project, near Loei, had ore reserves of 42 million tons of heap-leachable ore at a grade of 0.52% copper.

The government's underlying policy has been to conserve the country's mineral resources and to shift the emphasis to exploration, development, and exploitation of minerals consumed domestically, such as ball clay, feldspar, gypsum, kaolin, silica sand, limestone, lignite, phosphate, potash, rock salt, and zinc, and away from minerals that were predominantly exported, such as antimony, barite, fluorite, tantalum-columbium, tin, and tungsten. Thailand's mining industry consisted of a small mining and mineral-processing sector for ferrous and nonferrous metals, and a large mining and mineral-processing sector for industrial minerals. All mining and mineral-processing businesses except coal, natural gas, and crude petroleum were owned and operated by private companies.

## 2<sup>7</sup> ENERGY AND POWER

Thailand is a net importer of oil and natural gas. However, ongoing strong economic growth is increasing demand for energy.

Thailand is heavily dependent on imports of foreign oil. As of 1 January 2004, the country's proven oil reserves were estimated at 583 million barrels, with crude oil refining capacity for that date estimated at 703,100 barrels per day. Production of oil in 2003 was estimated to average 259,000 barrels per day, of which crude oil accounted for 96,000 barrels per day. Demand however, for that

same year was estimated to average 851,000 barrels per day, thus requiring imports that year estimated to average 592,000 barrels per year.

Thailand's proven reserves of natural gas, as of 1 January 2004, were estimated at 13.3 trillion cu ft. In 2002, natural gas output was estimated at 685 billion cu ft, with demand that same year, estimated at 904 billion cu ft. Much of the natural consumed by Thailand is used to generate electricity.

Thailand also possesses recoverable coal reserves that as of December 31, 1999, stood at 1.4 billion short tons. In 2002, coal production was estimated at 21.8 million short tons, with demand that year estimated at 28.1 billion short tons.

In 2002, Thailand's electric power generating capacity was put at 20.929 million kW, of which 17.992 million kW of capacity consisted of conventional thermal fuel sources. Hydroelectric capacity in 2002 came to 2.936 million kW, with geothermal/other sources accounting for 0.001 million kW. Total national output of electricity in 2002 was 102.866 billion kWh, of which 90.9% came from fossil fuel power plants and hydropower for 7.1%, and other renewable sources for the rest. Consumption of electricity in 2002 was 95.992 billion kWh.

## 28 INDUSTRY

Seven government agencies supervise the Thai industrial sector: the Ministries of Finance, Commerce, and Industry, the Board of Investment, the Industrial Finance Corporation, the Bank of Thailand, and the National Economic and Social Development Board (NESDB), are in charge of formulating five year development plans. In 1982, an eighth agency, the Industrial Restructuring Committee, was created to coordinate the other seven and to formulate policy proposals in line with economic development plans. The main protective measures Thailand has used are import tariffs and price controls. Tariffs, low in the 1960s, were increased in the 1970s, some to above 90%, and price controls were pervasive. As part of the fifth economic development plan, 1982–86, the government began to lower tariffs and relax price controls. In the economic boom of the early 1990s, trade liberation was continued particularly as the protection of infant industries became less important for Thailand's industrial growth than reducing the cost of imported capital goods and spare parts for rapidly expanding sectors like the automotive industry and electronics.

Manufacturing grew at an average rate of 12% annually in the 1960s and 10% in the 1970s. However, in the wake of the second oil shock in 1978–79, rising interest rates reduced global demand and falling commodity prices adversely affected manufacturing growth. In the period 1971 to 1985 Thailand continued to import most of its manufactures, although there was impressive growth in some sectors. The production of food products nearly tripled, textiles grew by over 500%, and transportation equipment showed even greater growth.

With the collapse of oil prices in 1986, Thailand was propelled into a decade-long boom led by its industrial sector in which the economy more than tripled, ending in the collapse of the baht in early July 1997. Automobile production increased 750% 1986 to 1996, from 74,162 vehicles to a peak of 559,428. Annual growth for automobile production averaged 42.6% 1986 to 1990, and, after a 7% decline in the global recession of 1991, 15% 1992 to 1996. It was the world's fastest-expanding automotive industry and Thai-

land also became the world's second-largest producer of motorcycles and pick-up trucks. Thai automobile producers invested in capacity expansion on the expectation that demand would grow to about one million cars a year, but the onset of the Asian financial crisis meant that these expectations were unmet. Production fell 35.6% to 360,303 units in 1997 and then another 56.1% to 158,130 units in 1998. Recovery began in 1999, with a 106.9% increase to 327,101 units, and 2000, with a further 25.9% increase to 411,721 units. By 2002, Thailand was on track to match the precrisis peak, with a projected production of 560,000 (56% of capacity). Similarly, motorcycle production by 2001 and 2002 had recovered to match the one-million-plus record set in 1997. By 2004, Thailand had dubbed itself the "Detroit of Asia," and set a production target of one million automobiles for that year; in fact, Thailand produced 928,091 automotive vehicles in 2004, 24% more than 2003. The automotive and auto parts industry was worth \$17.5 billion in 2004, generating the country's second-highest level of export revenue after computer and electronic parts. This represented approximately 12% of GDP. Thailand's automobile sector consists of 17 companies, the four largest being Auto Alliance Thailand, Toyota Motor Thailand, MMC Sittiphol, and Isuzu Motor Thailand, which together account for over 70% of production capacity.

By contrast, the cement industry, dependent more on the recovery of domestic demand, has not achieved precrisis production levels. Construction, one of the three leading growth sectors in the boom (with manufacturing and financial services), was the most severely impacted by the financial crisis. While the overall economy decreased 1.4% in 1997 and 10.5% in 1998, construction fell about 25% in 1997 and then over 38% in 1999, as landscapes that had been dominated by construction cranes were transformed into ones dominated by "For Sale" signs and unfinished buildings. Growth did not return to construction until 2002. Annual cement production, which grew from 18,834,000 metric tons in 1990 to a peak of 36,943,000 metric tons in 1997, was at 28,611,000 metric tons in 2002. Thailand produced 35,626,000 metric tons of cement in 2004.

Textiles and garments remain Thailand's largest industry. This includes synthetic fibers production, which in 1995 was growing at a 25% annual rate, one of the fastest in the economy. About two-thirds of the output are ready-to-wear garments destined for markets in the United States and Western Europe. In 2005, there were an estimated 4,500 textile firms employing more than one million workers. By 2002 precrisis production levels had been achieved and slightly bettered, but with a significant proportion of capacity unutilized. In 2004, Thailand produced 845,820 metric tons of spun textile products, and 893,859 metric tons of synthetic fiber products.

Since 1985, electronics has been Thailand's leading manufacturing export sector, employing about 300,000 workers. Annual growth in electronics production has averaged over 20% over the 1990s, with about 80% of the output exported. In 2000, electronics constituted one-third of all exports. Unlike most other manufacturing sectors, electronics production continued to grow during the financial crisis: the devaluation of the baht only made Thai electronic exports more competitive. Leading products include fully assembled computers, computer accessories, and integrated circuits in addition to a wide range of consumer electronics products. In 2004, Thailand produced 9.8 billion integrated circuits.

Among the ASEAN nations during the decade of boom, Thailand became the largest producer of petrochemicals as well as cement and textiles. Unlike most other industries, the refineries continued running near capacity during the crisis years 1997 to 1999. Refinery outputs reached 777,000 barrels per day in 1997, up 225% from 1990, then fell 4.6% in 1998 before recovering to a new high of 809,000 barrels per day (up 9.2%) in 1999. As of 2005, Thailand had four oil refineries and a total refining capacity of 703,100 barrels per day. The largest refineries are run by Shell Company of Thailand Ltd. at Rayong, Thai Oil Company Ltd. at Sriracha, and Esso Standard Thailand Ltd. at Sriracha. Over a third of refined production is distillate fuel oil, production of which increased 350% 1990 to 1999. Motor gasoline and residual fuel oil each account for about 18% of refined outputs, which grew in triple digits, 186% and 126%, respectively, during the 1990s. Other important refinery outputs include jet fuel and liquefied petroleum gases.

One industry that showed uninterrupted annual increases during the crisis was the production of beer, the output of which grew 6.7% 1997 to 1998, and another 6.2% 1998 to 1999. Across the 1990s beer production increased 370%. In 2004, Thailand produced 1.6 billion liters of beer.

## 2<sup>9</sup> SCIENCE AND TECHNOLOGY

The lack of skilled workers remains a drag on industrial development. Many students seek technical training overseas, and some receive postgraduate education in specialized technical subjects at the Asian Institute of Technology in Bangkok (founded in 1959), which offers advanced degrees in agricultural engineering, human settlements, and computer applications. The institute also operates receiving equipment for LANDSAT transmissions that provide Southeast Asian countries with the aerial surveys vital to agricultural development, forest inventories, and city planning.

Scientific organizations include the Medical Association of Thailand (founded in 1921); the Thailand Institute of Scientific and Technological Research (1963), the principle government research agency; and the Science Society of Thailand (1948), all headquartered in Bangkok. National science policy is the responsibility of the Ministry of Science, Technology and Energy. Research and development (R&D) expenditures in 2002 totaled \$1,050,722 million, or 0.24% of GDP. In 2001, there were 289 scientists and engineers, and 116 technicians engaged in research and development per million people. High technology exports in 2002 were valued at \$15.234 billion, accounting for 31% of the country's manufactured exports.

In addition to the Asian Institution of Technology, 15 other universities offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 18% of college and university enrollments.

## 3<sup>0</sup> DOMESTIC TRADE

Bangkok, the port of entry and distribution point for the whole country, is the commercial center of Thailand; all foreign firms have their main offices there. Other commercially important cities are Chiang Mai (teak, rice, and textiles), Ubon Ratchathani (rice, jute, and leather), Phuket (tin), and Songkhla (rubber).

Many essential commodities are grown and consumed by the producer, or distributed at the local level. Production for the do-

mestic market has continued to increase led by high growth industries such as construction materials, foods and beverages, and electronic appliances. In the greater Bangkok metropolitan area, almost every kind of retail outlet is represented, including specialty shops and over 40 department stores. There are about 250,000 retail outlets within the country, mostly small establishments. Department stores, discount stores, hypermarkets, and convenience stores are all available. Both local and foreign franchise firms have been successful. Rather than shop in traditional "wet markets," a growing number of Thai consumers are utilizing western-style supermarkets. Direct marketing, mail order, and television shopping have all become popular, particularly as credit cards have become more widely accepted. Newspaper, radio, television, and motion picture advertising is available.

Usual business hours are from 8:30 AM to 5 PM, Monday through Friday. Shops are open from 9 or 10 AM to 8 or 9 PM, and banks from 8:30 AM to 3:30 PM.

The annual Bangkok fair in December, originally conceived for entertainment, has developed into a trade fair.

## 3<sup>1</sup> FOREIGN TRADE

Thailand supplies the world with a large proportion of its natural rubber, rice, and seafood exports. Thailand is an exporter of automobiles and auto parts, electronic goods, and textiles and apparel. In 2004, the major exports, in percentage terms, were: machinery and mechanical appliances (13.5% of all exports); electrical apparatus for circuits (13.2%); computers and parts (9.4%); and electrical appliances (8.8%). The major imports were: electrical machinery (14% of all imports); fuel and lubricants (10.8%); non-electronic machinery (10.2%); and base metals (9.8%). Thailand's leading markets in 2004 were: the United States (16.1% of all exports); Japan (14%); China (7.4%); and Singapore (7.3%). The leading suppliers were: Japan (23.8% of all imports); the United States (8.6%); China (7.7%); and Malaysia (5.8%).

## 3<sup>2</sup> BALANCE OF PAYMENTS

In 1996, a weakening economy and a decline in export growth created a current account deficit that amounted to 8% of GDP. Simultaneously, high interest rates and a currency tied to the dollar at-

### Principal Trading Partners – Thailand (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	80,331.0	75,804.8	4,526.2
United States	13,671.4	7,179.7	6,491.7
Japan	11,406.3	18,260.7	-6,854.4
Singapore	5,871.6	3,269.0	2,602.6
China	5,701.4	6,065.3	-363.9
China, Hong Kong SAR	4,326.5	1,074.0	3,252.5
Malaysia	3,876.7	4,532.4	-655.7
Other Asia nes	2,588.9	3,230.3	-641.4
United Kingdom	2,587.1	930.7	1,656.4
Netherlands	2,372.8	616.4	1,756.4
Indonesia	2,277.1	1,781.0	496.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Thailand (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>7,965.0</b>
Balance on goods	11,606.0	
Imports	-66,790.0	
Exports	78,397.0	
Balance on services	-2,729.0	
Balance on income	-1,802.0	
Current transfers	890.0	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>-8,183.0</b>
Direct investment abroad	-558.0	
Direct investment in Thailand	1,866.0	
Portfolio investment assets	-937.0	
Portfolio investment liabilities	302.0	
Financial derivatives	...	
Other investment assets	-416.0	
Other investment liabilities	-8,441.0	
<b>Net Errors and Omissions</b>		<b>736.0</b>
<b>Reserves and Related Items</b>		<b>-518.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

tracted money to an economy without sufficient productive assets to support the inflow. The government was forced to pursue a high interest-rate policy to protect the currency. When the cost of doing so got too high, the government let the currency float against the dollar, which resulted in a 20% devaluation. By mid-1997, Thailand's short-term debt obligations had reached \$23.4 billion, consuming three-quarters of its foreign reserve holdings. In August of 1997, Thailand agreed to an economic restructuring package with the IMF that included \$10–20 billion in standby credits. The GDP contracted by 10.8% in 1998, compared with an average growth rate of 8.5% from 1990 to 1996. The economy since the 1997–98 crisis subsequently rebounded, and strong export performance drove economic growth in 1999–2000. Nevertheless, structural reform was still needed, especially in agriculture, education, and small- and medium-sized businesses. Growth declined in 2001, due in part to the global economic downturn, a downturn in export demand, a slow pace of corporate debt restructuring, and a struggling financial sector. Severe Acute Respiratory Syndrome (SARS) negatively impacted trade and travel in 2003.

Thailand ran a merchandise trade surplus of \$10.6 billion and a current-account surplus of \$6.6 billion (equivalent to 4.1% of GDP) in 2004. The country's diversified export base comprises agricultural commodities and manufactures, although 80% of exports now consist of manufactured goods, many of which are dependent upon imported inputs.

### 33 BANKING AND SECURITIES

The central bank is the Bank of Thailand, established in 1942. It operates as an independent body under government supervision; its entire capital is owned by the government. The Bank issues notes, a function previously handled by the Ministry of Finance.

The financial sector is broad and diverse. In 2002 there were 33 commercial banks operating the Thailand, 13 domestic and 19 foreign owned. The top three Thai banks are Krung Thai Bank, Bang-

kok Bank, and Thai Farmers Bank. Many of Thailand's domestic banks are owned by a few wealthy Chinese families. Shareholdings in even the largest banks, led by Bangkok Bank and the Thai Farmers Bank, are structured to insure family control. US banks with full branches in Thailand include Citibank, Chase Manhattan Bank, and Bank of America.

In general, Thai banks have suffered management problems in recent years and are having difficulty in complying with capital-adequacy and other requirements set by the Bank for International Settlements (BIS). The baht currency crisis dealt a severe blow to the banking industry and has prompted a major restructuring of the banking industry. By mid-2000, nonperforming loans accounted for about a third of total lending, down from a peak of almost 48% mid-1999. Thai banks are being forced to accept big write-offs by selling nonperforming loans for as little as 30% of the loan's face value.

The Thai domestic banking system has been criticized for failing to mobilize adequate domestic savings and for not offering adequate incentives to savers. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$14.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$119.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 2%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3.75%.

Thailand's first public stock exchange was opened in Bangkok on 30 April 1975 (the Securities Exchange of Thailand-SET). All of its 30 members were Thai-owned securities firms. The Ministry of Finance encourages companies to go public by reducing income tax for listed companies and also by according favorable tax treatment of dividends. It was not until the late 1980s that the market was taken seriously by the international and domestic financial communities. Because of the Asian financial crisis, the stock exchange lost its appeal as a source of corporate funds. In 1998, however, a four-year downward trend was reversed on news of a strengthened baht. The rally could not be sustained and by years end the SET index was down 4.5%, a substantial improvement over the 55% decline in 1997. In all, the exchange lists 449 companies with a combined market capitalization of just over \$36 billion. The turnover ratio is high at over 109%. The SET index was up 12.9% in 2001, at 303.9. As of 2004, at total of 465 companies were listed by the combined SET and the Market for Alternative Investment, which had a market capitalization of \$115.400 billion. In that same year, the SET fell 13.5% from the previous year to 668.1. The turnover ratio in that same year was 95.8%.

### 34 INSURANCE

There is a wide variety of insurance companies doing business in Thailand, including the American International Assurance Co., the Asian Reinsurance Corp., Assets Insurance Co., Bangkok Insurance Public Co., Commercial Union Assurance Co., Guardian Assurance Co., Indara Insurance Public Co., Navakij Insurance Public Co., Paiboon Insurance Co., Phatra Insurance Co., Safety Insurance Co., Samaggi Insurance Co., the Thai Insurance Public Co., the Viriyah Insurance Co., and Wilson Insurance Co. In Thailand, both workers' compensation and third-party automobile lia-

bility are compulsory. The government's company, however, holds a monopoly on workers' compensation insurance. As of 2003, foreign investors were only allowed to own 25% of a Thai insurance company, but these regulations were slated to be relaxed within 10 years. In 2003, the value of all direct insurance premiums written totaled \$4.932 billion, of which life insurance premiums accounted for \$3.222 billion. For that same year, Thailand's top nonlife insurer was Viriyah, which had gross written nonlife premiums totaling \$229.1 million, while the country's leading life insurer, AIA, had gross written life insurance premium of \$1,526.8 million.

### 3<sup>5</sup> PUBLIC FINANCE

Only a few utilities—power generation, transportation, and communications—are owned by the government, which is fiscally conservative in what is essentially a free-enterprise system. Following the Asian financial crisis of 1998, the Royal Government of Thailand took strong macroeconomic steps to stimulate the economy. By 2005, it appeared the country was among the few in the region that had recovered.

The US Central Intelligence Agency (CIA) estimated that in 2005 Thailand's central government took in revenues of approximately \$30.6 billion and had expenditures of \$31.7 billion. Revenues minus expenditures totaled approximately -\$1.1 billion. Public debt in 2005 amounted to 35.9% of GDP. Total external debt was \$50.63 billion.

The International Monetary Fund (IMF) reported that in 2003, the most recent year for which it had data, central government revenues were B1,159.4 billion and expenditures were B1,038.6 billion. The value of revenues was us\$28 million and expenditures us\$25 million, based on a official exchange rate for 2003 of us\$1 = B41.485 as reported by the IMF. Government outlays by function were as follows: general public services, 13.5%; defense, 7.3%; public order and safety, 6.0%; economic affairs, 23.3%; environmental protection, 0.1%; housing and community amenities,

3.8%; health, 10.7%; recreation, culture, and religion, 0.8%; education, 22.8%; and social protection, 11.6%.

### 3<sup>6</sup> TAXATION

Thailand, as of 2005, had a progressive personal income tax structure with a top rate of 37%, and that is applied to the person's total income, including dividends from stock and capital gains. Business and individual citizens are also subject to a host of indirect taxes, including customs duties, sales tax, and excise taxes.

Corporate income taxes on net profits are levied at a flat rate of 30%. However, small and medium companies, and those firms newly listed on the national stock exchange, can opt for lower rates. Companies involved in certain types of projects can also qualify for various reliefs and exemptions. In addition, there is a 10% profits remission tax and a 5% tax on gross income if the profits of a nonresident company cannot be determined. Capital gains are treated as ordinary business income and are subject to the corporate rate. Dividends are subject to a 10% withholding tax, but those received by one resident company from another resident company may qualify for a 50% exclusion, although the full amount may be excluded, if certain conditions are met. Generally interest income and royalty income are subject to withholding taxes of 15%.

As of 1 October 2005, Thailand had a value-added tax (VAT) rate of 10% on goods, services and imports. However, exports, international transport are zero-rated. Domestic transport, rents from immovable property and educational and health services are exempt. In addition, a municipal tax is levied on certain businesses.

There are excise taxes on tobacco, petroleum products, alcoholic beverages and soft drinks, and other products. Automobiles are subject to a special tax based on engine size.

Thailand has double taxation treaties with 33 countries, including the United States, Canada, Australia, Belgium, Denmark, Finland, France, and Germany. The US treaty has been in force since January 1998.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Thailand's customs tariff is primarily for revenue, although in a limited fashion it protects local industry. No preferential treatment is afforded any country and all goods are subject to the general rate. Only a few goods require import licenses, including some foods, materials, and industrial products. Products banned from import include aerosol mixtures of vinyl chloride monomers (for health reasons) and products constituting trademark infringement.

The Thai government began to reduce tariffs in 1994, although progress was impeded in 1997 due to a shortfall in government revenue. Still, duties that had ranged between 30% and 60% have been cut to between 1% and 45%, with the total number of tariff bands reduced from 39 to 6. There is a zero rate for essential items like medical equipment and fertilizer. The rate is 30% for certain items designated as needing special protection, like fabrics, clothing, refrigerators, and air conditioners. In addition to tariffs, some imports designated as luxury goods are subject to an excise tax. Import surcharges, designed to deter imports, were imposed in 1981 at rates between 5% and 30% on certain fibers, piston rings, palm oil, and telephones.

#### Public Finance – Thailand (2003)

(In billions of baht, central government figures)

<b>Revenue and Grants</b>	<b>1,159.4</b>	<b>100.0%</b>
Tax revenue	914.8	78.9%
Social contributions	46	4.0%
Grants	2.5	0.2%
Other revenue	196	16.9%
<b>Expenditures</b>	<b>1,038.6</b>	<b>100.0%</b>
General public services	140.2	13.5%
Defense	75.9	7.3%
Public order and safety	62.8	6.0%
Economic affairs	242.3	23.3%
Environmental protection	1.4	0.1%
Housing and community amenities	39.6	3.8%
Health	111.3	10.7%
Recreational, culture, and religion	7.9	0.8%
Education	236.8	22.8%
Social protection	120.5	11.6%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

Thailand is a member of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO). ASEAN members have established the ASEAN Free Trade Area (AFTA), which promotes reduced tariffs on most processed agricultural and industrial products traded among ASEAN countries. A proposal to link the economies of Australia and New Zealand to AFTA is also under discussion.

### 38 FOREIGN INVESTMENT

Growth of the Thai economy has been directly related to the flow of investments from abroad. In order to stimulate such investment, the government passed the Industrial Promotion Act (1962), which established the Board of Investment for Industry, renamed the Board of Investment (BOI) in 1972. National Executive Council Announcement Number 218, otherwise known as the Alien Business Law of 1972, restricted the participation of non-Thai nationals in certain types of business activities. The BOI, the powers and responsibilities of which were broadened in 1977, grants the following benefits to promoted industries: guarantees against nationalization and competition from government industries; exemption from import duties and business tax on plant, machinery, spare parts, and raw materials; exemption from duty on exports; exemption from tax on corporate income for a specified period; and repatriation of capital and remittance of profits abroad. In the wake of the Asian financial crisis, the Thai government embarked on an IMF-supervised program designed to make the economy more open and transparent for foreign investment. The 1972 Alien Business Law was replaced by the Alien Business Act of 1999, which opened additional business sectors to foreign investors, and raised the maximum ownership in some cases to above the old 49% limit. Limits on foreign ownership are most prominent in the financial sector, although now up to 100% ownership is permitted in Thai financial institutions for up to 10 years. A number of restrictions affect portfolio investments so that Thai authorities can track foreign investment.

In 1999 legislation was passed establishing a new bankruptcy court as well as new bankruptcy and foreclosure procedures, allowing, for instance, creditors to pursue payment from loan guarantors. Restrictions on property ownership were liberalized through amendment to the Land Code, the Condominium Act and the Property Leasing Act. Many of the reforms met political and were only partially and inconsistently implemented. In 2001 in the wake of the 11 September 2001 terrorist attacks on the United States there was a world wide contraction in foreign direct investment (FDI) and the government instituted a number of incentives to compete for scarcer investment funds, including tax incentives for firms to locate their regional headquarters in Thailand and several new government-backed investment funds to attract foreign money. To support its industrial exports, Thailand has 11 export processing zones located within industrial estates to which businesses may import raw materials and export finished products duty free. Also, factories may apply to establish bonded warehouses on their premises to which raw materials used exclusively to produce exports may be imported duty free.

According to the BOI, in 1997 the net flow of FDI to Thailand was about \$3.3 billion and then more than doubled to \$7.4 billion in 1998. Net portfolio investment, by contrast, peaked at \$4.6 billion in 1997 and then fell to \$0.3 billion in 1998. FDI decreased

from \$5.7 billion in 1999 to \$3.8 billion in 2001 to an estimated \$2.7 billion in 2002. The inflow of foreign investment has in any case been insufficient to offset the loan repayments Thailand has been making since the onset of the financial crisis. The balance on its capital and financial account reached a low of -\$12.6 billion in 1998, but in 2002 this had moderated to a -\$4.2 billion. The major sources of FDI in 2001, excluding bank recapitalization, were Singapore and Malaysia, both the source of direct investment totaling over \$1.5 billion, followed by Japan, contributing about \$1.3 billion. Industry and services, particularly tourism, were the two major recipients of FDI in 2001. According to the Bank of Thailand, net direct investment from Thailand to other countries was negative in both 2000 and 2001, at -\$52 million and -\$171 million, respectively.

FDI, including inflows from the banking sector, totaled \$610 million in 2004 (January to October), compared with \$1.4 billion in 2003 (January to October). Major FDI recipients included metal and nonmetallic processing, petroleum products, and services sectors. Japan was the largest source of FDI in 2004, followed by Germany and the United States.

### 39 ECONOMIC DEVELOPMENT

The Thai government, vulnerable in its financial dependence on a few primary commodities (rice, rubber, tin, and teak), has pursued a policy of economic diversification through industrial development and increased agricultural production. With the beginning of the first development plan in 1961, the government committed itself to the primacy of private enterprise and to a policy of fostering and assisting it. Thailand has also followed a policy of foreign trade and exchange liberalization. Foreign exchange control is nominal.

Thailand's first five-year plan, covering the period 1961–66, aimed to raise the standard of living by means of greater agricultural, industrial, and power production. In the second development plan (1967–71), emphasis was placed on agricultural development, highways, irrigation, education, and industrial development in the private sector. The third development plan (1972–76) placed special emphasis on improvements in the rural infrastructure, growth in the financial and commercial sectors, and further assistance to crop diversification and to import-substitution industries. The government also committed itself to a reduction in the role of state-owned enterprises. The first three plans did much to increase the standard of living and to bring new roads, irrigation schemes, and land reform to the prosperous Bangkok region. But these changes also increased the income gap between rural and urban Thailand and drew increasing numbers of migrants to the city in search of work. Accordingly, the fourth economic plan, covering the years 1977–81, emphasized decentralization of industry and economic growth from the capital region to the provinces. It also ended the policy of encouraging import-substitution industries and began the promotion of export-oriented industries able to benefit from the nation's low wage rates. Plans were made for the establishment of industrial estates under the direction of the Industrial Estate Authority of Thailand. The first estate, at Bangchan, 30 km (19 mi) from Bangkok, was fully occupied in 1980 by 51 companies, producing a range of industrial products, including automotive and electrical equipment, chemicals, and processed food. Another industrial estate, established in 1979 at

Lard Krabang, also in the Bangkok vicinity, includes, in addition to a general industrial area, a duty-free export-processing zone open to manufacturers willing to establish high value-added and labor-intensive industries for export.

The fifth development plan, covering the years 1982–86, stressed reduction of rural poverty and social tensions and expansion of employment opportunities in the poorer regions. To this end, four investment promotion zones were established. After completion in 1981 of the natural gas pipeline from the Gulf of Thailand, investment priority was reassigned to the Eastern Seaboard Development Program. This ambitious program called for the creation of a new urban-industrial complex in the Rayong-Sattahip region that was expected to draw industries from the congested Bangkok area. Heavy industries were to be emphasized, with early construction of a natural gas separator and plants for the manufacture of soda ash, fertilizers, and petrochemicals. The sixth national economic and social development plan (1986–91) stressed continuing export promotion, streamlining of the public sector, and strict monetary and fiscal policies, with growth targeted at only about 5% yearly. Emphasis was placed on the less capital-intensive industries, and more emphasis was given to improved utilization of resources. The plan targeted private sector investment and initiatives. Privatization of state enterprises would proceed in clear-cut phases, and enterprises were required to seek their own revenue. Agricultural production was forecast to grow at 2.9% per year. The development of small-scale industry, particularly in rural areas, was emphasized. In 1993, the Eastern Seaboard Development Plan southeast of Bangkok—begun 10 years before as a \$4 billion investment—demonstrated results with the new port, Laem Chabang. This plan extends greater Bangkok, and the next phases include extending all main national arteries into four-lane highways and double-tracking the railway.

The sixth national development plan coincided with the early part of Thailand's ten-year boom, and most of its economic targets were more than met. The actual average annual rate of real GDP growth—10.5%—was more than twice the targeted 5%. In the seventh development plan, 1992 to 1997, coinciding with the second half of the decade of boom, targets had shifted to a stronger emphasis on balanced, sustained development, and less on growth per se. The plan was formally titled the seventh national development and social development plan. The three official emphases were 1) sustained, moderate growth (though with the target set at a rather heady 8.2% annual real growth rate); 2) redistribution of income and decentralization of planning to achieve reductions in the percent in poverty and in the widening gap between rich and poor; and 3) human resource development. To attain the goals, four sets of policy guidelines were stipulated: policies for stable, noninflationary growth; policies of income redistribution; policies for human resource development and policies for environmental protection. The real GDP growth target was met, though with concern that this was through a combination of a explosive industrial sector growing at an above-target average annual rate of 11.4% and a moribund agricultural sector, growing as below-target annual rate of 1.5%. Inflation averaged only 4.13% a year, better than the 5.6% targeted, but goals to eliminate Thailand's large balance of trade and current account deficits were not met. The average annual savings rate of 9.1% also fell below the plan's ambitious target of 12.8%. Poverty reduction, however, was substantial, with

the percent of the population living in poverty falling from 32.6% in 1988 to 11.4% in 1996, which would prove to be its lowest point due to the on-set of the Asian financial crisis the next year. Themes for each region guided development. In the north (Chiang-mai, Lamphrun, and Lampang), light and clean industries are encouraged, such as clothing, high-value electronics, and agro-industry. In the south, transport links and natural gas networks developed between the Andaman Sea and the Gulf of Thailand would attract heavy industry such as petrochemicals, and cross-border development with Malaysia would link with Penang's industrial sector. Development plans for the impoverished northeast included linking with Laos, Cambodia, and Vietnam for processing raw materials from those countries, and for providing services involved with investment and manufacturing in those countries.

Thailand's eighth national development and social development plan, emphasizing again the concern with qualitative as well as quantitative growth, coincided with the on-set of the Asian financial crisis and Thailand's struggle back to precrisis levels of economic activity, 1997 to 2001. The Plan, assuming a continuation of economic growth, put priority on two long-range economic development goals: human development and the replacement of top-down administration with bottom-up processes. Virtually none of the goals of the plan were met as the economy was plunged into recession and high inflation with the collapse of baht in July 1997. Whereas about a million people a year had been lifted out of poverty during the decade of boom, from 1997 to 1999 about a million and a half a year were plunged back into poverty, as the estimated number in poverty rose from 6.8 million to 9.8 million (16% of the population). In August 1997 the eighth economic plan was essentially superseded by the IMF-guided international bailout program that involved a three-year, \$17.2 billion support package conditioned on a program of economic reforms. The IMF program did provide from the outset for "the protection of vital health and education expenditures in the central government budget," and, in fact, health expenditures rose by 8% 1997/98 even as revenues fell. The government adhered sufficiently close to the reform program to bring down inflation and replenish foreign reserves, undergirding the reforms with a new constitution. Thailand began repaying the IMF in November 2000 and repaying other lenders in 2001. Net capital flows were negative throughout the five-year planning period but by 2001 had improved to a -\$4.9 billion balance from -\$12.6 billion in 1998.

The introduction of the ninth national development and social development plan, to run 2001 to 2006, took a philosophical turn as the government presented it as embodying the king's concept of "sufficiency economy" as its guiding principle bestowed on the people as a means of helping his subjects overcome the economic crisis. "Sufficiency economy" was explained as based on adherence to the middle path, and involving moderation not just as a guide for economic policies but as a way of life. Balanced development was to be achieved through a combination of patience, perseverance, diligence, wisdom and prudence. The four pillars of the holistic approach of the ninth plan were social protection, competitiveness, governance, and environmental protection. Within this relatively abstract framework, the more specific elements of the Thaksin government's economic policy strategy in 2001 included the following seven elements: 1) farm debt restructuring, including a three year suspension of some debts owed by poor farmers

to state banks; 2) village funds financed by grants of one million baht (about \$24,000) to each of the country's roughly 70,000 villages to provide locally administered micro-loans; 3) the transfer of nonperforming loans (NPLs) to the newly established Thai Asset Management Corporation (TAMC), required of state-owned operations and voluntary for private ones, to promote more efficient debt restructuring; 4) special attention to small- and medium-sized enterprises (SMEs) by state-owned lending agencies; 5) promotion of product specialization by village groups, called the "one tambon (group of five or six villages), one product" scheme inspired by a similar Japanese program; 6) the establishment of the People's Bank, administered through the Government Savings Bank (GSB), allowing GSB account-holders to apply for small loans (up to about 30,000 baht or \$370) mainly for small retailing or commercial ventures; and 7) a restructuring of the economy away from heavy dependence on imports and towards more reliance on local resources, especially agricultural.

By 2006, the Thaksin government was using expansionary fiscal policy to enhance economic growth. In its first term the focus was on boosting rural incomes and development, but infrastructure development was the priority for Thaksin's second term. From 2006–09, the government planned to invest \$41 billion, or 26% of GDP, in infrastructure, spanning electricity generation, transportation, housing, irrigation, health, and education. Thailand was in need of new investment in 2006: transportation costs weighed heavily upon business, and the telecommunications network was outdated, with only one-tenth of the population connected. The government wanted to turn Thailand into a center for regional trade and business, which explains planned new highways to the north into China and stretching as far west as Myanmar and India. Thailand by 2006 had expanded into a few specialist markets with higher, more defensible profits, such as medical tourism (inexpensive but high quality heart bypasses, cancer care, and cosmetic surgery are a few of the services offered to foreigners), long-stay tourism, and a beginning fashion industry.

Other economic policy objectives include the restoration of a solvent banking sector and poverty reduction. In 2005, Prime Minister Thaksin declared Southeast Asia must not look solely to exports to resuscitate its economic fortunes, but should try to revive domestic consumption, which would help insulate the region from the vagaries of the world economy. His policies suspending farmers' debts, instituting inexpensive universal health care, and the granting of loans to villagers, small businesses, and home-buyers were undertaken to this end. The government also subsidized a variety of goods, from computers to cows, to increase Thais' spending power. Nevertheless, exports remain the chief engine of Thailand's growth, from automobiles to integrated circuits to rice.

The threat of an avian flu epidemic in Southeast Asia was present in 2006. Thailand was still rebuilding its areas affected by the 2004 Indian Ocean tsunami.

#### 40 SOCIAL DEVELOPMENT

A 1990 law established a social security system which began paying disability and death benefits in 1991. Old age benefits (pensions) were introduced in 1998. The pension system is funded by employers, employees, and the government. Old age pensions begin at age 55, and employment must cease at that time. There is a provision for deferred pension. The social security law also

provides for sickness and maternity benefits, which are provided to employees of firms with 10 or more workers. Employers are required to provide workers' compensation coverage, including temporary and permanent disability benefits, and medical and survivor benefits. Maternity benefits are available for two child-births only.

Women have equal legal rights in most areas, but inequities remain in domestic areas, including divorce and child support. Women constitute more than half of university graduates. Discrimination in hiring persists, and there is a gender gap in wages. Domestic abuse and violence remain a huge problem. Many women are trapped into prostitution through a system of debt bondage. Brothels provide a loan to parents of young women, and these women are required to work as prostitutes to pay off the loan. In many cases, this is done without the consent of the woman involved. As of 2004, prostitution thrived and sex tourism was rampant. Human trafficking is also prevalent.

Many Thai minorities, including many of the hill tribe members, lack any type of documentation. As noncitizens, they do not have full access to education and health care. They lack titles to their land, and may not vote in elections. The government has announced its intention to process and document these groups. Human rights are generally well respected, but some abuses occur. Coerced confessions and the torture of suspects are occasionally reported. Overcrowding in prisons has resulted in poor conditions.

#### 41 HEALTH

In the 1960s, the government, with UN and US assistance, extended free medical treatment, expanded health education activities in schools and rural areas, and built many hospitals. In the private sector, two-thirds of health care funding comes from employers and private households. A national social security scheme is under way, but private insurers are few. Owing largely to success in eradicating malaria and other tropical diseases, as well as to better sanitation and medical care, health conditions have steadily improved in Thailand.

Health care facilities are concentrated in the Bangkok metropolitan area, where about 15% of the population is located. There are 180 private hospitals and more than 11,000 private clinics. Thai hospitals tend to be small in size. In 2000, 80% of the population had access to safe drinking water and 96% had adequate sanitation. About 59% of the population had access to health care services. Total health care expenditure was estimated at 6% of GDP. In 2004, there were an estimated 30 physicians per 100,000 people.

Common diseases are malaria, tuberculosis, and leprosy. Approximately 13% of children under five years of age were considered malnourished. About 7% of births were of low birth weight. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 16.4 and 7.6 per 1,000 people. It was estimated that 72% of married women (ages 15 to 49) used contraception. In 2005, life expectancy was 71.95 years and infant mortality was 20.16 per 1,000 live births. Maternal mortality was 44 per 100,000 live births.

The HIV epidemic in Thailand is among the best documented in the world. Among brothel sex workers, the HIV infection rose from 3.5% in 1989 to 33% in late 1994. There were 570,000 AIDS

cases reported in 2003. Deaths from AIDS in 2004 numbered 58,000. HIV prevalence was 1.50 per 100 adults.

## 42 HOUSING

Most families in Thailand live in dwellings that compare favorably with living facilities anywhere in Southeast Asia. The Thai government has stimulated housing and community development by means of a housing plan that provides government mortgages for building, renovation, or purchase of government land and houses. Under a self-help settlement scheme, the government sets up whole new communities, surveys sites, constructs roads and irrigation systems, and provides public utilities and medical care.

In 1973, to house Bangkok residents who had been living in makeshift shelters, the government formed the National Housing Authority (NHA), which undertook overall responsibility for coordination of public and private housing programs. By 1979, the NHA had completed 54,780 housing units. From 1979 to 1984, a total of 1,442,250 housing units were built in Thailand.

According to the results of the 2000 census, there were about 15,349,500 dwelling units serving 15,662,300 households nationwide. The average household had 3.9 people. About 81% of all dwellings were owner occupied. Nearly 80% of all households lived in detached houses. About 67% of all households lived in nonmunicipal areas. Cement, brick, and wood are the main construction material for about 47.9% of all dwelling units; another 44.7% are made of a mixture of permanent and nonpermanent materials. About 39.2% of all households rely on rainwater as their primary source of drinking water; only 18.3% have tap water for drinking inside their dwelling.

## 43 EDUCATION

Schooling is compulsory for nine years, including six years of primary school and three years of lower secondary school. Three-year upper secondary schools offer general or vocational studies. Both teacher training and technical and vocational training (especially in agriculture) have been stressed in recent development plans. The academic year runs from June to March.

In 2001, about 85% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 86% of age-eligible students. It is estimated that about 86% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 21:1 in 2003; the ratio for secondary school was about 25:1. In 2003, private schools accounted for about 15% of primary school enrollment and 8.8% of secondary enrollment.

In Bangkok, Chulalongkorn University (founded 1917) is Thailand's most eminent university. Also in Bangkok are the University of Thammasart (founded 1933), specializing in social and political sciences, and Kasetsart University (founded 1943) specializing in agriculture. Newer universities established in provincial areas include Chiang Mai University (founded in 1964), Khon Kaen University (founded in the northeast in 1966), and Prince of Songkhla University (founded in 1968). King Mongkut's Institute of Technology was formed in 1971 through the amalgamation of three institutes, and eight colleges of education were combined into Sri Nakharinwirot University in Bangkok in 1974. A correspondence school, the University of Ramkhamhaeng, opened in

Bangkok in 1974 and the Sukhothai Thammathirat Open University began operations in 1978. In total there are 16 state universities in addition to 26 privately run colleges. There are also a large number of teacher training colleges. In 2003, it was estimated that about 38% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 92.6%.

As of 2003, public expenditure on education was estimated at 5.2% of GDP, or 28.3% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The National Library (founded in 1905) contains over 2.4 million books and over 300,000 manuscripts; The National Library maintains a main library site and eight other sites in Bangkok as well as 17 provincial branch locations. Other important libraries in Bangkok include the Asian Institute of Technology (200,000 volumes), Chulalongkorn University (264,700), the University of Thammasat (231,000), Kasetsart University (313,000), and Sri Nakharinwirot University (299,500). The Library of the Department of Science Services maintains a special collection of 450,000 volumes. Outside Bangkok, sizable collections are maintained at the University of Chiang Mai (655,000) and Khon Kaen University (340,000). The Economic and Social Commission for Asia and the Pacific holds 150,000 volumes. The public library system includes over 70 sites known as Chalermsrajumaree Public Libraries, which were opened with the support of Her Royal Highness Princess Sirindhorn. There are over 70 additional provincial public libraries and over 650 small district libraries.

The National Museum in Bangkok (founded in 1926) has an extensive collection of Thai artifacts, including sculptures, textiles, ceramics, jewels, coins, weapons, and masks. Many of Bangkok's temples and palaces contain excellent examples of Thai frescoes and sculptures. The Temple of the Emerald Buddha has a famous mural of the Ramayana, the Sanskrit epic, and the Marble Temple contains a fine collection of bronze and stone Buddhas. Bangkok also houses the Bhirasi Institute of Modern Art, the Hill Tribes Museum, the Science Museum, and the Sood Sanquichien Prehistoric Museum and Laboratory. The Hall of Opium Museum is near Chiang Rai. There are dozens of other provincial museums throughout the country.

## 45 MEDIA

The Ministry of Communications is responsible for Thailand's public postal, telegraph, and telephone services. The postal service, employing both railway and air mail, operates from the central post office in Bangkok and covers the entire country. Thailand is a member of INTELSAT and maintains trans-Pacific and Indian Ocean satellite communications stations. In 2003, there were an estimated 105 mainline telephones for every 1,000 people; about 582,700 people were on a waiting list for telephone service installation. The same year, there were approximately 394 mobile phones in use for every 1,000 people.

Ownership of broadcasting is both public and private, but the government and military tend to dominate radio and television networks. There are about six government and military radio networks. The first mainland Asian television station was established in Bangkok in 1955. As of 1999, there were 204 AM and 334 FM radio stations, and 5 television stations. In 2003, there were an es-

timated 235 radios and 300 television sets for every 1,000 people. The same year, there were 39.8 personal computers for every 1,000 people and 111 of every 1,000 people had access to the Internet. There were 258 secure Internet servers in the country in 2004.

The first daily newspaper, the *Siam Daily Advertiser*, appeared more than a century ago. In 2002 there were at least 35 daily newspapers published in Bangkok, including seven in Chinese and four in English. The provinces have weekly and semiweekly publications, all in Thai, but no daily papers. Bangkok also has a variety of weekly and monthly periodicals, most appearing in Thai. Among Bangkok's leading daily newspapers (with language of publication and estimated 2002 daily circulation) are: *Thai Rath* (Thai, 800,000), *Naew Na* (Thai, 200,000), *Matichon Daily News* (Thai, 180,000), *Diao Siam* (Thai, 120,000), *Khoa Sod Daily News* (Thai, 120,000), *Siam Rath* (Thai, 120,000), *Phaya Crut* (Thai, 100,000), *Srinakorn Daily News*, (Chinese, 80,000), *Sing Sian Yit Pao*, (Chinese, 70,000), and the *Daily Mirror* (English, 60,000).

Citizens are said to enjoy constitutionally provided freedom of speech and a free press. However, the law prohibits criticism of the royal family, threats to national security, and insults to Buddhism. Libel laws have caused some media sources to practice self-censorship.

#### 46 ORGANIZATIONS

Thailand has an extensive cooperative movement. Credit societies are the dominant type of cooperative; consumer cooperatives are the next largest, followed by agricultural marketing and processing cooperatives. Other kinds of cooperatives, mostly formed during and since the 1930s, include colonization and land improvement cooperatives. Trade organizations under the Ministry of Economic Affairs include the Thai Chamber of Commerce, the Board of Trade, and several foreign trade associations. There are many organizations for promoting the interests of workers and business owners of particular industries, such as the Thai Silk Association and the Thai Tapioca Trade Association.

Professional associations promoting research and development include the Agricultural Science Society of Thailand, the Medical Association of Thailand, and Science Society of Thailand. There are a number of ASEAN organizations with a base in Thailand, including the ASEAN Institute for Health Development, ASEAN Institute for Physics, and the ASEAN Solar Energy Network.

Cultural organizations include the Royal Institute (founded 1933); the Thai-Bhara Cultural Lodge (founded 1940), which sponsors studies in the fields of linguistics, philosophy, and religion; and the Siam Society (founded 1904), which issues studies on Thai art, literature, and science. The National Culture Commission was established in 1979. The multinational organization of the World Fellowship of Buddhists is based in Bangkok.

National youth organizations include the Student Federation of Thailand, Junior Chamber, Girl Guides, the National Scout Organization of Thailand, and YMCA/YWCA. There are many sports associations promoting competition for amateur athletes of all ages in variety of pastimes, such as squash, golf, rugby, and football (soccer).

Social action groups include the Asian Coalition for Housing Rights, Asian Forum for Human Rights and Development, and the National Council of Women of Thailand. There is also the Center for the Protection of Children's Rights Foundation and the

multinational Committee for Asian Women. There are national chapters of the Red Cross, UNICEF, Habitat for Humanity, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism has become a vital industry in Thailand, offering a range of attractions from outdoor activities to museums and cultural events. Most tourists visit Bangkok and its Buddhist temples (wats). Major sports include football (soccer) and baseball. Thai bull, cock, and fish fighting are also popular (though illegal), along with Thai boxing, golf, badminton, and kite fighting. All visitors must have a passport, visa, and proof of sufficient funds for the stay. Precautions are recommended against typhoid, hepatitis, and malaria.

In 2003, about 10,082,000 foreign nationals visited Thailand. There were 320,565 hotel rooms in 2001, with an occupancy rate of 52%. Visitors to Thailand stayed an average of two nights.

In 2004, the US Department of State estimated the daily cost of staying in Bangkok at \$182; in Phuket, \$253, and in smaller regions, \$118.

#### 48 FAMOUS THAI

Many ancient Thai kings enjoy legendary reputations. Rama Khamheng (the Great), a 13th-century monarch, is traditionally regarded as the inventor of the Thai alphabet; Rama Tibodi I in the 14th century promulgated the first-known Thai laws; Trailok instituted lasting governmental reforms in the 15th century; and Phya Tak in the 18th century rebuilt a war-defeated Thailand. Two great monarchs, Mongkut (r.1851–68) and his son Chulalongkorn (r.1868–1910), became famous for introducing Thailand to the modern world. They are, respectively, the king and his young successor in Margaret Landon's *Anna and the King of Siam*. Further progress toward modernization was accomplished in by three outstanding premiers: Phibul Songgram (1897–1964), Pridi Banomyong (1900–83), and Sarit Thanarat (1900–63). Prince Wan Waithayakon (1891–1976), foreign minister and Thailand's representative to the UN, played a major role in diplomacy following World War II. Marshal Thanom Kittikachorn (1911–2004) was leader of Thailand from 1963 until October 1973, when political protests compelled his resignation as prime minister. King Bhumibol Adulyadej (b.US, 1927) ascended the throne in 1946.

Prince Akat Damkoeng was the author in 1940 of the first modern novel written in Thailand, *Yellow Race, White Race*. Modern styles in painting and sculpture are reflected in the work of Chitr Buabusaya and Paitun Muangsomboon (b.1922), and the traditional manner in the art of Apai Saratani and Vichitr Chaosanket.

#### 49 DEPENDENCIES

Thailand has no territories or colonies.

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# TONGA

Kingdom of Tonga

*Pule'anga Tonga*



**CAPITAL:** Nuku'alofa, Tongatapu

**FLAG:** The flag, adopted in 1862, is crimson with a cross of the same color mounted in a white square in the upper left corner.

**ANTHEM:** *Koe Fasi Oe Tu'i Oe Otu Tonga (Tongan National Anthem)* begins "E 'Otua Mafimafi Ko homau 'Eiki Koe" ("O Almighty God above, Thou art our Lord and sure defense").

**MONETARY UNIT:** The Tongan pa'anga (T\$) of 100 seniti is a paper currency at par with the Australian dollar. There are coins of 1, 2, 5, 10, 20, and 50 seniti, and 1 and 2 Tongan pa'angas, and notes of ½, 1, 2, 5, 10, 20, and 50 pa'angas. T\$1 = US\$0.50720 (or US\$1 = T\$1.9716) as of 2004.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some imperial and local weights and measures also are employed.

**HOLIDAYS:** New Year's Day, 1 January; ANZAC Day, 25 April; Crown Prince's Birthday, 4 May; Independence Day, 4 June; King's Birthday, 4 July; Constitution Day, 4 November; Tupou I Day, 4 December; Christmas, 25–26 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** 1 AM (the following day) = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Tonga archipelago, also known as the Friendly Islands, lies scattered east of Fiji in the South Pacific Ocean. Nuku'alofa, the capital, is about 690 km (430 mi) from Suva, Fiji, and about 1,770 km (1,100 mi) from Auckland, New Zealand. Consisting of 171 islands of various sizes, only 45 of which are inhabited, Tonga has a total area of 748 sq km (289 sq mi), including inland waters as well as Teleki Tokelau and Teleki Tonga (formerly the Minerva Reefs). Comparatively, the area occupied by Tonga is slightly more than four times the size of Washington, DC. It extends 631 km (392 mi) NNE–SSW and 209 km (130 mi) ESE–WNW. The major islands are Tongatapu and 'Eua, Ha'apai, Vava'u, Niuatoputapu and Tafahi, and Niuafu'ou. Tonga's total coastline is about 419 km (260 mi).

The capital city of Nuku'alofa is located on Tongatapu.

## <sup>2</sup>TOPOGRAPHY

The islands run roughly north–south in two parallel chains; the western islands are volcanic and the eastern are coralline encircled by reefs. At 10,800 m (35,400 ft) deep, the Tonga Trench is one of the lowest parts of the ocean floor. The soil on the low-lying coral islands is porous, being a shallow layer of red volcanic ash, devoid of quartz, but containing broken-down limestone particles.

The volcanic islands range in height to a maximum of 1,033 m (3,389 ft) on Kao. Fonuafo'ou (formerly Falcon Island), about 65 km (40 mi) northwest of Nuku'alofa, is famous for its periodic submergences and reappearances, as a result of earthquakes and volcanic action. There are few lakes or streams. Tofua, Vava'u, Nomuka, and Niuafu'ou each have a lake, and there are creeks on 'Eua and one stream on Niuatoputapu. Other islands rely on wells and the storage of rainwater to maintain a water supply.

## <sup>3</sup>CLIMATE

The climate of Tonga is basically subtropical. Because the islands are in the southeast trade wind area, the climate is cooler from May to December, when the temperature seldom rises above 27°C (81°F). The mean annual temperature is 23°C (73°F), ranging from an average daily minimum of 10°C (50°F) in winter to an average maximum of 32°C (90°F) in summer. Average annual rainfall, most of which occurs from December to March during the hot season, is 160 cm (63 in) on Tongatapu, 257 cm (101 in) on Niuatoputapu, and 221 cm (87 in) on Vava'u. The mean relative humidity is 80%.

## <sup>4</sup>FLORA AND FAUNA

Some original forest growth can be found on islands in the Vava'u and Ha'apai groups. Tree species include coconut palms, and paper mulberry. Tropical bushes and flowers are abundant, including hibiscus and datura. A wide variety of fish are found in the coastal waters. Tonga is famous for its flying foxes.

## <sup>5</sup>ENVIRONMENT

Agricultural activities in Tonga are exhausting the fertility of the soil. The forest area is declining because of land clearing, and attempts at reforestation have had limited success. Water pollution is also a significant problem due to salinization, sewage, and toxic chemicals from farming activities. The impurity of the water supply contributes to the spread of disease. The nation is also vulnerable to cyclones, flooding, earthquakes, and drought. The government has established a Water Master Plan to manage the nation's water resources for two decades. The National Development Plan

is a more comprehensive attempt to address the nation's environmental concerns.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included two types of mammals, three species of birds, two types of reptiles, four species of fish, two types of mollusks, and three species of plants. The Fiji banded iguana, and the loggerhead, green sea, and hawksbill turtles are endangered. The Tonga ground skink has become extinct. There has been some damage to the nation's coral reefs from starfish and from coral and shell collectors. Overhunting threatens the native sea turtle populations.

## **6 POPULATION**

The population of Tonga in 2005 was estimated by the United Nations (UN) at 102,000, which placed it at number 178 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 39% of the population under 15 years of age. There were 104 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.8%, a rate the government viewed as satisfactory. Although the fertility rate was reported to be 3.9 births per woman, which was relatively high, ongoing emigration keeps the overall population growth rate lower. The projected population for the year 2025 was 137,000. The overall population density was 136 per sq km (352 per sq mi), but only 45 of the nation's 171 islands are inhabited.

The UN estimated that 33% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.90%. The capital city, Nuku'alofa, Tongatapu, had a population of 35,000 in that year. Two-thirds of the population live on the island of Tongatapu.

## **7 MIGRATION**

There is considerable movement toward the larger towns as population pressure on agricultural land increases. Some ethnic non-Tongans born on the islands migrate mainly to Fiji and New Zealand. Emigration by Tongan workers, both skilled and unskilled, has long been of concern to the government. In 1989 approximately 39,400 Tongans lived in the United States, Australia, and New Zealand. There are expatriate Tongan communities in Brisbane and Sydney (Australia), Auckland (New Zealand), San Francisco (United States), and on Hawaii. Persons wishing to reside in Tonga must obtain a government permit; permission is granted only to those taking up approved employment. Immigrant settlement is not encouraged because of the land shortage. There were an estimated 2,000 migrants in Tonga in the year 2000. In that same year the total population of Tongans in the United States was 17,270. Emigration is a significant factor in the economy due to large in-flows of remittances. In 2002 worker remittances were \$65 million. The net migration rate in 2005 was estimated as zero migrants per 1,000 population. The government views the migration levels as satisfactory.

## **8 ETHNIC GROUPS**

The Tongans are a racially homogeneous Polynesian people. Less than 2% of the population is of European, part-European, Chinese, or non-Tongan Pacific island origin.

## **9 LANGUAGES**

Tongan, a Polynesian language not written down until the 19th century, is the language of the kingdom, but government publications are issued in both Tongan and English, and English is taught as a second language in the schools.

## **10 RELIGIONS**

Over 98% of Tongans are Christian. According to the last official census in 1996, 41% of the population were members of the Free Wesleyan Church of Tonga (Methodist), 16% were Roman Catholics, 14% were members of the Church of Jesus Christ of Latter-Day Saints, 12% were of the Free Church of Tonga, and 17% belonged to other churches, including Seventh-Day Adventists, the Assembly of God, the Tokaikolo Church (a local offshoot of the Methodist Church), Anglicans, Baha'is, Muslims, and Hindus.

Though freedom of religion is provided for in the constitution and there is no state religion, the constitution does also stipulate that Sunday is the official Sabbath day. As such, the government restricts the operation of a large number of businesses on Sunday. The Tongan Broadcasting Commission also maintains a policy which restricts broadcasts of any religious tenets that are not within the mainstream Christian tradition.

## **11 TRANSPORTATION**

In 2002, Tonga had 680 km (423 mi) of roadways, of which 184 km (114 mi) were paved. There are no bridges in Tonga, but three islands in the Vava'u group are connected by two causeways. Tonga has no railways.

Nuku'alofa and Neiafu are the ports of entry for overseas vessels. In 2005, the merchant fleet consisted of 29 ships of 1,000 GRT or more, some of them foreign owned and registered as a flag of convenience, totaling 136,977 GRT. Work on extending the port at Nuku'alofa began in 1985. The Pacific Forum Line and the Warner Pacific Line maintain scheduled service from Australia and New Zealand to Tonga via the Samoas and other islands, and cargo ships visit the group from time to time for shipments of copra. Internal sea connections are maintained by the Polynesia Triangle and by the Shipping Corp. of Polynesia.

In 2004, there were an estimated six airports, but only one of which (as of 2005), had a paved runway. Fua'Amotu International at Tongatapu is Tonga's principal airport. Air Pacific, Air New Zealand, Polynesian Airlines, and Hawaiian Air operate scheduled international flights from Fua'Amotu. The government-owned Friendly Island Airways has scheduled flights between Tongatapu, Ha'apai, 'Eua, Vava'u, and Niuatoputapu. In 2001 (the latest year for which data was available), about 56,800 passengers were carried on scheduled domestic and international airline flights.

## **12 HISTORY**

Since the Tongan language was not written down until the 19th century, the early history of Tonga (which means "south") is based

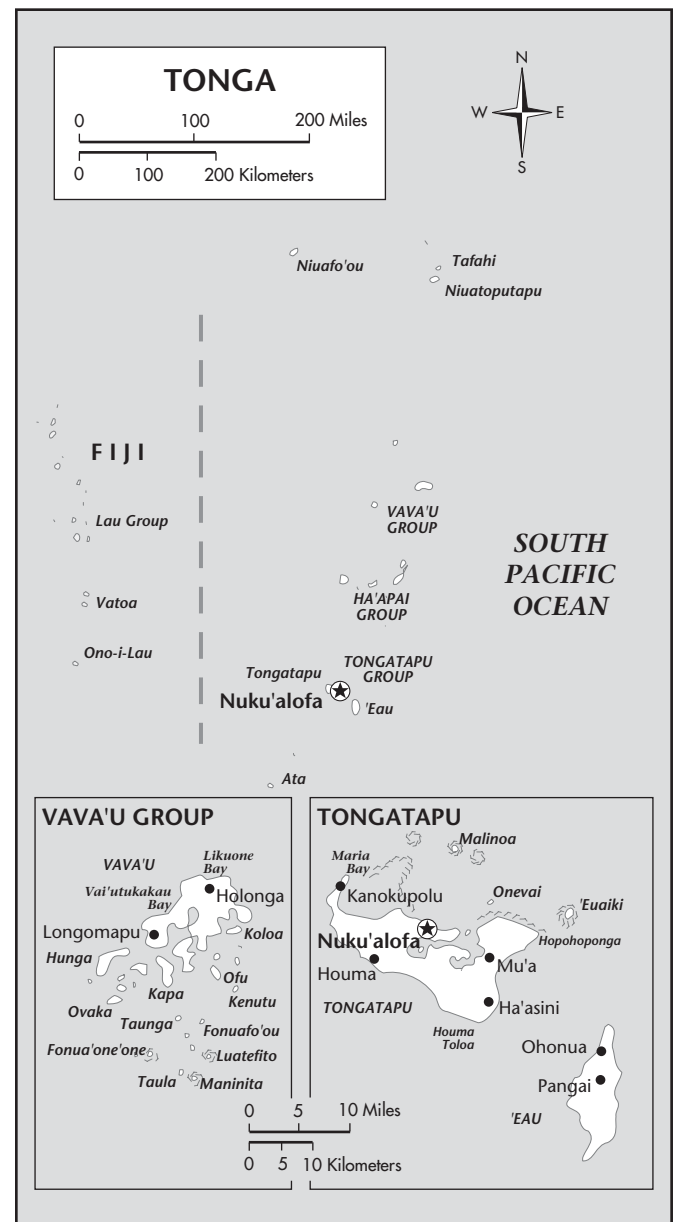
on oral tradition. Hereditary absolute kings (Tu'i Tonga) date back to Ahoeitu in the 10th century. Around the 14th century, the twenty-third king, Kau'ulufonua, while retaining his sacred powers, divested himself of much of his executive authority, transferring it to his brother Ma'ungamotu'a, whom he thereafter called the Tu'i Ha'atakalaua. About the middle of the 17th century, the seventh temporal king, Fotofili, transferred the executive power to his brother Ngala, called the Tu'i Kanokupolu, and thereafter the powers gradually passed into the hands of the latter and his descendants. According to tradition, in the mid-19th century, upon the death of the then Tu'i Tonga, those powers were conferred upon the 19th Tu'i Kanokupolu, Taufa'ahu Tupou, founder of the present dynasty.

European chronicles disclose that the island of Niuatoputapu was discovered by the Dutch navigators Jan Schouten and Jacob le Maire in 1616. In 1643, Abel Tasman discovered Tongatapu, and from then until 1767, when Samuel Wallis anchored at Niuatoputapu, there was no contact with the outside world. Capt. James Cook visited the Tongatapu and Ha'apai groups in 1773 and again in 1777, and called Lifuka in the Ha'apai group the "friendly island" because of the gentle nature of its people—hence the archipelago received its nickname, the Friendly Islands. It was in the waters of the Ha'apai group that the famous mutiny on the British ship *Bounty* occurred in 1789. The first Wesleyan missionaries landed in Tonga in 1826.

The first half of the 19th century was a period of civil conflict in Tonga, as three lines of kings all sought dominance. They were finally checked during the reign of Taufa'ahu Tupou, who in 1831 took the name George. By conquest, George Tupou I (r.1845–93) gathered all power in his own hands and united the islands; he abolished the feudal system of land tenure and became a constitutional monarch in 1875. Meanwhile, by the middle of the century, most Tongans had become Christians, the great majority being Wesleyans, and the king himself was strongly influenced by the missionaries.

In the latter part of the century, there were religious and civil conflicts between the Wesleyan Mission Church and the newly established Free Wesleyan Church of Tonga. After the dismissal of the prime minister, the Rev. Shirley Waldemar Baker, in 1890, the new government allowed full freedom of worship. Ten years later, during the reign (1893–1918) of George II, a treaty of friendship was concluded between the United Kingdom and Tonga, and a protectorate was proclaimed. During World War II, Tongan soldiers under Allied command fought the Japanese in the Solomon Islands, and New Zealand and US forces were stationed on Tongatapu, which served as an important shipping point.

Two more treaties of friendship between the United Kingdom and Tonga were signed in 1958 and 1968, according to which Tonga remained under British protection, but with full freedom in internal affairs. On 4 June 1970, Tonga ceased being a British protectorate and became an independent member of the Commonwealth of Nations, with King Taufa'ahau Tupou IV—who had succeeded to the throne upon the death of his mother, Queen Salote Tupou (r.1918–65)—as head of state. The new status brought few immediate changes, apart from the fact that it added Tongan control of foreign affairs to self-rule in domestic matters.



LOCATION: 15° to 23°30' S; 173° to 177°W. TERRITORIAL SEA LIMIT: 12 miles.

In 1972, Tonga claimed the uninhabited Minerva Reefs (now Teleki Tokelau and Teleki Tonga), situated about 480 km (300 mi) southwest of Nukunono, in order to prevent an Anglo-American corporation from founding an independent Republic of Minerva on the reefs in order to gain certain tax advantages.

Many of the government's strongest critics gained seats in the 1987 legislative elections; the unprecedented turnover was thought to reflect changing attitudes toward traditional authority. However, the traditional leaders continued in charge of the government, with Prince Fatafehi Tu'iipelehake elected as prime minister. The island's dissident pro-democracy movement, led by Akilisi Pohiva, won the February 1990 general election, but it remained a minority within the legislature. A government scandal over selling Tongan passports to Hong Kong Chinese led to popular support for the opposition. Baron Vaea replaced Prince Fatafehi

hi Tu'ipelehake as prime minister in August 1991. King Taufa'ahau Tupou IV organized the Christian Democratic Party in time for the 1993 election to provide greater coordination for his supporters and to weaken the democracy movement. However, pressure from the pro-democracy forces continued in the February 1993 general election when the People's Democratic Movement won six of the nine open seats.

Parliamentary elections were held in March 1999, when about 51% of eligible voters cast ballots, the lowest voter turnout in the country's history. Five of the nine members elected were from the Human Rights and Democracy Movement (HRDM). King Taufa'ahu Tupou IV appointed his youngest son, 41-year-old Prince Lavaka Ata Ulukalala prime minister in January 2000. When the previous prime minister retired, observers speculated that the king's oldest son, Crown Prince Tupouto'a, would be named prime minister. It is likely that Tupouto'a was passed over for the post because of his stated opposition to preserving the king's right to make lifetime appointments. His younger brother, who became the country's fourth prime minister since 1950, has been outspoken in his criticism of the country's democracy movement.

Fifty-two candidates ran for the nine people's representative seats in the legislature in March 2002; the HRDM won seven of the seats. In the 2005 elections, the HRDM took 70% of the vote and 7 of 9 open seats. Although the movement's improvement in electoral standing may signal popular support for democratic reform, it is seen as the king's prerogative to initiate change.

Tonga experienced a financial scandal in 2001, when the king's official court jester, Jesse Bogdonoff, an American businessman, invested \$26 million in a government trust fund that subsequently disappeared. The money had been raised by the sale of Tongan citizenship and special passports to Asians, especially Hong Kong Chinese concerned with the transfer of Hong Kong to China. The \$26 million represented more than half the government's annual budget. The Tongan government's lawsuit against Bogdonoff was settled in 2004.

On 22 July 2005, public workers declared Tonga's first national strike. The 47 day strike ended in early September, when the chairman of the Public Servants Association presented the king with a petition calling him to dismiss Prime Minister Prince Ulukalala Lavaka Ata and all 14 cabinet ministers. The petition also demanded a commission be established to review the constitution within one year, and called for a more democratic form of government, as well as the return of royal family-controlled government assets, including the internet domain address and the power company.

In October 2005 parliament voted to establish the National Committee of the Kingdom of Tonga for Political Reforms, with the goal of examining and improving Tonga's form of government. Committee members were to be drawn from the executive and legislative (both noble and commoner) branches of the government, as well as from the nongovernmental population.

On 15 December 2005, after 10 years of membership talks, Tonga became the 150th member of the World Trade Organization. As part of its accession agreement, Tonga agreed to cut its import tariffs and to open many of its vital services to foreign companies.

## **13 GOVERNMENT**

Tonga is an independent kingdom. According to the constitution of 1875, as amended, the government is divided into three main branches: the sovereign, Privy Council, and cabinet; the Fale Alea (Legislative Assembly); and the judiciary. The King-in-Council is the chief executive body, and the cabinet, presided over by the appointed prime minister, makes executive decisions of lesser importance. The prime minister is appointed for a life term. Law-making power is vested in the 30-member Legislative Assembly, which consists of 12 members of the cabinet sitting *ex officio*, 9 nobles elected to three-year terms by the 33 hereditary nobles of Tonga, and 9 representatives popularly elected to three-year terms. Sessions must be held at least once in every calendar year. Legislation passed by the Privy Council is subject to approval at the next meeting of the Legislative Assembly. Women voted for the first time in 1960, and the first woman was elected to the legislature in 1975. All literate citizens 21 years of age or older are eligible to vote.

In November 2003, the king approved amendments to Clause 7 of the constitution, which limited the press, thus effectively reducing freedom of speech. In October 2004, Chief Justice Webster found these amendments to be inconsistent with Clause 7, and therefore unconstitutional.

The next elections were to be held in 2008.

## **14 POLITICAL PARTIES**

The Tonga People's Party (TPP), led by Viliami Fukofuka, and the pro-democracy Human Rights and Democracy Movements (HRDM), led by 'Akilisi Pohiva were the principal political parties active in 2003.

## **15 LOCAL GOVERNMENT**

The islands are divided administratively into three districts: Vava'u in the north, Ha'apai in the center, and Tongatapu in the south. Ha'apai, Vava'u, and the outlying islands are administered by governors who are members of the Privy Council and are responsible to the prime minister. Minor officials perform statutory duties in the villages. Town and district officials have been popularly elected since 1965. They represent the central government in the villages; the district official has authority only over a group of villages.

Titles of nobility were first bestowed in 1875, and later in 1882, 1887, 1903, and 1923. With the hereditary titles were granted villages and lands.

## **16 JUDICIAL SYSTEM**

The Supreme Court exercises jurisdiction in major civil and criminal cases. Other cases, heard in the Magistrate's Court or the Land Court, may be appealed to the Supreme Court and then to the Court of Appeal, the appellate court of last resort. The Privy Council has jurisdiction over cases on appeal from the Land Court dealing with titles of nobility and estate boundaries. With the ratification of the 1968 friendship treaty, UK extraterritorial jurisdiction lapsed, and British and other foreign nations became fully subject to the jurisdiction of the Tongan courts. The judiciary is independent of the king and the executive branch, although Supreme Court justices are appointed by the king. Criminal defendants are afforded the right to counsel and the right to a fair pub-

lic trial is protected by law and honored in practice. The king may commute a death sentence. In addition, the court system consists of a court martial for the Tonga Defense Services, a court tribunal for the police force, and a court of review for the Inland Revenue Department.

## 17 ARMED FORCES

The Tonga Defense Force was organized during World War II, became defunct in 1946 and was reactivated in 1952. It consists of a regular cadre and volunteers serving an initial training period, followed by attendance at annual training camps. Forces are organized into marines, royal guards, a navy, a police force, and a newly created air wing. The naval squadron consists of several fast patrol boats policing territorial waters.

## 18 INTERNATIONAL COOPERATION

Tonga was admitted to the United Nations on 14 September 1999. It participates in ESCAP and several nonregional specialized agencies, such as the FAO, UNCTAD, UNESCO, the World Bank, and WHO. Tonga is also a member of the Asian Development Bank, the Commonwealth of Nations, the ACP Group, G-77, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Alliance of Small Island States (AOSIS), and Pacific Island Forum (formally called the South Pacific Forum). It has observe status in the WTO.

In environmental cooperation, Tonga is part of the Convention on Biological Diversity, the London Convention, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

The economy is largely agricultural and still contains a substantial nonmonetary sector. The principal cash crops are squash, fish, copra and coconut products, vanilla bean extract and bananas. Agricultural exports make up two-thirds of total exports. One third to one half of export earnings come from the sale of squash to Japan, though the main source of foreign exchange is remittances, followed by tourism. A proportion of food is imported and the economy remains dependent on external aid and remittances from expatriate Tongalese to offset its chronic trade deficit. It is estimated that there are more expatriates (over 100,000) than current citizens. Real GDP growth, which had peaked at 6.5% in fiscal year 1999/2000, fell to 0.5% in 2000/01, attributable to the global economic slowdown, and, in particular, its impact on tourism. The GDP growth rate in 2002 stood at 1.5% and at 1.9% in 2003.

In 2002, the year was ushered in by Tonga's worst cyclone since 1961, Cyclone Waka, which tore through the northern islands of Niuafoou and Vava'u on 30–31 December 2001, destroying an estimated 90% of the crops. About 350 homes were destroyed, with another 750 homes, 23 schools, and numerous hospitals, churches, and other structures seriously damaged. Water supply, electricity, and communications were also severely disrupted, with total damage estimated at \$50 million. Donor countries—principally New Zealand, Australia, French Polynesia, and the United States—responded with food aid and emergency assistance, as did several missions and charities. The government lifted import duties on construction materials. The net result was a slight uptick in

real GDP growth in 2001/2001 to 1.5% despite the cyclone damage due to the stimulus given the construction industry as well as record high prices for squash and vanilla beans.

Another economic shock in 2002 was the discovery of the loss of most of the assets (about \$26.5 million) from the Tonga Trust Fund (TTF) through failed investments and, perhaps, simple fraud, while under management by American businessmen. The assets came primarily from selling Tongan passports to nervous residents of Hong Kong before its reversion to Chinese rule in 1997.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Tonga's gross domestic product (GDP) was estimated at \$244.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,300. The annual growth rate of GDP was estimated at 1.5%. The average inflation rate in 2002 was 10.3%. It was estimated that agriculture accounted for 23% of GDP, industry 13%, and services 64%.

According to the World Bank, in 2002 remittances from citizens working abroad totaled \$62 million or about \$611 per capita and accounted for approximately 42.7% of GDP.

## 21 LABOR

Tonga's labor force in 1996, the last year reported, was 33,910. As of 1997 (the latest year for which data was available), approximately 65% of the workforce was engaged in agriculture. The unemployment rate in 1996 (the latest year for which data was available) was estimated at 13.3%.

The government has issued a labor code establishing a wage structure, a system of job classification, and provisions for workers' compensation. Holidays are prescribed by law. According to the constitution, it is not lawful to work, to play games, or to engage in trade on Sunday. Workers have the right, in theory, to form unions under the 1964 Trade Union Act, but as of 2002, none had been formed. Various government agencies and public enterprises offer vocational training.

Child labor is not used in the wage sector and is virtually nonexistent throughout the economy. The workweek is limited to 40 hours. There is no set minimum wage. Generally, labor laws are well enforced on the main island of Tongatapu but are more inconsistently enforced on the outer islands.

## 22 AGRICULTURE

About 36% of Tonga is agricultural land, including small amounts of permanent pasture. With increasing population pressure on the land, more land is being intensively cultivated and less is available for fallow. The use of fertilizers, high-protein strains of corn, and similar methods to improve the efficiency of land use has become increasingly necessary.

According to the constitution of 1875, all the land in the kingdom belongs to the crown and cannot be alienated. Much of it, however, consists of hereditary estates that were bestowed upon various chiefs, who lease the lands to farmers at a nominal annual

rent. Since 1890, the crown has been responsible for the collection of rents and the granting of allotments.

On reaching the age of 16, every Tongan male taxpayer is entitled under the constitution to a tax allotment of one api (3.34 hectares/8.25 acres). These allotments are hereditary, pass from generation to generation in accordance with the law of succession, and may not be sold. A tenant may be ejected for nonpayment of rent or for failing to comply with the planting regulations, under which every Tongan holder of a tax allotment is legally required to plant 200 coconut trees, which he must keep free from weeds. In recent years, however, population increases have made it impossible to guarantee the api to all those entitled to one.

Principal subsistence crops are yams, taro, sweet potatoes, and manioc. Estimated production in 2004 included coconuts, 58,000 tons; sweet potatoes, 6,000 tons; cassava, 9,000 tons; oranges, 1,000 tons; and bananas, 700 tons. Vanilla beans have become an important cash crop (130 tons in 2004), especially on Vava'u. Agricultural products accounted for 45% of exports in 2004.

### 23 ANIMAL HUSBANDRY

Beef cattle are generally kept for grazing in coconut plantations to keep the undergrowth in check and to provide additional income. Every householder has several hogs, which generally are not sold but are used for feasts. Sheep were brought into Tonga in 1954 but did not thrive, and in 1956 the entire flock was slaughtered. Live-stock in 2005 included 81,000 hogs, 12,500 goats, 11,400 horses, and 11,250 head of cattle.

### 24 FISHING

Fish are abundant in the coastal waters, but the fishing industry is relatively undeveloped, and the supply of fish is insufficient to meet local demand; thus, canned fish has been imported in recent years. Principal species caught are tuna and marlin. The fish catch was 4,458 tons in 2003; exports of fish products were valued at almost \$3.56 million that year.

### 25 FORESTRY

Forestland covers about 5.5% of Tonga's total area, mainly on 'Eua and Vava'u, but this diminishing resource has not been efficiently exploited, and much wood for construction must be imported. Roundwood production in 2004 was 2,100 cu m (74,000 cu ft). There is a government sawmill on 'Eua. Charcoal is manufactured from logs and coconut shells.

### 26 MINING

Tonga had few known mineral resources. A limited amount of crushed stone is produced at local quarries.

### 27 ENERGY AND POWER

Tonga has no proven reserves of oil, natural gas, coal or oil refining capacity.

Tonga is entirely dependent upon imports of oil, natural gas or coal to meet its hydrocarbon needs. In 2002, the country's imports and consumption of refined petroleum products each averaged 780 barrels per day. There were no recorded imports or consumption of natural gas or coal in 2002.

Tonga's primary energy source is electricity, all of it powered by fossil fuels. In 2002, the country's electric generating capacity to-

taled 0.008 million kW. Electric power output in that year totaled 0.034 billion kWh. Demand for electric power in 2002 was 0.032 billion kWh.

### 28 INDUSTRY

Encouragement of new industries was the goal of Tonga's eight five-year plans (1966–2008). Industries include the manufacture of concrete blocks, metal products, woolen knitwear, leather goods, furniture, soft drinks, soap, sports equipment, yachts, and paint. Ten-meter (33-foot) epoxy-veneer molded yachts are produced by Marine Tonga, a Tongan-German joint venture. At the government-backed Small Industry Center in Nuku'alofa, more advanced products are made, including refrigerators, jewelry, bicycles, toys, furniture, wheelbarrows, and mini-excavators; other consumer goods are assembled for use locally and in neighboring countries. A small but growing construction sector developed in response to the inflow of relief monies following Cyclone Waka, which hit during the last two days of 2001, and the need for construction services for hospitals, schools, wharves, etc. Long-established industries are coconut processing, sawmilling, and local handicrafts. Nuku'alofa is the only commercial and urban center. Industry accounts for just 13% of GDP.

### 29 SCIENCE AND TECHNOLOGY

Hango Agricultural College, part of the Free Wesleyan Church Education System, offers diploma and certificate courses. Tonga Maritime Polytechnical Institute is located in Nuku'alofa.

### 30 DOMESTIC TRADE

Village stores carry a stock of flour, sugar, canned meats, textiles, hardware, soap, kerosene, tobacco, and matches; in the larger towns, these shops are managed by Tongans for European trading firms. Storekeepers act as agents for the Commodities Board and often extend credit to their customers until the end of the harvest. The board's produce division helps market bananas, melons, and pineapples. The development of cooperatives, which serve as savings-and-loan, produce-marketing, and handicraft-manufacturing organizations, has been actively pursued.

Government business hours are 8:30 AM to 4:30 PM, Monday to Friday. Private business hours are 9 AM to 5 PM, Monday to Friday.

#### Principal Trading Partners – Tonga (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	8.9	69.4	-60.5
Japan	3.9	3.7	0.2
United States	2.3	7.2	-4.9
New Zealand	1.2	25.5	-24.3
Samoa	0.7	0.3	0.4
Australia	0.3	17.5	-17.2
Fiji	0.1	10.3	-10.2
Germany	0.1	0.1	...
Other Asia nes	0.1	0.4	-0.3

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

All shops are closed on Sunday. Banks are open from 9 AM to 4 PM, Monday to Friday, and from 8:30 to 11:30 AM on Saturdays.

### 3<sup>1</sup> FOREIGN TRADE

Tonga suffers from chronic trade deficits. Vegetables, including squash, are Tonga's main export commodities. Other exports include fish, spices and vanilla, and shellfish. In 2004, Tonga's primary export partners were: Japan (37.1%), China (18.7%), the United States (17.7%), Taiwan (8.7%), and New Zealand (7.4%). Primary import partners in 2004 were: New Zealand (37.1%), Fiji (24.3%), Australia (9.1%), China (8.9%), and the United States (6.3%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

Since 1960, Tonga has had a growing trade deficit, offset by funds from the United Kingdom, New Zealand, Australia, and the Asian Development Bank (ADB).

In 2004, Tonga had exports valued at an estimated \$34 million, and imports valued at an estimated \$122 million. Tonga carried an external debt burden of \$63.4 million in 2001. In fiscal year 2001/02, Tonga received \$5.5 million in economic aid from Australia, and \$2.3 million from New Zealand.

### 3<sup>3</sup> BANKING AND SECURITIES

The Bank of Tonga was formed in 1971, with the government holding 40% of the shares and 20% each held by the Bank of Hawaii, the Bank of New Zealand, and the Bank of New South Wales. The overseas banks provided staff and supervision for the Bank of Tonga, which offers all commercial services and has assumed responsibility for government savings, traders' current accounts, and foreign exchange dealings. The Tongan Development Bank (TDB) was founded in 1977.

Tonga's fiscal policy has traditionally been cautious, with taxation and expenditure measures balancing in the recurrent budget and the development budget being financed mainly through

grants and soft loans. Legislation to set up a central bank was passed in late 1988 and the National Reserve Bank came into existence the following year. The Ministry of Finance, the Board of Currency Commissioners, the Board of Coinage Commissioners, and the island's only commercial bank, the Bank of Tonga, had until then jointly performed central bank functions. A second commercial bank, MBF Bank, was launched in late 1993.

Legislation has been passed to enable Tonga to become an international banking center. The legislation permits up to four foreign banks to establish operations in the capital. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$20.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$67.0 million.

Tonga has no stock issues or securities trading.

### 3<sup>4</sup> INSURANCE

Blue Shield (Oceania) Insurance covers life, health, travel, workers' compensation, total permanent disability, accident, and local consultation services. There were at least seven other major insurers doing business in Tonga in 1999.

### 3<sup>5</sup> PUBLIC FINANCE

About half of all public revenues accrued from customs duties on imported goods; the remainder came mainly from export duties, port fees, income taxes, and stamp revenues. Principal items of expenditure were public health, medical services, education, and agriculture.

The US Central Intelligence Agency (CIA) estimated that in FY99/00 Tonga's central government took in revenues of approximately \$39.9 million and had expenditures of \$52.4 million. Revenues minus expenditures totaled approximately -\$12.5 million. Total external debt was \$63.4 million.

### 3<sup>6</sup> TAXATION

Income tax is levied at progressive rates. Resident businesses pay 15% on profits up to \$100,000, and 30% thereafter. Nonresident businesses pay 37.5% on profits up to \$50,000 and 42.5% thereafter. All male Tongans 16 years of age and older, except the aged and infirm, pay an annual head tax, the receipts of which are used to finance free education and medical benefits. There is also a 5% sales tax.

### 3<sup>7</sup> CUSTOMS AND DUTIES

Tonga has a single-column tariff based on the Customs Cooperation Council Nomenclature with custom duties ranging from 30–65% of the CIF (cost, insurance, and freight). A 20% port and services tax is involved in the percentages. Tariffs are applied to most private sector imports, primarily for revenue purposes. Higher tariffs apply to cigarettes, alcoholic beverages, and petroleum, while public sector goods are exempt.

### 3<sup>8</sup> FOREIGN INVESTMENT

Although some non-Tongans have leased large plantations and residential and business sites, there is little private foreign investment. In 1997, foreign direct investment (FDI) was reported as \$3 million, and then for the next four years, 1998 to 2001, \$2 million

#### Balance of Payments – Tonga (2002)

(In millions of US dollars)

<b>Current Account</b>		<b>-3,319.0</b>
Balance on goods	-55,247.0	
Imports	-73,373.0	
Exports	18,126.0	
Balance on services	-9,309.0	
Balance on income	2,820.0	
Current transfers	58,416.0	
<b>Capital Account</b>		<b>13,412.0</b>
<b>Financial Account</b>		<b>-3,174.0</b>
Direct investment abroad	...	
Direct investment in Tonga	...	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	...	
Other investment liabilities	-3,174.0	
<b>Net Errors and Omissions</b>		<b>-47.0</b>
<b>Reserves and Related Items</b>		<b>-6,872.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

a year. In 2003, FDI amounted to 1.65% of GDP. Government policy is that foreign investment is welcome. The statutory framework was laid out in the Industrial Development Incentives Act (IDI Act) of 1978 that provides for a tax holiday of five years extendable to 15 years, with additional tax holidays for expansions of an enterprise. Raw materials and semi-processed goods imported to manufacture an exported finished product are exempt from customs duties for two years, and all imports of capital goods, machineries and construction materials are assessed at 50% of port and service taxes. With a view to husbanding the country's foreign currency resources, there are restrictions, mostly on a pro rata basis, on the ability to move hard currency out of the country. Under current IMF-guided efforts at fiscal reform, this regime has been criticized for overbroad tax exemptions and is scheduled to be replaced with a new investment incentives law. Aside from the obvious problems of remoteness and lack of development, the main impediment to foreign investment is not the legal framework but its administration, which is due to lack of transparency and predictability. There are no free trade zones in Tonga, but in 1980 the government established the Small Business Center near Nuku'alofa that serves as an improved industrial park for small enterprises.

The bulk of Tonga's foreign reserves are invested in Australia. In 2002, in an extraordinary financial scandal it was revealed that all by about \$2.2 million of the Tonga Trust Fund (TTF)—\$26.5 million—all—had been lost.

### **3<sup>9</sup> ECONOMIC DEVELOPMENT**

Tonga's eight five-year plans (1966–2008) emphasized development of the islands' economic infrastructure, increasing agricultural production by revitalizing the copra and banana industries, improvements in telecommunications and transport, and expansion of tourism, industry, and exports. Through the nonprofit Commodities Board, the government has a trading monopoly in copra, bananas, melons, and other produce. In the 1990s, tourism revenues helped offset Tonga's large merchandise trade deficits, but substantial amounts of foreign aid continued to be required. From 1993–98, the economic growth was driven by a rise in exports of squash, increases in aid, and several large construction projects. Growth peaked in 1999/2000 at 6.5% but then plunged to only 0.5% in 2000/01 in the global recession that began the first quarter of 2001. The GDP growth rate in 2002 stood at 1.5% and at 1.9% in 2003.

The country is working toward improvement of the quality and standard of living for all Tongans. This is to be achieved through policy initiatives in five areas: 1) currency stabilization; 2) privatization; 3) updating and restructuring of the operations of state-owned enterprises (SOEs); 4) maintenance and improvements in the infrastructure; and 5) environmental protection. Other goals include continuing support for public sector reform; promotion of the private sector as the engine of growth; and sustainable environmental management and equitable social development. The economic reforms are being pursued in conjunction with political reforms that aim at bringing more democracy to the government.

### **4<sup>0</sup> SOCIAL DEVELOPMENT**

Every family is provided by law with sufficient land to support itself. There is no social welfare department; the medical and educa-

tion departments and the missions provide what welfare services are available. The only pension scheme is one for civil servants.

Polynesian cultural traditions have kept most women in subservient roles, and few have risen to positions of leadership. Inheritance laws discriminate against women, and women may not own land. Domestic violence is prevalent and dealt with according to tribal law and custom. Spousal rape is not recognized and the law specifies that relations between spouses cannot be deemed as rape. The Center for Women and Children focuses on improving the economic and social conditions for women. Child abuse is rare.

Human rights are generally well respected in Tonga. However, political dissent is suppressed.

### **4<sup>1</sup> HEALTH**

Tongans receive free medical and dental treatment, but must pay for dentures. Non-Tongans are charged on a fixed scale. There is one government medical department hospital each in Tongatapu, Vava'u, Ha'apai, and Eau Island, with several dispensaries. There are 4 hospitals and 14 health care centers, with a total of 307 beds on the islands. In 2004, there were an estimated 34 physicians, 317 nurses, 19 midwives, and 32 dentists per 100,000 people.

Tonga is free of malaria and most tropical diseases, but tuberculosis, filariasis, typhoid fever, dysentery, and various eye and skin diseases remain common health problems. Nevertheless, in comparison with many other Pacific islands, Tonga is a healthy country. Approximately 85% of children were vaccinated against measles. By 1969, a joint WHO-UNICEF project had considerably reduced the incidence of yaws. Other health projects deal with school sanitation, community water supplies, maternal and child health, and nursing education. The population has access to safe water and adequate sanitation.

Life expectancy as of 2005 was estimated at 69.53 years. In the same year, infant mortality was an estimated 12.62 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 24 and 5.6 per 1,000 people. The fertility rate was three children per woman.

### **4<sup>2</sup> HOUSING**

Village houses usually have reed sides and a sloping roof thatched with sugarcane or coconut leaves; the posts are of ironwood, and braided cord takes the place of nails. More modern houses, especially in the towns, are built of wood, with roofs of corrugated iron. Unlike the village houses, they often contain more than one room and have verandas. Tongan taxpayers are entitled to an allotment of land from the governments. Each urban Tongan taxpayer receives an annual rent subsidy in lieu of this land allotment.

In 1986, the housing stock totaled 15,091 units. In 1996, the housing stock was at 16,194. The average household size was six people. In the decade between censuses, the number of European style homes increased by about 39% while the number of Tongan style hut dwellings decreased by over 60%. About 66% of all housing was of European style wooden construction, 19.5% was European style cement or brick, and 6.8% was Tongan style thatched roof and walls. At least 66% of all housing stock was on Tongatapu. About 84.6% of all households had access to piped water and 55.8% had flush toilets. About 81.4% of all housing was owner occupied.

### 43 EDUCATION

The first schools in Tonga were started by the Wesleyan Mission in 1828, even before the conversion to Christianity of the Tongans. Practically all primary education was controlled by the Mission until 1882 when the government took over the educational system. In 1906, various missionary organizations again were allowed to establish schools.

Primary education is compulsory for six years. No tuition is charged at government schools (except the high school), but small fees are charged at mission schools. General secondary school lasts for five years. Students may choose to continue with one or two more years of upper secondary education. Selected Tongan students prepare for the New Zealand school certificate examination.

In 2001, about 29% of children between the ages of three and four were enrolled in some type of preschool program. Primary school enrollment in 2000 was estimated at about 100% of age-eligible students. The same year, secondary school enrollment was about 72.8% of age-eligible students. It is estimated that about nearly all students complete their primary education. The student-to-teacher ratio for primary school was at about 22:1 in 2003; the ratio for secondary school was about 14:1. In 2000, private schools accounted for about 9.2% of primary school enrollment and 72.8% of secondary enrollment.

The University of the South Pacific operates an extension center in Tonga. A teacher-training college, established in 1944, provides a two-year course. A government scholarship program provides the opportunity for Tongan students to pursue higher education abroad. In 2001, it was estimated that about 4% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 98.9%.

As of 2003, public expenditure on education was estimated at 4.9% of GDP, or 13.2% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

Since 1971, the Ministry of Education has operated a joint library service with the University of the South Pacific. Its library in Nuku'alofa has 9,000 volumes covering agriculture, small business management, adult education, and an important collection of Pacificana. The Ministry of Education library has 12,500 volumes. Most of the secondary and high schools have libraries. The Tonga College Museum's collection includes artifacts of Tonga's history. Notable monuments include the great trilithon known as the *Ha'amanga* and some 45 *langis*, great rectangular platforms of recessed tiers of coral limestone blocks that were erected as the tombs of medieval kings.

### 45 MEDIA

The government's radiotelegraph station at Nuku'alofa has substations at Neiafu (Vava'u), Pangai, Ha'afeva and Nomuka (in the Ha'apai group), 'Eua, and Niuatoputapu. There is also a direct overseas telegraph service linking Nuku'alofa with Wellington, Suva, Apia, and Pago Pago. An internal radiotelephone service connects Nuku'alofa, 'Eua, Nomuka, Ha'afeva, and Vava'u, and a direct overseas radiotelephone service links Nuku'alofa to other Pacific island capitals. In 2002, there were 11,200 mainline phones

in service throughout the country. In 2004, there were 9,000 mobile phones in use nationwide.

The Tonga Broadcasting Commission's Radio Tonga was established in 1961. It broadcasts about 75 hours a week in Tongan, English, Fijian, and Samoan; commercial advertising is accepted. In 2004 there were three privately owned radio stations. The government owned one of the three television stations operating in 2004. In 1997 Tonga had 600 radios and 18 television sets in use per 1,000 population. In 2002, there were 2,900 Internet subscribers.

In 2004, there were eight newspapers and newsmagazines in print. The government publishes a weekly newspaper, the *Tonga Chronicle*, which has an average circulation (in 2002) of 7,000 copies in Tongan and English. There are also church newspapers issued by missions and a few private publications printed at regular intervals.

The constitution provides for free speech and a free press, although occasional infringements of press freedoms do occur. In nongovernment publications, opposition opinion appears regularly, usually without interference, but journalists were being targeted for prosecution in civil lawsuits by the minister of police.

### 46 ORGANIZATIONS

Extension of consumer cooperatives has been actively encouraged by the government. The Tonga Chamber of Commerce and Industry is in Nuku'alofa.

National youth organizations are typically affiliated with religious or educational institutions, including the Catholic Youth Association, Free Church of Tonga Youth Associations, Free Wesleyan Church Youth Association, Tonga Ex-Commonwealth Youth Programme Diplomats Association, and Tupou Farmers. Scouting and YMCA/YWCA programs are also available. Meetings of Christian Endeavor societies and Bible classes are well attended by all ages. There are sports associations promoting amateur competitions for athletes of all ages in a variety of pastimes.

Every Tongan village has a community house where ceremonial cloth (*tapa*) is made by groups of women. The Tongan Women's Progressive Association, formed in 1956, conducts programs for the betterment of village conditions and holds classes in a variety of subjects. There is a national chapter of the Red Cross Society.

### 47 TOURISM, TRAVEL, AND RECREATION

Popular tourist sites are the royal palace and terraced tombs in Nuku'alofa. Most visitors enjoy a traditional evening feast of suckling pig, crayfish, chicken, and assorted accompaniments. Fishing, swimming, and sailing are popular. Rugby is a favorite spectator sport.

Tourists must have a valid passport as well as an onward/return ticket. Visitor's visas are required by nationals of 138 countries including China and Spain; they are provided upon arrival and valid for one month.

The tourist industry is a small but growing source of foreign exchange revenues. In 2003, there were 40,110 tourist arrivals, with 57% of travelers coming from Australia and New Zealand.

In 2005, the US Department of State estimated the daily cost of staying in Nuku'alofa and other areas of Tonga at \$167.

## **48 FAMOUS TONGANS**

King George Tupou I (Taufa'ahu Tupou, 1797–1893) ruled for 48 years; during his reign, Tonga became a Christian nation, abolished serfdom, and acquired a constitution. His prime minister, Shirley Waldemar Baker (1831–1903), was a Wesleyan clergyman who, after being deposed in 1890, became an Episcopal minister and then returned to Tonga. The most famous Tongan of this century was Queen Salote Tupou (1900–65), whose rule began in 1918. Her dynasty, the Tupou, is the third branch of the royal family and traces its descent back to Ahoeitu, the first Tu'i Tonga of whom there is record. Queen Salote's son, King Taufā'ahau Tupou IV (b.1918), succeeded to the throne in 1965 and was formally crowned in 1967.

## **49 DEPENDENCIES**

Tonga has no territories or colonies.

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# TURKEY

Republic of Turkey  
*Türkiye Cumhuriyeti*

**CAPITAL:** Ankara

**FLAG:** The national flag consists of a white crescent (open toward the fly) and a white star on a red field.

**ANTHEM:** *İstiklâl Marşı* (*March of Independence*).

**MONETARY UNIT:** The new Turkish lira (YTL) was introduced in 2005. There are coins of 1, 5, 10, 25 and 50 Kurus, and 1 lira. YTL1 = \$0.73529 (or \$1 = TL1.36) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; National Sovereignty and Children's Day, 23 April; Spring Day, 1 May; Youth and Sports Day, 19 May; Victory Day, 30 August; Independence Day (Anniversary of the Republic), 29 October. Movable religious holidays include Şeker Bayramı (three days) and Kurban Bayramı (four days).

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Republic of Turkey consists of Asia Minor, or Anatolia (Anadolu); the small area of eastern Thrace (Trakya), or Turkey in Europe; and a few offshore islands in the Aegean Sea, with a total area of 780,580 sq km (301,384 sq mi), extending about 1,600 km (994 mi) SE–NW and 650 km (404 mi) NE–SW. Comparatively, the area occupied by Turkey is slightly larger than the state of Texas. Of the overall area, 97% is in Asia, and 3% in Europe. Turkey lies athwart the important Black Sea straits system—the Dardanelles, the Sea of Marmara, and the Bosphorus. It is bordered on the N by the Black Sea, on the NE by Georgia and Armenia, on the E by Iran, on the SE by Iraq, on the S by Syria and the Mediterranean Sea, on the W by the Aegean Sea, and on the NW by Greece and Bulgaria, with a total land boundary of 2,648 km (1,645 mi) and a coastline of 7,200 km (4,474 mi). Turkey's capital city, Ankara, is located in the northwest central part of the country.

## <sup>2</sup>TOPOGRAPHY

Other than the low, rolling hills of Turkish Thrace, the fertile river valleys that open to the Aegean Sea, the warm plains of Antalya and Adana on the Mediterranean, and the narrow littoral along the Black Sea, the country is wrinkled by rugged mountain ranges that surround and intersect the high, semiarid Anatolian plateau. Average elevations range from 600 m (2,000 ft) above sea level in the west to over 1,800 m (6,000 ft) amid the wild eastern highlands. The highest point is Mount Ararat (Büyük Agri Dagı, 5,166 m/16,949 ft), which rises just within Turkey at the intersection of the Turkish, Armenian, and Iranian frontiers. There are over 100 peaks with elevations of 3,000 m (10,000 ft) or more.

Other than the Tigris and Euphrates, which have their sources in eastern Anatolia, rivers are relatively small. Because the watersheds of these streams are semibarren slopes, the seasonal variations in flow are very great. The largest lake is Lake Van (3,675 sq km/1,419 sq mi); the other major lake is Lake Tuz, whose water

has a salinity level so high that it serves as a commercial source of salt. Turkey's 7,200 km (5,474 mi) of coastline provide few good natural harbors.

Most of Turkey lies within an earthquake zone, and recurrent tremors are recorded. On 29–30 March 1970, more than 1,000 earthquakes were felt in the Gediz region of western Turkey, killing 1,086 persons. The most destructive earthquake in the country was that of 29 December 1939—near Erzincan—which killed 30,000 persons. On 17 August 1999, a 7.6 magnitude quake near Izmit was followed two days later by two aftershocks of about 4.8 and 5.0 in magnitude. At least 17,118 people died in the quake and nearly 50,000 injured were injured. A 6.1 magnitude earthquake on 1 May 2003 in eastern Turkey left 150 people dead and over 1,000 injured.

## <sup>3</sup>CLIMATE

Turkey's southern coast enjoys a Mediterranean climate, and the Aegean coastal climate as far north as İzmir is much the same. The mean temperature range in these regions is 17–20°C (63–68°F), and the annual rainfall ranges from 58 to 130 cm (23 to 51 in). The Black Sea coast is relatively mild (14 to 16°C/57 to 60°F) and very moist, with 71 to 249 cm (28 to 87 in) of rainfall. The central Anatolian plateau is noted for its hot, dry summers and cold winters: the average annual temperature is 8–12°C (46–54°F), and annual precipitation is 30–75 cm (12–30 in). With the exception of some warmer pockets in the valleys, the eastern third of Turkey is colder (4–9°C/39–48°F), and rainfall averages 41–51 cm (16–20 in). The little precipitation there is on the central plateau tends to be concentrated during the late fall and winter months.

## <sup>4</sup>FLORA AND FAUNA

A wide variation of flora is found, from semitropical to temperate, and desert to alpine. In the mountains of southern, southwestern, and northern Turkey there are extensive coniferous stands

of commercial importance and some deciduous forest. Licorice, valonia oaks, and wild olive trees grow in the southwest. Principal varieties of wild animals are the fallow deer, red deer, roe deer, eastern mouflon, wild boar, hare, Turkish leopard, brown bear, red fox, gazelle, beech marten, pine marten, wildcat, lynx, otter, and badger. There is a large variety of birds, including the snow partridge, quail, great bustard, little bustard, widgeon, woodcock, snipe, and a variety of geese, ducks, pigeons, and rails. About 30 species of snakes are indigenous. Bees and silkworms are grown commercially.

As of 2002, there were at least 116 species of mammals, 278 species of birds, and over 8,650 species of plants throughout the country.

## 5 ENVIRONMENT

Environmental responsibilities are vested in the Under Secretariat for Environment and in the Ministry of Energy and Natural Resources. Among Turkey's principal environmental problems is air pollution in Ankara and other cities. The smog in Ankara grew worse after 1979, when the government banned oil heating systems in new buildings in order to reduce costly oil imports; the resultant increased burning of Turkish lignite, which is high in sulfur content, greatly increased the levels of sulfur dioxide and dust in the air. In 1983, the government reversed itself and banned the conversion of heating systems to coal. At the same time, it introduced an antipollution program designed to reduce air pollution levels by more than 50% within a year. In addition to heating restrictions, the plan called for strict traffic controls, the closing of the worst industrial polluters, a prohibition on the import of high-sulfur fuel oil, special emergency hospital wards for smog victims, and the building of green areas and parks in and around cities. In 1992, Turkey had the world's highest level of industrial carbon dioxide emission, which totaled 145.5 million metric tons, a per capita level of 2.49 metric tons. In 1996, the total rose to 178.3 million metric tons. In 2000, the total of carbon dioxide emissions was at 221.6 million metric tons.

A \$220-million project to clean up the polluted water in the Golden Horn, an inlet of the Bosphorus forming a harbor in Istanbul, was implemented in the 1980s. The nation's rivers are polluted with industrial chemicals. Among them, mercury has created a serious threat to the nation's water supply. Soil erosion affects both coastal and internal areas. The combination of water and wind eliminates about 500 metric tons of soil each year.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 15 types of mammals, 14 species of birds, 12 types of reptiles, 5 species of amphibians, 30 species of fish, 13 species of invertebrates, and 3 species of plants. Threatened species include the Anatolian leopard, Mediterranean monk seal, bald ibis, slender-billed curlew, Atlantic sturgeon, and hawksbill and green sea turtles. Wild goats are among the vulnerable species.

## 6 POPULATION

The population of Turkey in 2005 was estimated by the United Nations (UN) at 72,907,000, which placed it at number 17 in population among the 193 nations of the world. Turkey is the most populous country in the Middle East. In 2005, approximately 6% of the population was over 65 years of age, with another 29% of

the population under 15 years of age. There were 102 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.4%; the fertility rate has declined from 3.1 births per woman in 1990 to 2.7 births per woman in 2005; however, the government sought to reduce population growth further. The projected population for the year 2025 was 90,211,000. The population density was 94 per sq km (244 per sq mi).

The UN estimated that 65% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.93%. The capital city, Ankara, had a population of 3,428,000 in that year. Istanbul (formerly Constantinople), the largest city, had a 2005 metropolitan population of 9,760,000. The largest metropolitan areas after Istanbul were İzmir (formerly Smyrna), 2,500,000; Bursa, 1,413,000; Adana, 1,248,000; and Gaziantep, 1,004,000.

## 7 MIGRATION

Much Turkish emigration has consisted of workers under contract for employment in European Community countries. Germany alone had 1,779,600 Turks at the end of 1991. There are also large numbers of Turks in prosperous Muslim countries such as Saudi Arabia, the Gulf states, and Libya. In 1994, there were 14,000 Turkish Kurds in northern Iraq. The military conflict in southeastern Turkey has internally displaced hundreds of thousands of persons; however, this problem has not been officially recognized by Turkey.

After the 1991 Gulf War, 500,000 Iraqi Kurds fled to Turkey. Most of these refugees have since repatriated or resettled in third countries. In 1992, 20,000 Bosnians came to Turkey, though all have left except for 4,000 as of March 1997. In 1999, nearly 18,000 Kosovar refugees sought asylum in Turkey, including 8,000 people evacuated from Macedonia; nearly all were voluntarily repatriated. Non-European refugees are granted only temporary protection in Turkey, so nearly all must be resettled. In 2004, there were 3,033 refugees and 3,929 asylum seekers from Afghanistan, Iraq, Iran, and Somalia in Turkey, and an additional 16 returned refugees. In 2004 Turks sought asylum in 18 countries in Europe and in the United Kingdom.

The net migration rate was zero in 1999 and in 2005. Worker remittances in 2003 were \$2.3 billion.

## 8 ETHNIC GROUPS

The constitution provides a single designated of nationality for all Turks; however, ethnic identification among the citizens themselves is strong. About 80% of the population is Turkish. The major ethnic minority (by mother tongue), the Kurds, is estimated at 20%. Arabs, Turkmen, Circassians, Greeks, and others do account for a small percentage of the population. The number of Roma within the country may be significant; however, many are unwilling to disclose their ethnic identity since discrimination against Roma has been common.

Hundreds of thousands of Armenians were either killed or forced to flee during and immediately following World War I; bitterness between Armenians and Turks continues to this day, and during the late 1970s and early 1980s, Armenian terrorists took the lives of more than two dozen Turkish diplomats. The Greek component in Turkey was reduced as a result of the 1919–22 hostilities with Greece, the 1923 Treaty of Lausanne (which provided



LOCATION: 25°40' to 44°48' E; 35°51' to 42°6' N. BOUNDARY LENGTHS: Armenia, 268 kilometers (167 miles); Azerbaijan, 9 kilometers (5 miles); Georgia, 252 kilometers (157 miles); Iran, 499 kilometers (311 miles); Iraq, 331 kilometers (206 miles); Syria, 822 kilometers (500 miles); Greece, 206 kilometers (128 miles); Bulgaria, 240 kilometers (150 miles); total coastline, 7,200 kilometers (4,482 miles). TERRITORIAL SEA LIMIT: 6 miles, Aegean Sea; 12 miles, Mediterranean and Black Seas.

for an exchange of population with Greece), and the post–World War II Cyprus controversy.

The Kurds, some of whom were forcibly dispersed after an uprising in 1935, still tend to be concentrated in the southeastern provinces. The Arabs live in the south along the Syrian and Iraqi frontiers, and the Greeks, Armenians, and Jews live in Istanbul and, to a lesser extent, in İzmir. Separatist Kurdish groups are outlawed, and there is a heavy military presence in the nine provinces where a state of emergency has been in effect since 1987.

## <sup>9</sup> LANGUAGES

Turkish, which belongs to the Ural-Altaic group, is the official language. In addition to the Roman alphabet, modern Turkish uses the letters *ç*, *ğ*, *i* (undotted), *ö*, *ş*, and *ü*, but no *q*, *w*, or *x*. With only minor exceptions, words are spelled phonetically. The language is agglutinative. A 1928 language reform substituted the Roman alphabet for the Arabic script, which had been used by the Turks since their conversion to Islam. During the 1930s there was a state-sponsored effort to rid the language of Arabic and Persian words and grammatical constructions. Turkish grammatical rules are now applied for all words, regardless of origin, though many Persian and Arabic expressions persist. Traditionally, there was a great difference between vernacular Turkish and written Ottoman

Turkish, the latter being heavily influenced by Arabic and Persian and almost unintelligible to the mass of Turks. This difference has been almost obliterated, though some regional differences in dialect, particularly in the villages, still make effective communication difficult.

Kurdish and Arabic are also spoken. Kurdish is a language of the Iranian group and is written in Arabic script in Turkey. Two of the three major dialects are spoken in Turkey. Armenian and Greek are also spoken.

## <sup>10</sup> RELIGIONS

About 99% of the population is officially Muslim; however, the number of practicing Muslims may be lower. The vast majority of Turkish Muslims are Sunni, but there is a substantial Shia minority. About 5–12 million Muslims are believed to be Alevi, incorporating traditions of Sunni and Shia practices as well as other indigenous beliefs of Anatolia. A small number of people in western Anatolia practice a blend of Islam and shamanism. The Alevi and Tahtacılar are regarded as non-Muslim sects by the government. The only religious minorities officially recognized by the government are Greek Orthodox Christians, Armenian Orthodox Christians, and Jews. The Greek Orthodox patriarch at Istanbul is considered first among equals of the seven patriarchs

in the Eastern Orthodox churches. The Greek Orthodox Church has less than 3,000 members. The Armenian Orthodox church has about 65,000 members. Turkey was a haven for Jewish refugees from Spain and Portugal in the late 15th and 16th centuries, and Jews have lived there in relative peace until recent years. There are about 25,000 Jews in the country. Other unofficial religious groups include about 10,000 Baha'is, 15,000 Syrian Orthodox Christians, 5,000 Yezidi, 3,000 Protestants, and smaller numbers of Chaldean and Nestorian Christians, Roman Catholics, and Maronite Christians.

There is no official state religion and the constitution establishes the nation as a secular state; however, the state maintains urban mosques and other Muslim religious properties, and licenses Muslim religious leaders. Proselytizing by non-Muslims is generally discouraged. Laws against the use of religion for political purposes are rigorously enforced.

## **11 TRANSPORTATION**

Turkey's size and difficult terrain, together with limited economic resources, have proved great obstacles to the construction of transportation facilities. When the republic was founded in 1923 there were about 4,000 km (2,500 mi) of railway track and 7,400 km (4,600 mi) of motor roads in Anatolia and Thrace, all in disrepair. By 2004, a total of 8,697 km (5,409 mi) of track (all of it standard gauge) connected most of the important points in the country with Ankara, Istanbul, and the Black Sea and Mediterranean ports. The railways are owned and operated by the Turkish State Railways, a public corporation. A total of 2,122 km (1,318 mi) are electrified.

Animal transportation in most of the country has gradually given way to trucks and buses that use roads provided by extensive construction programs since World War II. In October 1973, the Bosphorus Bridge in Istanbul was opened, facilitating the crossing of the Straits of the Bosphorus by motorists. This six-lane steel suspension bridge had a main span of 1,074 m (3,524 ft). As of 2002, there were 354,421 km (220,450 mi) of roadways, of which 147,404 km (91,685 mi) were paved, including 1,851 km (1,151 mi) of expressways. As of 2003, there were 4,700,343 passenger cars and 1,747,385 commercial vehicles registered for use.

The Turkish merchant fleet in 2005 consisted of 526 vessels of 1,000 GRT or more, totaling 4,666,895 GRT. The leading ports were Mersin (Icel), Istanbul, İzmir, Iskenderun, and Izmit (Kocaeli). As of 2003, Turkey had 1,200 km (746 mi) of navigable inland waterways.

Turkey had an estimated 119 airports in 2004. As of 2005 a total of 88 had paved runways, and there were also 16 heliports. Three international airports—Atatürk (Istanbul), Adnan Menderes (İzmir), and Esenboga (Ankara)—are served by some 20 international air carriers. A new international passenger terminal in Istanbul is one of the largest in Europe able to handle 30 simultaneous gate arrivals and departures. The new Sabiha Gokcen International Airport on Istanbul's Asian side can handle 3.5 million passengers with a potential capacity for 10 million. Other international airports include Antalya, Dalaman, and Adnan Menderes at İzmir. With minor exceptions, domestic air transportation is the monopoly of the semipublic Turkish Airways Corp. (Türk Hava Yollari), which connects most major centers within the country on a regular schedule and operates some international flights. In

2003, scheduled airlines freight shipments totaled 379 million freight ton-km. In that same year, about 10.701 million passengers were carried on scheduled domestic and international flights.

## **12 HISTORY**

In ancient times, Turkey was known as Asia Minor or Anatolia. Among the many inhabitants were the Hittites (c.1800–c.1200 BC), the first people to use iron; the Greeks, who, according to legend, destroyed Troy (or Ilium) about 1200 BC and who colonized the Aegean coast from about 1000 BC on; the Phrygians (c.1200–c.600 BC); the Lydians (c.700–546 BC), the first people to mint coins; the Persians (546–333 BC); and the Romans, beginning in the 2d century BC. Roman Emperor Constantine I (the Great) changed the name of the city of Byzantium to Constantinople (now Istanbul) and made it his capital in AD 330; a division between the Western and Eastern Roman Empires, with their respective capitals at Rome and Constantinople, became official in 395. Constantinople, seat of the Byzantine Empire, became the center of Eastern Orthodox Christianity, which officially separated from Roman Catholicism in 1054, when the pope and the patriarch of Constantinople excommunicated each other.

The Turks are a Ural-Altaic people who emerged from the plains between the Ural Mountains in Europe and the Altay Mountains in Asia. The forerunners of the inhabitants of present-day Turkey, known as the Seljuk Turks (named after the Turkish conqueror Seljuk, fl.10th century), defeated the Byzantines in the battle of Malazgirt (1071) and established themselves in Anatolia. They attained a highly developed Muslim culture in their great capital at Konya, in central Turkey. The Turkish conquest of Syria, including Palestine, led to the Crusades (1096–1270), a series of intermittent and inconclusive wars. Various Latin (Roman Catholic) and Greek (Eastern Orthodox) states were formed in parts of the Turkish Empire, but none lasted. The sack of the Christian city of Constantinople by Crusaders in 1204, followed by the establishment of the Latin Empire there (1204–61), shocked Europe and tended to discredit the Crusading movement.

Seljuk power was shattered when the Mongols, another Ural-Altaic people, swept across Asia Minor in 1243. As the Mongols withdrew, Turkish power revived and expanded under the Ottoman Turks, a group of frontier warriors whose first chief was Osman I (called Ottoman in the West, r.1300?–26). In 1453, the Ottomans under Mehmet II (the Conqueror) occupied Constantinople and made it their capital. In 1516, they conquered Syria; in 1517, Egypt. In 1529, they were at the gates of Vienna, at which point the European expansion of Turkish power was stopped. The Turkish fleet was decisively defeated in a battle near Lepanto (now Navpaktos) in Greece in 1571. At its peak, generally identified with the reign of Sultan Süleyman I (the Magnificent, r.1520–66), the Ottoman Empire encompassed an estimated 28 million inhabitants of Asia Minor, much of the Arabian Peninsula, North Africa as far west as modern Algeria, the islands of the eastern Mediterranean, the Balkans, the Caucasus, and the Crimea. During the 17th, 18th, and 19th centuries, as a result of the rise of nationalism and encroachment by the European powers, it gradually shrank in size, the independence of the remainder being maintained only by shrewd balance-of-power diplomacy.

The process of modernization began with the Imperial Rescript of 1839, promulgated by Sultan Abdul Mejid (r.1839–61), and by

a body of reforms known as the Tanzimat, which to some extent curbed the absolute powers of the sultan-caliph. (The Turkish sultans had added the title “caliph” following the conquest of Egypt in 1517.) The Illustrious Rescript of 1856 was largely dictated by Britain, France, and Austria as part of the negotiations leading to the settlement of the Crimean War (1853–56), a clash between the Russian and Ottoman Empires; it ensured equal rights for non-Muslims, provided for prison reform and the codification of Turkish law, and opened Turkey to European skills and capital. A constitution was introduced in 1876 by Sultan Abdul Hamid II (r.1876–1909) but was suspended in the following year. Thereafter, an absolute monarchy prevailed until the Young Turk revolution of 1908, at which time the constitution of 1876 was reinstated. In 1913, leaders of the Committee for Union and Progress (the organizational vehicle of the Young Turks) took effective control of the government under Sultan Mehmet V (r.1909–18). The principal leaders were Talat and Enver Pasha, who, at the outbreak of World War I, threw what little remained of Ottoman strength behind the Central Powers, which had sided with Turkey in its fruitless attempt to retain its last major European possessions in the Balkan Wars of 1912–13. Although the Turks were unable to make any headway against British forces defending the Suez Canal, they did offer a heroic defense at Gallipoli (the Gallipoli Peninsula) and the Dardanelles, in a prolonged battle between Turkish and British-French forces that lasted from February 1915 to January 1916 and took the lives of about 100,000 soldiers on each side. In 1917, however, Turkish resistance collapsed, and the British pushed Turkey out of Syria, Palestine, Iraq, and Arabia. An armistice was concluded on 30 October 1918, and Enver Pasha and his colleagues fled the country. Before and during the war, Armenians sought to establish their independence and were brutally repressed by the Turks. Over a million people are said to have died being driven from their homes; many survived in exile.

On the basis of a series of earlier Allied agreements, the Ottoman Empire was to be stripped of all non-Turkish areas, and much of what remained—Asia Minor—was to be divided among the United Kingdom, France, Greece, and Italy. A substantial portion was actually occupied. In 1919, with Allied assistance, the Greeks invaded Anatolia through İzmir, but a Turkish nationalist resistance movement under the leadership of Mustafa Kemal (later called Atatürk), who had commanded a division at Gallipoli, finally defeated them in 1922. The sultan, being virtually captive in Istanbul, was disgraced in Turkish eyes by his identification with Allied policy. After much maneuvering, a rival nationalist government under Mustafa Kemal was established in Ankara and gained national and international recognition. On 1 November 1922, the sultanate was abolished by Mustafa Kemal’s provisional government. The following year, the Ankara government negotiated the Treaty of Lausanne with the Allies, which recognized Turkish sovereignty over Asia Minor and a small area in Thrace. There was a massive exchange of Greek and Turkish populations. On 29 October 1923, a republic was proclaimed, with Ankara as its capital, and on 3 March 1924, the caliphate was abolished and all members of the dynasty banished.

During the next few years, a series of social, legal, and political reforms were accomplished that, taken collectively, became known as the Atatürk Reforms. They included the substitution of secular law for religious law, the writing of a republican constitu-

tion based on popular sovereignty, suppression of religious education in Turkish schools, introduction of a Roman alphabet to replace the Arabic script, and the legal upgrading of the position of women. With minor exceptions, political power resided in a single party, the Republican People’s Party, and to a very substantial extent in Mustafa Kemal personally until his death in 1938. His chief of staff, Ismet İnönü (Pasha), became president and established a two-party system of government with the formation of the opposition Democrat Party (DP) in 1946.

Although pro-Allied, Turkey remained neutral during most of World War II, but early in 1945 it declared war on the Axis and became a charter member of the UN. In 1947, the Truman Doctrine pledged US support to Turkey in the face of mounting Soviet pressure. This move was followed by large-scale military and economic assistance from the United States. Turkey thus became firmly committed to the Western alliances—NATO and the Central Treaty Organization, or CENTO (Baghdad Pact).

The DP came to power in 1950. Under Prime Minister Adnan Menderes, the government stressed rapid industrialization and economic expansion at the cost of individual liberties. Restrictive press laws were passed in 1954 and 1956, and by 1960 the Menderes government had curtailed judicial independence, university autonomy, and the rights of opposition parties. On 27 May 1960, after student demonstrations (joined by War College cadets and some army officers) were harshly suppressed, Prime Minister Menderes, President Celâl Bayar, and other government leaders were arrested by a newly formed Committee of National Unity. Gen. Cemal Gürsel became acting president and prime minister. Menderes was found guilty of violating the constitution and was hanged in 1961. A new constitution was popularly ratified in 1961, and elections were held in October. Gen. Gürsel was elected president by the New Grand National Assembly, and İnönü became prime minister of a coalition government.

The opposition Justice Party (JP) won 52.3% of the vote in the 1965 elections and formed a new government under Süleyman Demirel. Four years later, the JP was returned to power, and Prime Minister Demirel began a new four-year term. But Turkey’s four top military commanders forced the resignation of Demirel’s government in 1971 and called for a “strong and credible government” that would restore economic and political stability and suppress student disorders, which had steadily grown more frequent and more violent since 1968. Martial law had been imposed from June to September 1970, and a new “above party” government under Nihat Erim reimposed martial law in 11 provinces (including Ankara and Istanbul) from 1971 to 1973.

Political stability proved no easier to achieve: a succession of weak coalition governments, headed alternately by Demirel and Republican leader Bülent Ecevit, held office between 1973 and 1980. Ecevit’s government was in power during the Greco-Turkish war on Cyprus in July–August 1974. Relations with Greece, strained by a dispute over mineral rights on the Aegean continental shelf, reached the breaking point on 15 July, when Cypriot President Makarios was overthrown in a Greek-led military coup. Fearing the island would be united with Greece, Turkish forces invaded on 20 July. A UN cease-fire came into effect two days later, but after peace talks at Geneva broke down, Turkish troops consolidated their hold over the northern third of the island by 16 August. As the result of this action, the United States embargoed

shipments of arms to Turkey until 1978; as of 1994, an estimated 25,000 or more Turkish troops remained on Cyprus to support the Turkish Republic of Northern Cyprus which only Turkey recognizes. In 1997, Turkish and Greek representatives met with a UN mediator in an attempt to resolve the issue. No results were reported.

During the late 1970s, escalating acts of violence by political groups of the extreme left and right, coupled with economic decline, threatened the stability of Turkey's fragile democracy. By April 1980, 47,000 people had been arrested, and martial law had spread to 20 of Turkey's 67 provinces; at midyear, more than 5,000 persons had been killed (including former prime minister Nihat Erim), and the factional strife was claiming an average of 20 victims each day. With the legislature deadlocked, the military intervened in the political process for the third time in 20 years. A five-man military National Security Council (NSC), headed by Gen. Kenan Evren, took power in a bloodless coup on 12 September 1980. The NSC suspended the 1961 constitution, banned all political parties and activities, and arrested thousands of suspected terrorists. With the entire country under martial law, factional violence was drastically reduced. By April 1982, 40,000 alleged "political extremists" had been arrested; 23,000 had been tried and convicted in martial law courts, some 6,000 of them for "ideological offenses." Under an NSC edict forbidding Turkey's former political leaders from speaking out on political matters, former prime minister Ecevit was twice arrested and imprisoned during 1981–82. In protest against the treatment of Ecevit, the EEC froze payment of \$650 million in loans and grants previously pledged to Turkey.

In a national referendum on 7 November 1982, Turkish voters overwhelmingly approved a new constitution (prepared by a constituent assembly chosen by the NSC) under which Gen. Evren became president of the republic for a seven-year term; campaigning against ratification had been illegal under martial law. Parliamentary elections were held in November 1983, although martial law remained in effect. Following the elections, Turgut Özal, leader of the victorious Motherland Party, was installed as prime minister. Martial law was lifted in most provinces over the next two years, but emergency rule remained in effect; legislation was passed to broaden police powers, freedom of expression remained limited, and trials of alleged extremists continued. Human-rights groups complained of torture, suspicious deaths, overcrowding, and substandard conditions in Turkish jails; the government denied any improprieties. Özal's Motherland Party retained its parliamentary majority in November 1987 elections, and he was reelected for a second five-year term. In 1989, Özal was elected president. His Motherland Party continued in power but with declining popularity as shown in 1989 municipal elections. Özal's ambition was to tie Turkey closely to Europe but, despite improvements in Turkey's human rights record, its application for full membership in the European Union was deferred indefinitely. Özal also sought to give Turkey a leading role with the Turkic republics of former Soviet Central Asia. He continued Turkey's long-standing policy of quiet contacts with Israel while seeking better ties with the Arab states. During the Gulf War, he joined the embargo against Iraq, closed Iraq's oil pipelines, provided facilities for allied air raids and later supported protective measures for Iraqi Kurds. In compensation, Turkey received increased aid worth \$300 million.

In October 1991 elections, the Motherland Party lost its parliamentary majority to the True Path and Social Democratic Party in coalition. True Path leader Demirel was named prime minister. He succeeded to the presidency in May 1993 following the death of Özal. Tansu Ciller, True Path chairperson, became Turkey's first female prime minister in July. In 1994, Ciller faced three major tasks: dealing with the problems of high inflation (about 70%) and unemployment as she continued Özal's free market policies of export-led growth (7–8%), reducing government regulations and privatization; pacifying the rebellious Kurdish areas of eastern Turkey where large numbers of troops have been tied down in a conflict that has taken thousands of lives and millions in treasure; and responding to the rising challenge to Turkey's secular nationalism from politically militant Islamic groups.

These problems continued, and in some cases escalated, and the Ciller government also faced scandals and a weakened resolve due to its fragile coalition majority.

Problems with Kurdish separatists, long-standing disagreements with Greece, and an unstable political environment plagued Turkey throughout the 1990s.

The battle between the Turkish government and members of the Kurdistan Workers Party (PKK) that began in 1984 continued into 1994–95. The PKK sought the establishment of a separate Kurdish state. In fighting from 1984 until February 1995, more than 14,000 people had died. The battle spilled beyond Turkey's borders on 20 March 1995, as 35,000 troops backed by tanks and jets pursued rebels into northern Iraq. In the biggest military operation in the history of the Turkish republic, the troops hunted for suspected PKK bases. The PKK maintained the area was home only to Iraqi Kurds, not the PKK. Turkey said it was targeting 2,400 guerrillas who had been mounting cross-border raids and that it would not pull out until a buffer zone or other plan was set up to keep the PKK from moving back into the area. Western leaders condemned the incursion, and the eventual Turkish pullout was seen as a reaction to that negative pressure. Meanwhile, Turkey promised reforms to improve the lives of the 11 million Kurds living there. It said it would lift restrictions on broadcasts in Kurdish and allow Kurds to establish their own schools after the PKK was crushed. The battle would continue until 27 April, when Turkey declared that its mission to wipe out PKK base camps, arms depots, and supply routes in northern Iraq was a success. It said it would go back into Iraq if it again became necessary to strike at the rebels. Turkey said its next task would be to secure the border.

At the same time territorial conflicts with Greece erupted. On 1 June 1995, the Greek parliament ratified the international Law of the Sea treaty, drawing protests from Turkish leaders who saw the move as an attempt by Greece to extend its territorial waters. Almost eight weeks later the two nations narrowly avoided confrontation over a cluster of uninhabited islands in the Aegean Sea. Though on 31 January Greek Prime Minister Constantine Simitis withdrew forces from the area, tensions remained high through April, when a Greek coast guard patrol boat fired on Turkish fishermen suspected of smuggling illegal migrants to the Greek islet of Strongili. Meanwhile in May tensions between Greek and Turkish soldiers on Cyprus escalated, culminating in the fatal shooting of a Greek soldier.

The Kurdish and Greek issues were complicated by political instability within Turkey through the spring of 1996. On 20 Sep-

tember 1995, Prime Minister Tansu Ciller resigned when her coalition fell apart over budgetary matters. When Ciller lost a vote of confidence on 15 October, her own party, the True Path, called for national elections on 24 December. Turkey's president Süleyman Demirel asked Ciller to form a new interim government, a coalition destroyed almost two months later by the triumph of the Islamic Welfare Party in the December elections. In an effort to block Islamic fundamentalists from gaining power, Ciller made overtures to her longtime rivals in the conservative Motherland Party. When negotiations failed, President Demirel in early January invited Islamic Welfare Party leader Necmettin Erbakan to form a government. This effort was unsuccessful, as was the early February attempt by Motherland Party head Mesut Yilmaz. The stalemate ended early in March when Ciller and Yilmaz agreed on a government that left the Islamic Welfare Party out. The following month, in retaliation, Islamic representatives in parliament successfully moved to investigate allegations of corruption against Ciller. As a result of infighting, the center-right coalition fell apart in early June, allowing Erbakan to become modern Turkey's first conservative Islamic prime minister. The instability, as well as Erbakan's anti-West, antiseccular slogans, caused Turkey's economy to lapse and slowed foreign investment significantly.

Beginning in early 1997, Turkey's military leaders began to speak openly of their displeasure with the Islamist turn the country had taken under Erbakan's government—even intimating that if the government did not return to secular policies instituted by Atatürk nearly a century earlier, it would overthrow the government militarily. Erbakan had angered the military, which considers itself the defenders of the country's secularism, by proposing mandatory Islamic education and by making political overtures to Libya and Iran. Pressure from the military increased in late spring and early summer, and Turkey's neighbors in Europe and allies in the United States also expressed concern over the direction the NATO member was taking. The crisis was resolved in July 1997, when the Welfare Party's coalition fell apart, and its leader, Erbakan, resigned his post. After the resignation, Mesut Yilmaz, leader of the Motherland Party, was asked by President Demirel to form a government. Erbakan, upon resigning, said he did so with the full intention of returning to office one day and predicted his ultraconservative Welfare Party would win more than 21% in the next elections, then scheduled for 2000.

Ciller came under heavy scrutiny again in early 1997 in a renewed round of allegations concerning her financial affairs. Opponents in parliament and within her own party accused her and her husband of enriching themselves during her term as prime minister. The parliamentary investigations came as Ciller was defending herself against charges that her government and previous administrations condoned death squads. The scandal came to light in November 1996 after an automobile accident that killed a senior police official. Also in the car was a convicted drug smuggler wanted by Interpol and a high-ranking member of parliament.

By November 1998, Yilmaz's government fell victim to another corruption scandal and Ecevit returned as interim prime minister. Within two months of returning to power, Ecevit scored a major victory for his government through the capture of Kurdish terrorist leader Abdullah Öcalan in Nairobi, Kenya. Öcalan had taken refuge in the Greek embassy in Nairobi and was apprehended while on the way to the airport (and an African country willing

to provide him with asylum). Öcalan's capture brought relations with Greece to a new low as Ecevit accused Greece of being a state sponsor of terrorism.

In the wake of the terrorist leader's arrest, Ecevit called for early elections to be held in April 1999. The balloting resulted in a plurality for Ecevit's DSP (Democratic Left Party) which captured 136 out of 550 seats (22.3% of the vote) in the parliament. The MHP came second with 129 (18.1%), the Virtue Party (successor to the outlawed Welfare Party) dropped to 111 seats (15.5%), while the Motherland Party received 86 seats (13.3%). Ecevit formed a coalition with MHP and Motherland thus strengthening his position with the secularist military and isolating the Islamists.

Ecevit continued to make progress in foreign affairs throughout 1999 and into 2000. Relations in Greece saw marked improvement following a major earthquake that killed 20,000 Turkish citizens in August 1999. Greece was among the first nations to send aid—an act of humanitarian assistance warmly received by the Turkish government and public. When Greece suffered a smaller earthquake the following month, Turkey returned the favor. A dialogue on cooperation between the two countries in areas of mutual interest subsequently resulted in accords in the areas of trade and the fight against terrorism. Many international observers placed emphasis on the warm personal relationship between Turkish foreign minister İsmail Cem and his Greek counterpart George Papandreou. Finally, at the December 2000 EU summit in Helsinki, the EU member-states placed Turkey's name on the list of candidates for entry. Although most observers ruled out Turkish membership for at least 10–15 years, the decision was a symbolic victory for Turkey as it symbolized the efforts of most Turks to identify with the West.

In October 2001, the Turkish parliament voted for 34 changes to the constitution, as a way of improving Turkey's chances of joining the EU. Among the reforms were the abolition of the death penalty except in times of war and for acts of terrorism, ending torture in prisons, and allowances for the use of the Kurdish language in broadcasting and education. However, in May 2002, parliament approved a law increasing government control over the media, including the Internet. At an EU summit held in Copenhagen in December 2002, Turkey was not included in a list of 10 countries to be included in an expanded EU. US president George W. Bush had pressed for early accession talks on Turkey, but EU members stated the country needed more time to demonstrate progress on improving human rights, the economy, and on reducing the influence of the military on Turkish politics. Talks on Turkey's application were deferred until December 2004.

The situation on EU enlargement was made more difficult for Turkey as Cyprus was included in the group of 15 prospective new members: the EU accepted the Greek Cypriot government as a member in 2004 even though reunification was not achieved. In 2005, the EU stated Turkey would have to formally recognize Cyprus in order to join the organization. Accession talks were delayed until Turkey would agree to recognize Cyprus, something Turkey refused to do as of July 2005. However, Turkey decided in January 2004 to ban the death penalty in all circumstances. In June 2004, Turkish state television broadcast for the first time a Kurdish language program. In September 2004, parliament approved a set of penal reforms introducing tougher measures to prevent torture and violence against women. In May, parliament

amended the new penal law to ease restrictions on the media. All of these measures were welcomed by the EU, although it still held Turkey failed to meet all of its concerns regarding human rights.

Ahmet Necdet Sezer was elected president on 5 May 2000. He was the first president in modern Turkish history to be neither an active politician nor a military commander. He is seen as a secularist. Early parliamentary elections were held on 3 November 2002, after eight ministers, including foreign minister Ismail Cem, resigned in July, protesting Prime Minister Ecevit's refusal to leave office despite a dire economic and political climate. Ecevit's health was poor, Turkey was in its most severe recession since World War II, the domestic political situation was volatile, and a US-led war with Iraq was looming, one that would depend upon Turkish co-operation. In the November elections, the newly formed Islamist-based Justice and Development Party (*Adalet ve Kalkınma Partisi* or AK) won a landslide victory, allowing it to rule without a coalition and amend the constitution by taking 363 of 550 seats in parliament. The AK pledged to adhere to the secular principles of the constitution. Abdullah Gül was named prime minister, largely because the party's leader, Recep Tayyip Erdogan, was barred from the National Assembly due to a 1998 criminal conviction for inciting religious hatred, after he recited a religious poem deemed to be seditious. In February 2003, parliament amended the constitution, allowing Erdogan to be eligible as a candidate in parliamentary by-elections in March, which paved the way for him to become prime minister. He became prime minister on 14 March.

During 2002 and into 2003, the international community, led by the United States, placed pressure on Iraq to rid itself of weapons of mass destruction (WMD). Weapons inspectors returned to Iraq, and a rift in the international community emerged as to whether "serious consequences" should result if Iraq was found to be in material breach of UN Resolution 1441, which called on Iraq to disarm. ("Serious consequences" were read as war). In December 2002, Erdogan stated the AK-led government was ready to support a military strike against Iraq. He stated that Turkey was concerned that the territorial integrity of Iraq be preserved after a war, that the economic effects of such a conflict should be taken into consideration, but that weapons of mass destruction in Iraq could not be tolerated. Turkey was also concerned about the possible effects of war on its Kurdish population: if the 3.5 million Kurds in northern Iraq organized following a defeat of Iraqi President Saddam Hussein's forces, Turkey feared they might want to form an independent Kurdish state, and to potentially unite with the 12 million Kurds in southeastern Turkey.

In February 2003, the United States was negotiating a deal with Turkey for the use of its military bases in the event of an attack on Iraq, and in exchange, promised to prevent the Kurds from imposing a federation-style form of government in Iraq, ensuring their continued autonomy. The United States also agreed to allow Turkish troops to cross into Iraq to observe the disarmament of Kurds once fighting had stopped. The Turkish parliament voted on allowing as many as 62,000 US troops and 320 military aircraft to use Turkish bases in the event of war, in exchange for \$26 billion in aid. At the time, 95% of the Turkish population was against a war with Iraq. Just prior to the launching of the Iraq War on 19 March 2003, parliament decided not to allow US troops to cross Turkish territory in order to set up a northern front in Iraq. How-

ever Turkey did allow the United States to use its airspace in the war with Iraq.

For years, foreign companies have been involved in plans for a hydro-electric dam, the Ilisu Dam project, to supply Turkey with irrigation and electricity. In November 2001, British contractor Balfour Beatty pulled out of the project, as did the Swiss bank UBS in March 2002, due to claims that the dam would have an adverse social and environmental impact on the region.

Turkey was a site of terrorist attacks in the early 2000s. In November 2003, 25 people were killed and more than 200 injured when two car bombs exploded near Istanbul's main synagogue. Just days later, two coordinated suicide bombings at the British consulate and a British bank in Istanbul killed 28 people. In March 2004, at least two people were killed in a suspected suicide attack on a building housing a Masonic lodge in Istanbul. In July 2004, three people died in a car bomb attack in the southeastern town of Van. Authorities accused the PKK of involvement, which the group denied. In July 2005, six people were killed in a bomb attack on a passenger train in the eastern part of the country. Again the authorities blamed the PKK for the act. That month, in the resort town of Kusadasi, an explosion on a minibus killed four people.

In January 2005, a new lira currency was introduced, as six zeros were stripped from old lira, ending an era in which banknotes were denominated in millions.

### 13 GOVERNMENT

The 1961 constitution vested legislative power in the Grand National Assembly, consisting of the House of Representatives, with a membership of 450 (elected for four-year terms), and the Senate of 165 members, of whom 150 were elected and 15 appointed by the president. The president of the republic—the head of state—was elected for a single seven-year term by a joint session of the National Assembly. The president was empowered to designate the prime minister from among the Assembly members; the prime minister in turn chose other cabinet ministers, who were responsible for general government policy.

The constitution ratified in November 1982, which replaced the 1961 document, declares Turkey to be a democratic and secular republic that respects the human rights of its citizens and remains loyal to the nationalistic principles of Atatürk. It vests executive powers in the president of the republic and the Council of Ministers. The president is elected by the National Assembly for a seven-year term. Legislative functions are delegated to the unicameral National Assembly, consisting originally of 400 members elected for five-year terms (the Senate was abolished). Under the constitution's "temporary articles," the five-person National Security Council (NSC) remained in power until the new parliament convened, at which time the NSC became a presidential council, to function for a period of six years before dissolving. These "temporary" provisions expressly forbade all former leaders of either the Justice or the Republican People's Party from participating in politics for 10 years; all former members of the previous parliament were forbidden to found political parties or to hold public office for five years. A referendum in September 1987 approved a proposal to lift the 10-year ban on political participation by leaders of the Justice and Republican People's Parties and numerous other politicians. Proposals to change the voting age from 21 to 20 years and expand the National Assembly from 400 to 450 mem-

bers were approved in May 1987. By 2005, there were 550 seats in the National Assembly and the voting age had been lowered to 18.

Although the constitution guarantees individual freedoms, exceptions may be made in order to protect the republic and the public interest, or in times of war or other national emergency. The provision holding that an arrested person cannot be held for more than 48 hours without a court order may likewise be suspended in the case of martial law, war, or other emergency.

## 14 POLITICAL PARTIES

The first significant nationwide party, the Republican People's Party (Cumhuriyet Halk Partisi—CHP), was organized by Mustafa Kemal in 1923. Strong, centralized authority and state economic planning marked its 27 years of power (1923–50). It deemphasized everything religious to the point of subordinating religious activity and organization to state control.

Not until 1946 did a second popular party, the Democrat Party (Demokrat Parti—DP), come into being. Initially formed by a small group of dissident CHP members of parliament, the DP demanded greater political and economic liberalism and specifically a relaxation of central controls. When they came to power in 1950, the Democrats put into effect their policies of economic expansion through rapid mechanization and free enterprise; they also emphasized rural development through liberal credit terms to farmers. These policies, aimed at broadening the base of the economy, helped to return the Democrats to power three times in succession. After 1954, however, the Democrat regime reinstituted many of the former controls and instituted others, notably over the press. The CHP condemned these moves as well as what it regarded as lack of economic planning and of adequate fiscal and commercial controls. Both the Democrats and the CHP supported a firmly pro-Western, anti-Communist foreign policy.

In the first elections of the Second Republic (October 1961), none of the four competing parties won a controlling majority in either chamber, and a coalition government was formed for the first time in 1962. The coalition, however, was short-lived, for the newly formed Justice Party (Adalet Partisi—AP) withdrew from the governing group of parties and became the chief political opposition. The AP, which became the main political force in the country after the 1965 elections, favored private enterprise (in this respect it can be considered the successor of the DP, which was banned in 1960). Organized originally by local Democrat leaders, the AP came to reflect the views of modernization-minded professionals as well as workers and villagers. In the 1965 elections, the AP won 53.8% of the seats in the House of Representatives and 61% of the Senate seats. The elections of October 1969 confirmed its legislative predominance.

In December 1970, dissident members of the AP created the Democratic Party (Demokratik Parti). Another new organization, the Republican Reliance Party (Cumhuriyetçi Güven Partisi—CGP), formed by dissident members of the CHP, put up its first candidates in the 1969 elections. The National Salvation Party (Millî Selâmet Partisi—MSP) was created in March 1973 for the purpose of preserving Islamic traditions and bringing about economic and social reforms. In the general elections of 14 October 1973, the CHP replaced the AP as the most popular party in Turkey, although it did not achieve a parliamentary majority, and

the CHP and MSP formed a coalition government under Bülent Ecevit. After the Ecevit government fell in September 1974, more than six months passed before a new permanent government was formed by Süleyman Demirel. His minority government of the Nationalist Front, which included representatives of the AP, CGP, MSP, and National Action Party (Milliyetçi Hareket Partisi), commanded 214 out of 450 National Assembly seats. After the CHP won 213 Assembly seats in the 1977 elections, Ecevit, having formed a minority cabinet, lost a parliamentary vote of confidence and had to resign. But his rival, Demirel, fared little better as prime minister, and his coalition government soon dissolved. Each served another brief stint as head of government prior to the 1980 military coup.

The new military government banned all political parties and, under the 1982 constitution, forbade the leaders of the AP and CHP from active participation in politics for 10 years. After the new constitution was approved, however, the government allowed the formation of new political groups. The first new party, the Nationalist Democracy Party, was formed in May 1983 by certain retired military officers, former government officials, and business leaders; it received support from the military but fared poorly in local and national elections and was disbanded three years later. Another new group, the rightist Great Turkey Party, was abolished by the government soon after its founding because of alleged close resemblances to the banned AP; the True Path Party (Doğru Yol Partisi—DYP) was established in its place but was not allowed to participate in the elections to the National Assembly on 6 November 1983. Also barred were the newly formed Welfare Party and the Social Democratic Party, and Demirel and other politicians were temporarily placed under military detention. The Populist Party, which the military was said to regard as a loyal opposition, and the Motherland Party (Anatavan Partisi—ANAP), formed by conservative business leaders and technocrats, did win approval to run. In the balloting, the ANAP won a majority in the National Assembly, with 212 out of 400 seats, and its leader, Turgut Özal, became prime minister on 13 December.

Subsequently, all parties were allowed to participate in local elections. In 1985, the Populist Party merged with the Social Democratic Party to form the Social Democratic Populist Party (Sosyal Demokrasi Halkçı Partisi—SDHP). The Free Democrat Party was formed in 1986 as a successor to the Nationalist Democracy Party. In September 1987, the 10-year ban on political participation by over 200 leaders of the AP and CHP was lifted after a referendum indicated approval by a bare majority of just over 50%. At the same time, Özal announced elections in November of that year and had a law passed requiring nomination of candidates by party leaders rather than by popular choice. After challenges from opposition groups, the Constitutional Court declared the new procedure illegal. In the November 1987 elections, Özal was reelected as prime minister, with 36.3% of the vote; the ANAP won 292 of the 450 seats in the National Assembly (although polling only 36% of the vote), the SDHP won 99 seats, and the DYP took 59 seats. A coalition of True Path and Social Democrats defeated the Motherland Party in 1991. Outside the established political system are the Kurdistan Workers Party (PKK) and other smaller separatist parties which have been banned.

In 1993, Motherland Party leader Turgut Özal died while serving as president. He was succeeded by True Path leader Süleyman

Demirel. In July of that year, Tansu Ciller, chairperson of True Path, became prime minister (Turkey's first female prime minister). Ciller headed a shaky coalition and in a budgetary debate in September 1995, her government collapsed. She lost a vote of confidence in October and new elections were held in December. The elections were won by the Welfare Party, which took 158 of 550 seats; although hardly a majority, this was 23 more seats than Ciller's True Path. Fearing an Islamic government, secularists scrambled to form a majority but failed, and in January 1996 President Demirel invited Welfare Party leader Necmettin Erbakan to form a government.

The Erbakan government lasted barely a year and a half. While popular in rural areas, it faced strong opposition from the business elite—which tends to be pro-Western—and the military. Beginning in 1997, the military let it be known that if Erbakan did not uphold Turkey's secular traditions, it would overthrow the government and return it to secular parties. In July 1997 Erbakan resigned and Motherland Party leader Mesut Yilmaz was asked to form a government. Following allegations of corruption, the Yilmaz government fell in November 1998 and was replaced by an interim minority government headed by Ecevit pending early elections.

Ecevit returned to head a minority government pending early elections in 1999. On 18 April 1999, Turkish voters gave Ecevit's DSP a plurality with 136 seats (22.3% of the vote). Ecevit went on to form a coalition government with the MHP and Motherland. In May 2000, President Demirel's long political career came to an end with the election of Ahmet Necdet Sezer as his successor. The next presidential election was to be held in 2007.

Political pressure brought to bear on the Ecevit government in mid-2002 led to the resignation of 8 of his cabinet ministers and a call for early parliamentary elections. The elections were won by the Islamic-based Justice and Development Party (Adalet ve Kalkınma Partisi, or AK), in a landslide victory. The AK took 363 of 550 seats in parliament with 34.3% of the vote; the CHP took 178 seats with 19.4% of the vote; and independents took 9 seats, as other parties participating in the elections did not meet the 10% threshold for obtaining seats. Abdullah Gül became prime minister, but the AK leader, Recep Tayyip Erdoğan, retained power in the party, and later became prime minister. The rise of the AK is one demonstration of the popularity of Islamic parties in Turkey, although the country is officially attempting to align itself with the West. The Islamic Welfare Party, which had appeal among the middle class, was banned and closed in 1998, and Erbakan was banned from participating in politics for 5 years. The Welfare Party's successor, the Virtue Party (Fazilet Partisi), was the main opposition party in 2001 when it was banned that June by the Constitutional Court for posing a threat to the state. A new party, the Felicity or Happiness Party (Saadet Partisi) was established by banned members of the Virtue Party. The AK also had its roots in the Virtue Party. The next parliamentary election was to be held 2007.

Former foreign minister Ismail Cem formed a new party, the New Turkey Party (Yeni Türkiye Partisi), which is centrist in orientation and polled 1% of the vote in the 2002 elections.

The PKK is also known as the Kurdistan Freedom and Democracy Congress (KADEK), and the People's Congress of Kurdistan or Kongra-Gel (KGK).

## <sup>15</sup> LOCAL GOVERNMENT

The chief administrative official in each of Turkey's 81 provinces (*vilayets* or *iller*) is the provincial governor (*vali*), an appointee of the central government who is responsible to the Ministry of Internal Affairs. During the military takeover in 1980s, governors were made responsible to the military authorities, and provincial assemblies were suspended. In 11 mainly Kurdish southeastern provinces, a regional governor exercised authority under a state of emergency declared in 1987. The state of emergency was lifted in November 2002. For administrative purposes, provinces are subdivided into districts (*kazas* or *ilces*), which in turn are divided into communes (*nahiyes* or *bucaks*), comprising kasabas and villages. In municipalities and villages, locally elected mayors and councils perform government functions. Both levels of government have specified sources of income and prepare budgets for the allocation of such income, which are then subject to approval by the central government. Most public revenue, however, is collected by the Ministry of Finance in Ankara.

## <sup>16</sup> JUDICIAL SYSTEM

The judicial system was left substantially intact by the 1982 constitution, except for the addition of special state security courts to handle cases involving terrorism and state security. There are four branches of courts: general law courts, military courts, state security courts, and a constitutional court.

The general law courts include civil, administrative, and criminal courts. Decisions of civil courts with original jurisdiction are appealable to a high court of appeals in Ankara. The high court of appeals also hears cases involving charges against members of the cabinet and other high functionaries. It also hears appeals for criminal cases, including appeals from the state security courts. A council of state hears appeals from administrative cases.

The military courts have jurisdiction over military personnel and include courts of first instance and a military court of appeals.

The state security courts are composed of five-member panels. They are found in eight cities and try defendants accused of crimes dealing with terrorism, gang-related crimes, drug smuggling, membership in illegal organizations, and sedition.

The constitutional court reviews the constitutionality of legislation at the time of passage both when requested by the required percentage of members of parliament and in the context of review of constitutional issues which emerge during litigation.

The constitution guarantees the independence of the judiciary from the executive and provides for life tenure for judges. It also explicitly prohibits state authorities from issuing orders or recommendations concerning the exercise of judicial power. A high council of judges and prosecutors selects judges and prosecutors for the higher courts and oversees those in lower courts. In practice, the courts act independently of the executive.

The constitution guarantees defendants the right to a public trial. The bar association is responsible for providing free counsel to indigent defendants. There is no jury system. All cases are decided by a judge or a panel of judges.

The European Court of Human Rights is the final arbiter in cases concerning human rights.

## 17 ARMED FORCES

In 2005, Turkey's total armed forces had a strength of 514,850 active personnel and 378,700 reservists. The Army numbered 402,000 personnel and included 17 armored brigades, 15 mechanized brigades, 15 infantry brigades, and 2 infantry divisions. Army equipment included 4,205 main battle tanks, over 250 reconnaissance vehicles, 650 armored infantry fighting vehicles, 3,643 armored personnel carriers, and more than 7,450 artillery pieces. The Turkish Navy had 52,750 personnel, including 3,100 Marines and 1,050 active naval personnel in the Coast Guard. Major naval units included 13 tactical submarines, 19 frigates, 55 patrol and coastal vessels, 35 mine warfare, 67 amphibious, and 27 logistical/support ships. The naval aviation arm operated seven fixed wing and 16 rotary wing aircraft. The Air Force had 60,100 personnel and 445 combat capable aircraft, including 87 fighters and 358 fighter ground attack aircraft. Paramilitary forces included a 100,000-member national guard/gendarmerie (with 50,000 reservists). An estimated 36,000 Turkish soldiers were stationed on Cyprus. Turkey participated in other peacekeeping and other military missions in six regions or countries. The defense budget in 2005 totaled \$9.81 billion.

## 18 INTERNATIONAL COOPERATION

Turkey is a charter member of the United Nations, having joined on 24 October 1945, and belongs to ECE and several nonregional specialized agencies, such as the IAEA, the World Bank, UNHCR, UNESCO, UNCTAD, ILO, and the WHO. Turkey is also a member of the WTO, the Asian Development Bank, the Black Sea Economic Cooperation Zone, the Euro-Atlantic Partnership Council, the Islamic Development Bank, the Council of Europe, the OSCE, the Organization of the Islamic Conference (OIC), NATO, and the OECD. As of 2005, Turkey was a candidate for membership to the European Union. The nation holds observer status in the OAS and is an associate member of the Western European Union.

Turkey belongs to the Australia Group, the Zangger Committee, the Nuclear Suppliers Group (London Group), the Nuclear Energy Agency, and the Organization for the Prohibition of Chemical Weapons. It holds observer status in the European Organization for Nuclear Research (CERN).

Relations with the United States, Turkey's principal aid benefactor, were strained during the 1970s over the Cyprus issue. After the Turkish military forces, using US-supplied equipment, had occupied the northern third of the island, the US Congress in 1975 embargoed military shipments to Turkey in accordance with US law. In response, Turkey abrogated its 1969 defense cooperation agreement with the United States and declared that it would take over US military installations in Turkey (except the NATO base at Adana). The US government then relaxed the arms embargo and finally ended it in 1978, after which Turkey lifted its ban on US military activities. Turkish-US relations improved markedly thereafter, and a new defense and economic cooperation agreement between the two countries was signed in 1980. In 1986, the 1980 agreement was renewed, allowing the United States to use some 15 Turkish military bases in exchange for continuing military and economic subsidies. Relations between Greece and Turkey also remain strained over the issue of Cyprus.

In environmental cooperation, Turkey is part of the Antarctic Treaty, the Basel Convention, Conventions on Biological Diversity and Air Pollution, Ramsar, CITES, the Montréal Protocol, MARPOL, the Nuclear Test Ban Treaty, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Since the end of World War II, the agricultural share of the economy has declined, while that of the industrial sector (including construction) has expanded. This shift in economic activity is in part the result of deliberate government policy. Mechanization of agriculture has produced a significant shift in population from farms to cities, necessitating substantial urban and industrial development and, hence, a high rate of investment. However, this heavy investment, plus an explosion of consumer demand, has also contributed to severe inflation and balance-of-payments problems. In the mid-2000s, agriculture contributed about 12% to nominal GDP, and employed over 35% of the workforce, including 25% of male employment and 60% of female employment. Industry accounts for about 30% of GDP and 25% of the labor force, and the service sector accounts for some 58% of GDP and 40% of the labor force.

During the late 1960s and early 1970s, Turkey enjoyed a high economic growth rate, averaging about 7% annually. This growth was financed largely by foreign borrowing, increased exports, and remittances from Turkish workers in Western Europe. As a result of the large increases in oil import costs during 1973–74, however, Turkey's economic growth declined in real terms during 1974–80, and the country suffered a severe financial crisis. Stabilization programs implemented in 1978 and 1979 under a standby agreement with the IMF proved inadequate, but in January 1980, as a condition of further IMF aid, Turkey imposed a more stringent economic reform program, involving currency devaluation, labor productivity improvements, and restructuring of the nation's inefficient state enterprises.

In response to the reforms, the GDP grew on average by 4.8% from 1980 to 1994, the highest rate of any OECD economy. In 1994, structural problems, including inflation rates of between 60–90% and budget deficits of between 6–12%, eventually took their toll, plunging the economy into its worst recession since World War II. Real GDP declined by 6% and the inflation rate exceeded 130%. The underlying strength of the economy, together with a government austerity program designed to rein in spending, led to a turnaround in 1996, and in 1997 GDP grew by 8%. In 1998, real GDP growth slowed and then turned negative as the economy was effected by the Russian financial crisis and domestic political turmoil. Conditions worsened in 1999 as on 17 August 1999 Turkey was hit by the Kocaeli Earthquake (between Bursa and Izmit), the worst ever to hit the country, killing over 15,000, seriously injuring over 28,000, leaving about 500,000 homeless, and causing an estimated \$5 billion worth of damage. In 1999, nominal GDP growth was 46.3%, but inflation, as measured by the consumer price index (CPI), was 68.8% and real GDP declined 6.1%.

At the end of 1999, Turkey entered into a three-year standby arrangement with the IMF with a approved credit line of SDR15.038 billion (1560% of its quota, well in excess of the 300% of quota that is IMF's normal limit), with a stringent set of conditions designed to bring Turkey's chronic inflation under control. The World Bank

followed in 2000 with a Country Assistance Strategy (CAS) that provided external program lending, technical assistance, analytical and policy advice. In 1999, the government took over 10 insolvent private banks and then began criminal investigations into their operations. Several arrests were made of key bankers, including the nephew of a former president, accused of siphoning off funds in various ways. During 2000 real GDP grew at 6.3% and CPI inflation decreased to 39%. However, in late November the economy was suddenly beset with a banking crisis as foreign investors, apparently more concerned about what further investigations might reveal than convinced that banking was being cleansed, began to rapidly sell their Turkish assets and cut lending. An estimated \$6 billion left Turkey in 10 days, \$2.5 billion on 22 November 2000 alone. Overnight interbank interest rates climbed to an annualized 1700%, at one point reaching 1950%. Domestic interest rates rose to 60%, almost double the precrisis level.

By early 2001, Turkey's stock market had lost nearly half of its value. A break in the precipitous divestment was achieved when the IMF announced an agreement to supply an additional \$7.5 billion credit in a one-year program under its Supplemental Reserve Facility (SRF) to run from 21 December 2000 to 20 December 2001. The reversal of the outflow proved only temporary, however. By late February 2001 the economy was plunged into a full-blown financial crisis, precipitated by the president's criticism of the prime minister's handling of the banking investigations during a meeting on 19 February 2001. The interbank overnight rate reached an annualized 7500% and the stock market lost nearly 18% of its value within a day. The central bank reportedly sold \$5 billion of its \$28 billion of reserves trying to defend the lira's exchange rate, but on 22 February 2001 it announced its decision to allow the lira to float. Its value dropped 36% in two days, as the exchange rate for the lira moved to 1,223,140 per 1 US dollar. For the year, real GDP fell 9.4% and inflation, measured by 12-month end-of-period CPI, increased nearly 30% to 68.5%. Net public debt rose to 93.4% of GDP, up from 57.7% the year before. Net external debt doubled as a percent of GDP from 18.5% to 37.1%. In a step designed to restore investor confidence, Kemal Dervish, former vice president of the World Bank, was appointed head of the Turkish central bank. In July 2001 the World Bank revised its 2000 CAS program to include an additional \$1.2 billion on Special Structural Adjustment Loan (SSAL) terms, for a total possible lending of \$6.2 billion in the period 2001 to 2003. On 4 February 2001, the day Turkey's three-year stand-by arrangement with the IMF expired, the government entered into a new two-year stand-by arrangement with a SDR8.194 billion (\$11.3 billion) line of credit.

As of 30 April 2002, Turkey had outstanding with the IMF over SDR14 billion (\$19.3 billion). Turkey's economic prospects seemed to be balanced between the confidence that can be engendered by its strict adherence to anticorruption, fiscal, monetary, and privatization reform programs and the political resistance and instability such strict adherence might provoke. Real GDP growth for 2002 was projected to be 3% with inflation held to the official target of 35%.

By 2005, Turkey's recovery from the 2001 economic crisis was being regarded as a "miracle." GDP grew at a rate of 8% in 2004, and inflation was down to single digits (just over 9%) for the first time in 30 years. Turkey has a long-held objective of becoming a member of the EU, and EU accession negotiations were opened

in October 2005, as if to cement confidence in Turkey's economic recovery. The EU's decision followed on the heels of a three-year, \$10 billion IMF stand-by agreement. Credit disbursements from the agreement of May 2005 depended upon the implementation of policies to reduce government debt, lower inflation, and increase competitiveness. However, the stabilization program had the drawback of not promoting a reduction in unemployment and income inequality. Exports were doing well in 2005, even to Iraq, and the war in Iraq did not deter tourists from visiting Turkey (tourism receipts amounted to a record \$12.6 billion in the first nine months of 2004). The banking system was restructured with a large injection of public funds. On 1 January 2005, Turkey introduced a new lira, eliminating six zeros from the old one. In 2006, however, a fall in the value of the lira was forecast to lead to slightly higher inflation and GDP growth of 3.5%, down from about 5% in 2005. An increase in domestic demand and strong exports were projected to lead to higher growth in 2007. Real GDP growth averaged 3.8% from 2001–05. The predicted slowdown in 2006 was forecast to reduce the current-account deficit from 5.9% of GDP in 2005 to 3.5% in 2006–07. The current-account deficit was estimated at \$21 billion in 2005. The government's large debt, at 74% of GDP, remains a vulnerability. Unemployment remained high, at 10% in 2005, but it was as high as 70% in some Kurdish regions in the southeast.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Turkey's gross domestic product (GDP) was estimated at \$551.6 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$7,900. The annual growth rate of GDP was estimated at 5.1%. The average inflation rate in 2005 was 7.7%. It was estimated that agriculture accounted for 11.7% of GDP, industry 29.8%, and services 58.5%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$729 million or about \$10 per capita and accounted for approximately 0.3% of GDP. Foreign aid receipts amounted to \$166 million or about \$2 per capita and accounted for approximately 0.1% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Turkey totaled \$160.08 billion or about \$2,264 per capita based on a GDP of \$240.4 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 2.5%. In 2001 it was estimated that approximately 45% of household consumption was spent on food, 18% on fuel, 6% on health care, and 5% on education. It was estimated that in 2002 about 20% of the population had incomes below the poverty line.

## 21 LABOR

Turkey's labor force in 2005 was estimated at 24.7 million. As of third quarter 2004, agriculture accounted for 35.9% of the workforce, with 41.2% in services, and 22.8% in industry. The unem-

ployment rate was estimated at 10% in 2005, with another 4% of the workforce as underemployed. Approximately 1.2 million Turkish workers are employed in other countries.

A 1946 law authorized the formation of labor unions and enabled them to engage in collective bargaining, and the right to strike was legally permitted in 1963, although general, solidarity, and wildcat strikes are explicitly prohibited. Employers' unions also exist, but members of one kind of union are prohibited from joining the other. As of 2005, about 25% of the country's wage and salaried workforce were unionized. Union membership was largest in the textile industry, tobacco manufacturing, public utilities, transport and communications, and coal mining. After the 1960 overthrow of the Menderes government, trade unions pressed the government to act upon their demands for the right to strike, for collective labor contracts, and for various social benefits, which were provided for in law but had not been fully implemented. However, the right to strike and the right to bargain collectively remained restricted as of 2005.

A detailed labor code administered by the Ministry of Labor controls many aspects of labor-management relations. As of 2005, Turkey had a basic 45-hour workweek, with a weekly day of rest. Overtime was limited to three hours per day, for no more than 90 days per year. The minimum wage was \$360 per month in the second half of 2005. Minimum wage rates are set semiannually by Turkey's Minimum Wage Commission. Workers usually are entitled to one paid day off per week. The minimum working age is 15, but in practice child labor, as of 2005, was widespread. Turkey's State Statistical Institute in 2004 reported that 764,000 children between the ages of 12 and 17 were working. However some observers claim that the figures were unreliable and that the number of child laborers was actually increasing.

## 22 AGRICULTURE

About 26 million hectares (64.2 million acres), or 34% of Turkey's total land area, is considered arable; in any given year, about two-thirds of arable land is under crops, and one-third is fallow. Little uncultivated arable land remains. The average holding is not more than four or five hectares (10–12 acres). Dry grain farming—in which half the land must lie fallow each year—offers little more than a subsistence standard of living. About 35% of the labor force is engaged in agriculture, which provided 13% of GDP in 2003. Large farms are concentrated mainly in the Konya, Adana, and İzmir regions. Agricultural methods still tend to be primitive, but modern machinery has been introduced. Much new land has been brought under cultivation since World War II (1939–45), and the increased use of chemical fertilizers and expansion of irrigated lands have increased yields per acre overall. In 2003, about 20% of all arable land was irrigated. Nevertheless, crop yields are still extremely sensitive to variations in rainfall. In good crop years, Turkey exports cereals, but in drought years, it must import them.

About 90% of the cultivated area is devoted to cereals. Wheat is the principal crop, accounting for about 60% of total grain production in 2004; 21,000,000 tons of wheat were grown in that year, followed by barley with 9,000,000 tons. Turkey also produced 13,965,000 tons of sugar beets and about 3,600,000 tons of grapes. Other agricultural products were grown in lesser but still important quantities in 2004: maize, 3,000,000 tons; sunflower seeds, 900,000 tons; cotton, 903,600 tons; and oranges, 1,280,000 tons.

Turkish tobacco is world famous for its lightness and mildness. Most of the crop is grown in the Aegean region, but the finest tobacco is grown around Samsun, on the Black Sea coast. Tobacco and tobacco products represented 8% of total agricultural exports in 2004 and 0.8% of all Turkish exports that same year. Some 160,000 tons of tobacco were produced in 2004. Most of the cotton crop is grown around Adana and İzmir. Other crops of commercial importance include olives (1,600,000 tons in 2004), tea (153,800 tons), fruits, nuts, and vegetable oil. Turkey usually leads the world in the production and export of hazelnuts (about 425,000 tons produced in 2004) and also is a leading producer of pistachio nuts (30,000 tons).

The government stimulates production through crop subsidies, low taxation, price supports, easy farm credit, research and education programs, and the establishment of model farms. The government also controls the conditions under which farm products can move into world markets. For some products, such as grain, the government is the sole exporter. Turkey began exporting vegetables and fruits abroad, which affected domestic market prices. Cotton and tobacco production levels are increasing as demands by the textile and cigarette industries have risen.

Turkey is one of seven countries authorized under the 1961 UN Convention on Narcotic Drugs to grow opium poppies for legitimate pharmaceutical purposes. In June 1971, after persistent US complaints that up to 80% of all opiates smuggled into the United States were derived from Turkish poppies, the Turkish government banned poppy growing; however, after efforts to find substitute crops failed, the government decided to rescind the ban on 1 July 1974. Areas authorized for poppy cultivation were estimated at 37,500 hectares (92,700 acres) in 1983; 5,000 hectares (12,350 acres) of opium capsule were sown in 1985. Government steps to curtail illegal cultivation, refining, and export of opiates were reportedly successful; in fact, Turkey has been one of the few opium-growing countries to crack down hard on drug smuggling.

## 23 ANIMAL HUSBANDRY

Turkey is heavily overgrazed. Many animals are used for transport and draft purposes as well as to supply meat and dairy products. The principal animals of commercial importance are mohair goats and sheep. The sheep wool is used mainly for blankets and carpets, and Turkey is a leading producer of mohair. Nevertheless, animal husbandry is generally poorly developed despite the great number of animals. In 2005 there were 25.2 million sheep, 10 million head of cattle, 6.6 million goats, and 297 million chickens. Production of wool was estimated at 46,000 tons in 2005. Other livestock products included cow's milk, 9.5 million tons; poultry meat, 940,000 tons; and hen eggs, 830,000 tons. Turkish apiculture produced some 73,900 tons of honey in 2005, fourth in the world.

## 24 FISHING

The total marine catch by Turkey's deep-sea fishermen was 502,800 tons in 2003, most of it anchovies and sardines caught as they migrate seasonally through the Bosphorus. In addition, 84,915 tons of freshwater fish were caught. Fishing equipment and methods have been substantially upgraded in recent years. For most of the population, however, the sea is not an important source of food.

Exports of fish and fish products amounted to \$148.8 million in 2003.

## 25 FORESTRY

Forests occupy 10,225,000 hectares (25,266,000 acres), or 13.3% of Turkey's total land area. State forests include almost all the forestland, while community or municipal forests and private forests are small. Care of state forests and all cutting therein are the responsibility of the directorate-general of forestry within the Ministry of Agriculture. The timber cut in 2004 yielded 15,870,000 cu m (558 million cu ft) of roundwood, with 32% used as fuel wood. Production of sawn wood in 2004 was 5,615,000 cu m (198.2 million cu ft); wood pulp 225,000 tons; wood-based panels, 3,232,000 cu m (114 million cu ft) and paper and paperboard, 1,643,000 tons.

## 26 MINING

Although Turkey had a wide variety of minerals, its resources were only partially developed. Turkey was a leading producer of boron, and was known for such industrial minerals as barite, celestite (strontium), clays, emery, feldspar, limestone, magnesite, marble, perlite, pumice, and trona (soda ash). Other minerals actively exploited and marketed were copper, chromite, iron ore, sulfur, pyrite, manganese, mercury, lead, zinc, and meerschaum. Mining, steelmaking, petroleum, and construction, were leading industries in Turkey. Turkey was a significant exporter of borates and steel, and also exported chromite, copper, zinc, and a wide variety of industrial minerals and derived chemicals. In 2003, exports of minerals and chemical based commodities and products accounted for approximately 22% of Turkey's \$47.2 billion in exports, or around \$10.7 billion. Among crude minerals in 2003: copper exports earned \$2,481 million; metal ores, about \$56 million; and borates and concentrates, around \$84 million.

In 2003 preliminary production of: copper (metal content) was 45,000 metric tons, down from 48,253 metric tons in 2002; dolomite, 1,158,539 metric tons; limestone (other than for cement), 28,609 million metric tons, down from 30.261 million metric tons in 2002; marble, 544,629 cu m, compared to 557,630 in 2002; quartzite, 2,908,584 metric tons; boron concentrates, 1.4 million metric tons, up from 1.346 million metric tons in 2002; bauxite from the public sector, 364,306 metric tons (about 30,000 metric tons per year were produced by the private sector); feldspar, 1,862,310 metric tons; iron ore (metal content), 2.1 million metric tons, down from 2.4 million metric tons in 2002; celestite strontium concentrates, 70,000 metric tons; and meerschaum, 200 kg (estimated), down from 200 kg in 2002. Eskisehir, in northwestern Anatolia, was the world center of meerschaum (sepiolite). Turkey was famous for its meerschaum pipes. Also produced in 2003 were alumina, antimony, gold, lead, manganese, silver, alumina sulfate (alunite), barite, hydraulic cement, clays (including bentonite and kaolin), emery, fluorspar, crude glass, graphite, gypsum, lime, magnesite, nitrogen, perlite, pumice, cupreous pyrite, sand and gravel, silica sand, sodium compounds (salt, soda ash [trona], and sodium sulfate), stone (basalt, diabase, granite, onyx, sandstone, serpentine, slate, and travertine), sulfur, talc, and zeolite. No smelted zinc or cadmium were produced in 2003.

Despite the divestment of a large portion of the state-owned minerals sector holdings, to domestic and foreign investors, the

government remained a significant factor in most sectors of the minerals industry, through shareholdings in a number of private companies and various state-owned industrial corporations. In recent years, the government has been encouraging mineral exports as well as domestic and foreign private mining investment. Ongoing privatization costs were expected to result in layoffs and the closure of inefficient operations. Most of the nation's 3,000 mines were small. Resources of metallic commodities minable by large-scale methods were known for bauxite, chromite, copper and copper-zinc, gold, iron, and silver.

## 27 ENERGY AND POWER

Turkey has only modest reserves of oil and natural gas, while its coal reserves are generally of indifferent quality and highly polluting. However, the country's geographic location makes it a natural bridge between European consumer markets and the major oil producing areas in the Middle East and in the Caspian Sea region.

As of 1 January 2005, Turkey had proven oil reserves estimated at 300 million barrels. In 2004, oil output was estimated at 42,904 barrels per day, of which 42,421 barrels per day was accounted for by crude oil. However, in that same year, demand for oil averaged 685,000 barrels per day, of which net imports accounted for 642,081 barrels per day. Crude oil refining capacity is spread over seven refineries with a combined crude oil refining capacity of 802,275 barrels per day, which includes the privately owned Atas refinery at 88,000 barrels per day. Reported as of July 2005, by the Energy Information Agency, oil accounts for more than 40% of Turkey's total energy requirements, although its share is falling due to the increasing use of natural gas. Approximately 90% of Turkey's oil is imported.

Although Turkey has proven reserves of natural gas, nearly all of Turkey's demand for natural gas is met by imports. As of 1 January 2005, Turkey's natural gas reserves were estimated at 300 billion cu ft. Production in 2003 was estimated at only 20 billion cu ft while demand was estimated at 748 billion cu ft. Imports that year were estimated at 728 billion cu ft. The bulk of Turkey's demand for natural gas in 2003, around 65%, was accounted for by the country's power sector. Residential and industrial users accounted for 14% and 19% of demand, respectively, in 2003.

In 2003, Turkey's recoverable coal reserves were estimated at 4.6 billion short tons. Coal production that year came to 53.1 million short tons, with demand at 71.0 million short tons. Imports of coal in 2003 were estimated at 17.9 million short tons. Coal produced in Turkey is used largely for electric power generation.

As of early 2004, Turkey's electric generating capacity was estimated at 32.3 GW, of which 40% of capacity was fueled by natural gas, 28% by hydropower, 24% by coal, and only 7% by oil. In 2003, net electricity production totaled an estimated 133.6 terawatt-hours (Twh), with demand in that same year estimated at 124.9 Twh. For almost 20 years, Turkey has been one of fastest growing markets for electricity in the world. Although the country's 2001 economic crisis has dampened demand for electricity, the Turkish government foresees the need for a significant increase in the country's generating capacity.

## 28 INDUSTRY

Overall industrial production, which had increased by annual rates of close to or over 10% from 1973 to 1977, fell sharply because of Turkey's financial crisis in 1978–79 and actually declined by 5% in 1979 and 1980. After the government's economic reform program slowed inflation and stabilized the lira, industrial production improved. Production rose 28% during 1985–87. State enterprises were restructured to reduce their government subsidies and to make them more productive and competitive with private firms. However, industry has continued to suffer from structural weaknesses and, in many firms, production facilities are obsolete. Production rose by an annual average of almost 5% 1980 to 1993, but fell more than 6% in the recession of 1994 as the chronic double digit inflation rose to triple digits at 128%. Manufacturing output recovered strongly from 1994 to 1995, rising 30% from \$34.3 billion to \$44.7 billion, and then to \$46.6 billion in 1996. The industrial production index (1992=100) rose to a peak of about 132 in May 1997, and capacity utilization peaked in September at 82%. The Russian financial crisis helped throw both indicators into decline and by August 1999 the industrial production index had fallen 20% to about 111 and capacity utilization to about 67%. Another period of recovery lasted until the banking crisis of late 2000, although capacity utilization remained below 77%. From November 2000 to October 2001 the industrial production index fell 20%, from 130 to 110, and capacity utilization dipped below 74%. The 2001 industrial output declined 8.9% including a 9.9% decline in manufacturing, a 7.9% decline in mining, and a 1.5% decline in utility outputs. Continuing its roller coaster pattern, in the first quarter of 2002, the industrial production index was back up to 132 as capacity utilization rose marginally to 75%.

As of 2005, industry, excluding construction, accounted for about 25% of GDP and just under 20% of employment. Construction contributes about 4–5% of GDP, down from 6–8% of GDP in the late 1980s and early 1990s. The industrial production growth rate in 2004 was 16.5%.

The textile industry, Turkey's largest manufacturing sector (accounting for one-third of industrial employment), is centered in İzmir, Istanbul, Adana, and Kayseri. The removal of EU quotas on imports of textiles and apparel when Turkey joined in a customs union with the EU in 1996 has improved growth prospects, but the removal of global quotas in 2005 causes Turkey to face stiff competition on international markets for its textiles and clothing.

Secondary mineral commodities, including refined petroleum products, steel, cement, glass, and certain chemicals account for over two-thirds of manufacturing output. Turkey's largest industry is petroleum refining. Turkey has very limited energy resources, but because of its strategic location between Europe and Asia, oil consumers and oil producers, it is crossed by several major oil and gas pipelines. Turkey has six oil refineries, four operated by the state. The four state refineries—at İzmit, at Aliaga, at Kirikkale, and at Batman—were built by the National Oil and Gas Company of Turkey (TPAO—Türkiye Petrolleri A.O.). The major private refinery in Turkey is Anadolu Tasfiyehanesi A.S. (ATAS). A small refinery in the southeast was bought in 1997 by Aladdin Middle East Ltd., a US-based company concerned mainly with oil exploration and development in this Kurdish-dominated region. Total refinery production suffered in the Russian financial crisis of 1998

and the İzmit earthquake of 1999, which damaged the İzmit Refinery in Kocaeli Province, epicenter of the earthquake.

Major industrial complexes include the government-owned iron and steel mill at Karabük and the Ereğli iron and steel works. Other important Turkish enterprises are brick and tile, glass, leather, chemicals and pharmaceuticals, metalworking, cordage, flour milling, vegetable-oil extraction, fats and oils, paper products, printing and publishing, plastic products, and rubber processing. The sugar-beet industry ranks first among food-processing industries and produces more than domestic consumption requires. The automobile industry expanded rapidly in the 1970s and continued to be a growth sector in the mid-2000s. Tofas, a joint venture between Fiat and Koc Holding A.S., Turkey's biggest industrial conglomerate, is the leading automotive producer. Much of the production of machines, consumer goods, and tools takes place in hundreds of small machine shops and foundries, where little special-purpose machinery is used. In addition to textiles and clothing and motor vehicles, consumer electronics was the most dynamic sector of the economy by 2006.

## 29 SCIENCE AND TECHNOLOGY

Turkey's industrial economy has just begun to apply advanced technology to basic industries. The government body that coordinates scientific research is the Scientific and Technical Research Council of Turkey (founded in 1963), in Ankara. The Mavmara Scientific and Industrial Research Institute (1972), in Istanbul, conducts research on basic and applied sciences, and industrial research. The Ankara Nuclear Research and Training Center (1967), attached to the Turkish Atomic Energy Authority, studies health physics, nuclear electronics, and plasma physics. The General Directorate of Mineral Research and Exploration (1935), also in Ankara, conducts the Geological Survey of Turkey and evaluates mineral resources. The Turkish Natural History Museum was founded in 1968 at Ankara. Turkey has 29 universities that offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 45% of college and university enrollments. In 2002, of all bachelor's degrees awarded, 22.1% were for the sciences (natural, mathematics and computers, engineering).

In 2002, total expenditures on research and development (R&D) amounted to \$2,965.522 million, or 0.67% of GDP. Of that amount, the government accounted for 50.6%, followed by the business sector at 41.3%. Private nonprofit organizations and foreign sources accounted for 6.9% and 1.3%, respectively. In that same year, there were 345 scientists and engineers, and 37 technicians engaged in research and development per million people. High technology exports in 2002 totaled \$568 million, or 2% of the country's manufactured exports.

## 30 DOMESTIC TRADE

Individual firms tend to be small and specialized. There is virtually no commercial activity in villages; the villager comes into the market town to buy and sell. Government-operated exchanges for cereals are located in municipalities. If the price of grain in the free market falls below the supermarket price, the government-operated exchanges purchase the grain and market it. In this manner, the government controls the price range of cereals. Franchising has grown in the past few years, primarily in foreign fast-food

and apparel firms. Value-added taxes apply to most goods and services with different rates for different products.

Because of the scarcity of some commodities, the government controls the distribution of various essential goods, notably cement, coal, lignite, and steel. Under a 1954 law, municipal authorities enforce specified profit margins on designated commodities. These margins are established at four levels: importer or manufacturer, distributor, wholesaler, and retailer. Customarily, a Turkish wholesaler supplies credit to retailers who, in turn, often extend credit beyond their own means to consumers. Wholesalers' margins tend to be small because of low overhead and keen competition. Due to Turkey's high inflation rate, wholesalers usually try to maintain minimal stocks to reduce carrying costs.

Most commercial firms belong to chambers of commerce, which exist in all cities. Chambers of industry are increasingly important in larger manufacturing centers. The government sponsors an international trade fair every year at İzmir.

Shops are normally open from 9 AM to 7 PM, Monday through Saturday; some establishments tend to stay open later in the evenings, some shops often have Sunday hours, and some close Friday nights for Muslim religious observances. Banking hours are from 9 AM to 5 PM, Monday through Friday. Business hours are from 9 AM to 5 PM, Monday through Friday, with an hour for lunch.

### <sup>31</sup> FOREIGN TRADE

Turkey's trade balance has long been negative, but the deficit reached crisis proportions in 1974/75 and again in 1980/81, when import value was nearly double that of exports and the annual trade deficit approached \$5 billion. In 1985, the government mandated the creation of four free trade and export processing zones aimed at expansion and diversification of exports. By 1990, the deficit had risen to over \$9 billion and the ratio of exports to imports fell to 58%, compared to 81% in 1988. The gap narrowed slightly in 1991 and 1992, but widened in 1993. Exports increased from \$18.1 billion in 1994 to \$21.6 billion in 1995 to \$24.5 billion in 1996. Total imports in 1994 amounted to \$23.3 billion, and rose to \$35.7 billion in 1995 and \$45 billion in 1996.

After 1994, strong domestic demand caused imports to surge, along with the reduction of import duties that accompanied the

introduction of a customs union with the EU in 1996. By 2000, exports equaled only slightly more than half of imports (50.8%), bringing back memories of trade balances of the 1970s and '80s. The share of exports of goods and services in GDP surged to over 30% in the 2001 recession year in which domestic demand contracted sharply, but exports rose sharply, particularly due to the devaluation of the lira. That was the first time exports accounted for more than 25% of GDP. In 2002, the share of exports was 28.8%, and imports of goods and services amounted to about 30% of GDP. The foreign trade gap continued to widen in 2005, driven in part by high international oil prices.

The garment and textile industry in Turkey accounts for the largest amount of commodity exports. Other exports include iron and steel, fruits and nuts, and televisions.

Turkey's leading markets in 2004 were Germany (13.9% of all exports), the United Kingdom (8.8%), the United States (7.7%), Italy (7.4%), and France (5.8%). The 25 nations of the EU were the destination of 54.6% of Turkey's exports. In 2004, leading suppliers included Germany (12.8% of all imports), Russia (9.3%), Italy (7%), France (6.4%), and the United States (4.9%). Of Turkey's total imports, 46.6% came from the EU-25.

### <sup>32</sup> BALANCE OF PAYMENTS

In 2000 and 2001, a trade deficit and a weak banking sector forced Turkey to float the lira, which caused the country to fall into recession. The economy improved in 2002, however, due in part to support from the IMF and tighter fiscal policies. The share of exports of goods and services in GDP rose to 31.5% in 2001, the first time it surpassed 25%. That year, imports of goods and services amounted to 29.2% of GDP. Total external debt by September 2001 stood at \$118.3 billion. In 2004, exports amounted to \$67 billion, while imports were \$90.9 billion, leaving a trade deficit of \$23.9 billion, compared with \$14 billion in 2003. The foreign trade gap continued to widen in 2005, due in large measure to high in-

#### Principal Trading Partners – Turkey (2003)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	47,252.8	69,339.7	-22,086.9
Germany	7,484.9	9,453.0	-1,968.1
United States	3,753.9	3,496.6	257.3
United Kingdom	3,670.1	3,500.0	170.1
Italy-San Marino-Holy See	3,194.8	5,471.6	-2,276.8
France-Monaco	2,826.1	4,164.1	-1,338.0
Free zones	1,928.3	588.9	1,339.4
Spain	1,792.2	2,003.8	-211.6
Netherlands	1,525.9	1,656.7	-130.8
Russia	1,367.6	5,451.3	-4,083.7
Israel	1,083.0	459.5	623.5

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

#### Balance of Payments – Turkey (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>-6,850.0</b>
Balance on goods		-14,034.0
Imports	-65,240.0	
Exports	51,206.0	
Balance on services		10,505.0
Balance on income		-5,427.0
Current transfers		2,106.0
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>6,959.0</b>
Direct investment abroad		-499.0
Direct investment in Turkey		1,562.0
Portfolio investment assets		-1,386.0
Portfolio investment liabilities		3,955.0
Financial derivatives		...
Other investment assets		-986.0
Other investment liabilities		4,313.0
<b>Net Errors and Omissions</b>		<b>3,978.0</b>
<b>Reserves and Related Items</b>		<b>-4,087.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ternational oil prices. The current-account deficit was estimated at \$21 billion in 2005, or 5.9% of GDP.

### 33 BANKING AND SECURITIES

The Central Bank of the Republic of Turkey was founded in 1930 as a privileged joint-stock company. It possesses the sole right of note issue and has the obligation of providing for the monetary requirements of the state agricultural and commercial enterprises by discounting the treasury-guaranteed bonds they issue. All foreign exchange transfers are handled exclusively by the Central Bank, which operates the clearing accounts under separate agreements with foreign countries. The bank has 25 domestic branches, plus a banknote printing plant and foreign branch offices in New York, London, Frankfurt, and Zürich.

As of 2002, Turkey had 69 banks. Banks supervised by the Central Bank play a declining role in the banking system, but 49% of total bank assets are still concentrated in three state-owned banks. The major private banks are mostly linked to industrial conglomerates, such as the Cukurova Group, owning the Construction and Credit Bank (Yapi ve Kredi Bankasi), Pamukbank, and Interbank; and the Sabanci Group, which owns Akbank. Several Western commercial banks are also active, as are some Middle Eastern trading banks. There are also three so-called special finance houses, which have adopted Islamic banking practices. Many observers predict large-scale bank consolidation as Turkey continues liberalizing its economy.

The five big state banks suffer from serious structural problems. These include overstaffing, political interference, and nonperforming loans to other state institutions, which are not recorded as such. Many small and medium-sized banks are also poorly run. Some of these were badly hit by the financial crash of early 1994, and three were forced to close. A widespread shakeout in the banking system is regarded as likely in the longer term.

Two of Turkey's most important banks, the Sümerbank and Etibank, are also state investment-holding companies. Another important state financial institution is the Agricultural Bank, which supplies credit to the farm population. The largest private commercial bank is the Business Bank. Another private bank, the Industrial Development Bank of Turkey, stimulates the growth of private industrial development and channels the flow of long-term debt capital into the private industrial sector for both short- and long-range development programs. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$8.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$86.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 91.95%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 60%.

The first securities market in the Ottoman Empire was the Dersaadet Securities Exchange, established in 1866. The Istanbul Stock Exchange opened in 1985 and the Istanbul Gold Exchange commenced operations 10 years later.

Turkey's only securities exchange is located in Istanbul. Because of the shortage of foreign exchange, there are no transactions in foreign bonds and stocks. With few exceptions, trading is in government bonds. Virtually all securities issued by private

enterprises are sold privately through personal arrangements between buyers and sellers. Still, the Istanbul Stock Exchange has developed impressively, if not erratically, in recent years. In 2001, there were 310 companies listed, the most in the exchange's history. Total market capitalization was \$47 billion, and trading value was nearly \$78 billion with a sky-high turnover rate of 162%. As of 2004, there were 296 companies listed on the Istanbul Stock Exchange, which had a market capitalization of \$98.299 billion. Trading value that year came to \$147.426 billion, with a turnover ratio of 182.3%.

### 34 INSURANCE

Government regulations, effective 1929 and subsequently amended, require all insurance companies to reinsure 30% of each policy with the National Reinsurance Corp., a state organization. In 1954, life policies were exempted from this requirement. It is possible to secure insurance policies for flood damage, third-party liability, earthquake, commercial shipments, theft, fire, and accident, as well as life. Varied social security schemes are administered directly by the state. Third-party automobile liability, workers' compensation, and employers' liability are all compulsory. Workers' compensation is covered solely by the government as a part of the Social Security scheme. The insurance market is officially regulated through the Ministry of Commerce. In 2003, the value of all direct insurance premiums written totaled \$3.242 billion, of which nonlife premiums accounted for \$2.672 billion. In 2003, Axa Oyak was Turkey's top nonlife insurer, with gross written premiums of \$286.3 million, while the country's leading life insurer, Anadolu H. Emekilik, had gross written life insurance premiums of \$226.9 million.

### 35 PUBLIC FINANCE

Beginning in 1983, the fiscal year was shifted to the calendar year, starting on 1 January. (It had formerly begun on 1 March.) The consolidated budget includes the general budget of the govern-

#### Public Finance – Turkey (2001)

(In trillions of liras, budgetary central government figures)

<b>Revenue and Grants</b>	<b>51,324.7</b>	<b>100.0%</b>
Tax revenue	43,126.5	84.0%
Social contributions	...	...
Grants	...	...
Other revenue	8,198.1	16.0%
<b>Expenditures</b>	<b>81,545.9</b>	<b>100.0%</b>
General public services	56,229.4	69.0%
Defense	5,456.9	6.7%
Public order and safety	3,063.7	3.8%
Economic affairs	2,569	3.2%
Environmental protection	...	...
Housing and community amenities	706.7	0.9%
Health	2,598.5	3.2%
Recreational, culture, and religion	557.9	0.7%
Education	5,233.7	6.4%
Social protection	5,130.2	6.3%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

ment (by ministry) and a number of annexed budgets, which pertain to semiautonomous state activities, such as universities. Additionally, each section is divided into operating and investment expenditures. The budget is invariably in deficit. In 1994, when budget deficits led to an economic crisis with inflation peaking at 150%, the government launched an austerity program that reduced inflation but sent the economy into recession. When conditions improved, the government's commitment to austerity measures waned and expenditures again exceeded revenues. In 1999 the government initiated structural reforms under ongoing programs of standby agreements with the IMF. However, in 2000/01, banking crises, political disputes, and a rapidly growing current account deficit set the economy into a deep downturn that forced the government to adopt a floating exchange rate regime, an ambitious reform program, a tight fiscal policy, additional structural reforms, and unparalleled levels of IMF lending. By 2005, the economy was on stronger footing, with continued support from the IMF.

The US Central Intelligence Agency (CIA) estimated that in 2005 Turkey's central government took in revenues of approximately \$93.5 billion and had expenditures of \$115.3 billion. Revenues minus expenditures totaled approximately -\$21.7 billion. Public debt in 2005 amounted to 67.5% of GDP. Total external debt was \$161.8 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, budgetary central government revenues were TL51,324.7 trillion and expenditures were TL81,545.9 trillion. Government outlays by function were as follows: general public services, 69.0%; defense, 6.7%; public order and safety, 3.8%; economic affairs, 3.2%; housing and community amenities, 0.9%; health, 3.2%; recreation, culture, and religion, 0.7%; education, 6.4%; and social protection, 6.3%.

### 3<sup>6</sup>TAXATION

All persons domiciled in Turkey, whether of Turkish citizenship or otherwise, are subject to taxation on income. Certain categories of foreigners are taxed only on income earned in Turkey, specifically, foreign business representatives, consultants, scientists, government officials, press correspondents, and others who do not intend to become permanent residents regardless of length of stay. Turkey, as of 2005, had a progressive personal income tax structure with a top rate for employment income of 30%, and a 40% rate for other types of personal income. Dividends paid to resident individuals are taxed at only 50% of the distribution. In addition, the withholding tax paid on that portion can be taken as a credit against the taxable dividend income.

As of 1 January 2005, the basic corporate tax rate, was 30%. Capital gains, as of that date, were also taxed at that rate and are included in ordinary income. Dividends paid by resident corporations to other resident companies are not subject to a withholding tax. However, a 10% withholding rate may apply to those dividends if: the recipients are residents not subject to or exempt from income or corporate taxes; are nonresident corporations without a permanent representative or office in Turkey; and if the nonresident recipients are exempt from Turkish corporate and income taxes. Interest income from Turkish government treasury bills and bonds, and on loans made by foreign financial institutions are not subject to a withholding tax. Interest income derived from

other sources are subject to varying withholding tax rates. Royalties paid to nonresident companies or under licenses of rights are subject to a 22% withholding rate. A higher 25% rate applies payments on the sales of rights.

A value-added tax (VAT) with a standard rate of 18% applies to most transactions. However, an 8% rate is applied to basic foodstuffs, medical services, private education, books and some entertainment services. An even lower rate of 1% is applied to some immovable property, agricultural products, newspapers and used cars. In December 2001 two higher rates of 26% and 40% applied to luxury goods were abolished. Exemptions to the VAT include transactions subject to Turkey's insurance and banking transactions tax the pipeline transport of petroleum and crude oil, and the leasing of immovable property. Exports, international transport services provided abroad, and the supply of aircraft and ships are zero-rated.

Other taxes include excise taxes, stamp taxes, sales taxes consumption and property taxes, and inheritance and gift taxes. Business establishments are subject to an old age insurance tax and an illness and disability tax, shared by employers and employees.

### 3<sup>7</sup>CUSTOMS AND DUTIES

Most imports are subject to the 18% VAT (with a ceiling of 26%) which is applied on the CIF (cost, insurance, freight) plus duty value. Turkey is a member of the World Trade Organization (WTO) and aligns its customs policies with WTO regulations. Turkish customs duties are assessed on an ad valorem basis only. Present customs classification conforms to standardized international nomenclature. Duty-free entry is provided for many types of imports, such as some raw materials, imports by government agencies, and capital goods. In 1996, Turkey aligned its tariffs with the EU's common external tariff system. Importers no longer need an import license and import authorization from a bank. A government monopoly, TEKEL, controls alcohol and cigarette imports. Narcotics and weapons are strictly prohibited.

### 3<sup>8</sup>FOREIGN INVESTMENT

Although Turkey has been the recipient of considerable foreign aid, its leaders have also recognized the need for private foreign investment. By 1970, foreign capital could operate in any field of economic activity open to Turkish private capital, and there was no limit on the percentage of foreign participation in equity capital. However, direct capital investment by foreign companies from 1960 to 1979 averaged no more than \$20 million annually, very low by OECD standards. This changed dramatically in 1980 with new foreign investment policies that cut red tape to gain more rapid approval for investment applications; inflows of private capital increased to \$97 million in 1980, \$337 million in 1981, and \$913 million in 1992. In 1997, foreign direct investment in Turkey totaled over \$1 billion. A majority (56.8%) of this investment went into manufacturing, while 40.5% was in services, 1.6% in agriculture, and 1.1% in mining.

Total Turkish direct foreign investments abroad totaled over \$1.4 billion in 1997. Just over \$323 million (22.2% of the total) was invested in the United Kingdom, \$297.7 million in Germany, \$102.2 million in the Netherlands, and \$86.2 million in Russia. Other destinations for Turkish investors include Azerbaijan, Luxembourg, Romania, and Kazakhstan.

Private investment in the early 2000s was sluggish: in 2001 and 2002 total fixed investment accounted for only some 17% of GDP, with more than 30% of this carried out by the public sector. Corporate taxes are high, although the basic rate of corporate tax was due to fall from 30% to 20% in 2006. As of June 2003, there were 6,511 foreign firms invested and operating in Turkey. Over the past two decades, France has been the largest foreign investor, followed by the Netherlands, Germany, and the United States. In 2004, FDI inflow (January to November) amounted to \$2.2 billion, or 1% of GDP. As of December 2004, Turkey's total external investment abroad amounted to \$6.5 billion.

### **39 ECONOMIC DEVELOPMENT**

Economic policy is formulated by the State Planning Organization. In June 1961, an integrated 15-year plan was announced, consisting of three five-year plans designed to achieve a 7% yearly increase in national income. In March 1963, the first five-year plan was inaugurated; this 1963–68 program to some extent fell short of its goals, but its average annual increase of 6.7% in GNP was still impressive. Two objectives of the second five-year plan (1968–72) were economic viability and social justice. The role of the public sector under this program was twofold: creation and expansion of the economic and social infrastructure and development of modern manufacturing industries. Economic policy, however, still sought the largest possible active role for private enterprise in the development of industries, and the government sought with limited success to encourage private activity through fiscal concessions, financial assistance, and state participation in mixed enterprises. The third five-year plan was inaugurated in 1973 with the objective of helping Turkey prepare for its future membership in the EC. The long-term goals were to increase the per capita GNP from \$400 in 1972 to \$1,500 by 1995, to reduce agriculture's share of the GDP to 12%, and to increase industry's share to 37%. One of the main aims of the third five-year plan, still largely unmet, was to increase the efficiency of the tax-collection service. In agriculture, the objectives were to increase food supplies for export and to feed a growing population through improved irrigation, technical advice to farmers, and the establishment of more cooperative farms.

All these efforts required large new investments and massive foreign loans which, coupled with the huge increases in the cost of oil imports after 1973, led to the financial crisis of 1977–78. Since 1980, Turkey has deliberately pursued a deflationary policy, allowing the international exchange rate of the lira to fluctuate on a daily basis from 1 May 1981. The government also delayed several ambitious development proposals, mainly because new foreign credits were not available. However, a number of smaller projects financed by the IBRD went forward. Meanwhile, the fourth (1979–83) and fifth (1985–90) five-year plans continued to stress industrial development, deflationary monetary policy, and export promotion. The creation of free trade zones, in the mid-1980s, was a major step in line with these policies.

Long-term economic programs adopted in 1991 and 1994 planned to reform social security and subsidy programs, implement tax reforms and improve tax administration, and restructure state enterprises, transferring certain inefficient ones to the private sector. By 1996, these plans had reduced the government's role in the economy, but huge budget deficits continued to plague

the economy and further reforms are needed if Turkey is to solve its economic problems.

Turkey's geostrategic significance received a big boost in 1999 when its leaders, along with those of Azerbaijan, and Georgia agreed to the construction of an oil pipeline from the Caspian Sea port of Baku to the Turkish Mediterranean port of Ceyhan. The first section of the 1,100-mile pipeline opened in May 2005. The \$3.2 billion pipeline has a capacity of one million barrels of oil per day.

Full membership in the European Union (EU) constitutes one of Turkey's chief aims. In December 1997 Turkey was effectively removed from the EU's list of candidates for entry. As a result, Turkey suspended its relations with the EU. However, the 1997 decision was reversed at the December 1999 EU summit in Helsinki as Turkey formally became a candidate for accession in the next round of EU enlargement. Turkey's economic problems along with reservations about human rights have put a brake on early Turkish entry to the EU. Nevertheless, Turkey's status as a candidate member provides clear goals for Turkish development, and accession negotiations were opened in October 2005. With the turnaround in the Turkish economy, which, by 2005, was booming, other longstanding problems could be addressed. They include the high government debt (74.3% of GDP in 2004), inflation, unemployment, and income inequality. Turkey is working to become more globally competitive, and government policies have shifted toward liberalization. However, efforts to reduce the role of the state have been hindered by special-interest groups and political instability.

### **40 SOCIAL DEVELOPMENT**

The social insurance system provides old age, disability, and death pensions for employees in industry, commerce, and the service sector. Special systems cover other workers. The benefits are funded by payroll taxes and employee contributions. Sick leave and maternity benefits are also covered. Employers contribute additional funds to cover worker's injury insurance. Unemployment benefits are available for most workers, are available after 600 days of contributions in the three years before loss of work. The Social Insurance Institution provides medical services in its own hospitals and other facilities.

The civil code explicitly bans sex-based privileges, yet proclaims the male as the legal head of the household. This grants the male the right to choose the place of residence, and most assets are held in the name of the husband. Women in urban areas are increasingly working outside the home. Women generally receive equal pay for equal work in the professions, but are underrepresented in managerial positions. Spousal abuse and violence are widespread. In 2004, a study showed that over 31% of women were beaten by their husbands, and 39% of women believed that men were justified in beating their wives in certain situations. Authorities hesitate to intervene in domestic matters, and violence against women goes largely unreported. Honor killings continue among some rural areas, and forced marriages are common. Reports of child abuse have increased in recent years.

Kurds are the largest ethnic minority and suffer discrimination, especially in less-industrialized areas. The government is responsible for widespread human rights abuses, including beatings, torture, and killings by security forces. Freedom of speech and of the

press are limited. Human rights organizations are subject to harassment and possible closure by the authorities.

#### **4<sup>1</sup> HEALTH**

Free medical treatment, given at state hospitals or health centers, is provided by the state to any Turkish citizen who obtains a certificate of financial need from a local administrator. As of 2004, there were an estimated 124 physicians, 235 nurses, 23 dentists, and 33 pharmacists per 100,000 people. Approximately 83 % of the population had access to safe drinking water and 91% had adequate sanitation.

Malaria, cholera, and trachoma have been effectively controlled by large-scale public preventive measures. Immunization rates for children up to one year old were tuberculosis, 73%; diphtheria, pertussis, and tetanus, 79%; polio, 79%; and measles, 76%. Diarrheal disease persists, especially in children under five years of age.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 17.9 and 6 per 1,000 people. About 64% of married women (ages 15 to 49) used contraception. The total fertility rate was 2.4 children for every Turkish woman who lived through her childbearing years. Average life expectancy was 72.36 years in 2005. In the same year, infant mortality was estimated at 34 per 1,000 live births. Maternal mortality was 130 per 100,000 live births.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003.

#### **4<sup>2</sup> HOUSING**

In 1999, major earthquakes in August and November left about 800,000 people homeless. The disasters brought to light the issues of substandard housing and illegal construction permits. The Turkish Chamber of Commerce estimated that about 65% of all buildings were built with illegal permits or below regulations, producing structures that are in no way suited to withstand the earthquakes to which Turkey is prone. International assistance has helped to rebuild and repair a number of homes. In 2000, there were about 16,235,830 dwelling units nationwide. The average household had 4.5 members. The Collective Housing Administration Directorate, founded in 1984, provides credit for residential construction projects.

#### **4<sup>3</sup> EDUCATION**

Primary, secondary, and much of higher education is free. Education is compulsory for children ages 6 to 14 or until graduation from primary school (grade five). As of 1997, the regular school system consists of eight years of basic school and three years of secondary school. Technical, trade, and commercial schools are available at the secondary level. Some Anatolian high schools offer courses in English, French, or German in the first year and use those languages in instruction for the following years. There are also Anatolian fine arts high schools. Among private schools in operation are a number of foreign schools and those maintained by ethnic or religious minorities. The academic year runs from October to June.

In 2001, about 6% of children between the ages of three and six were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 86% of age-eligible students. In 2001, secondary school enrollment was less than 76% of

age-eligible students. It is estimated that about 95% of all students complete their primary education.

Among Turkey's 53 universities are the universities of Istanbul (founded 1453) and Ankara (founded 1946), the Technical University of Istanbul (founded 1773), and the Middle East Technical University at Ankara (founded 1957). In 2003, it was estimated that about 28% of the tertiary age population was enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 88.3%, with 95.7% for men and 81.1% for women.

As of 2003, public expenditure on education was estimated at 3.6% of GDP.

#### **4<sup>4</sup> LIBRARIES AND MUSEUMS**

The National Library in Ankara has over 960,000 volumes. There are two provincial branches of the library system as well: the Beyazit State Library in Istanbul with 500,000 volumes and the National Library of İzmir with 350,000 volumes. Major university collections include the Istanbul University and Documentation Center with 1.5 million volumes and one of the Middle East's finest rare book collections; the Middle East Technical University with 145,000 volumes, and the University of Ankara with 750,000 volumes.

The most famous museums and ancient buildings are located in Istanbul. The old seraglio, now Topkapı Museum, is perhaps the most famous; it houses a large collection of paintings, manuscripts, and historically important items. Nearby is the Ayasofya (Saint Sophia), the world-renowned Byzantine church that draws thousands of tourists to Istanbul. Next to it is the Blue Mosque, famous for the beauty of its interior and the grace of its dome. Also in Istanbul are the museums of archaeology and of the ancient Orient, housing one of the world's finest collections of Greek art, including the sarcophagus of Alexander the Great. Additionally, the city is home to the Museum of Turkish Written Art, the Istanbul Museum of Painting and Sculpture, and the Museum of Revolution.

The Museum of Archaeology in Ankara contains the world's outstanding collection of Hittite works. Also in Ankara are Atatürk's Mausoleum and Museum, the Museum of Anatolian Civilizations, and the Museum of the Turkish Independence War and Turkish Republic. In Konya there are museums of Islamic art, one of which is housed in the mausoleum of Mevlana. Newer facilities include the decorative arts museums at the Beylerbeyi and Dolmabahçe palaces (both opened in Istanbul in 1984) and the Fire Brigade Museum in Fatih (1992). Along Turkey's Aegean coast are situated the ruins of Ephesus, Pergamum, Troy (Ilium), Halicarnassus, and other famous ancient cities. A zoological garden is located in Ankara.

#### **4<sup>5</sup> MEDIA**

Postal, telephone, and telegraph service is owned and operated by a semi-independent government enterprise under the jurisdiction of the Ministry of Transport and Communications. In 2003, there were an estimated 268 mainline telephones for every 1,000 people; about 77,200 people were on a waiting list for telephone service installation. The same year, there were approximately 394 mobile phones in use for every 1,000 people.

The Government owns and operates the Turkish Radio and Television Corporation (TRT). In 2004, there were 226 local, 15

regional, and 16 national officially registered television stations, and 959 local, 104 regional, and 36 national radio stations. Some other television and radio stations broadcast without an official license. Foreign broadcasts are available via satellite. All broadcasts are monitored by the government through The High Board of Radio and Television. In 2003, there were an estimated 470 radios and 423 television sets for every 1,000 people. About 14.8 of every 1,000 people were cable subscribers. Also in 2003, there were 44.6 personal computers for every 1,000 people and 85 of every 1,000 people had access to the Internet. There were 882 secure Internet servers in the country in 2004.

In 2002, there were over 100 daily newspapers in print many of which had small local circulations. The independent leftist *Cumhuriyet* (1999 circulation 120,000) has been closed and reopened a number of times. Other leading Istanbul dailies (with 2002 circulation figures) are *Sabah* (700,000); *Hurriyet* (542,780); *Gunaydin-Tan* (386,000) and *Bugun* (184,880). *Turkiye* and *Milliyet* are both distributed throughout the major cities; circulation figures were unavailable in 2002.

Although the constitution guarantees freedom of expression, it also authorizes newspaper confiscations and closures in the cases of crimes against the unity, security, or republican principles of the state.

#### 46 ORGANIZATIONS

Professional organizations, charitable associations, student organizations, and athletic clubs are active in the major cities. Chambers of commerce and chambers of industry are semiofficial agencies for the control of import license and foreign exchange allocations. The Union of Chamber of Commerce, Industry, and Maritime Commerce and Commodity Exchanges of Turkey, established in 1952, is based in Ankara.

There are several Masonic lodges and branches of the Rotary and Lions clubs. Women are active in a number of their own charitable organizations. National women's rights and development organizations include the Federation of Women's Associations, the Turkish Cypriot Association of University Women, Women for Women's Human Rights/New Ways, and the Association of Women's Rights Protection. National youth organizations include the International Islamic Federation of Student Organizations, Youth for Habitat, the Youth Services Center, Junior Chamber, the Scouting and Guiding Federation of Turkey, and YMCA/YWCA. There are active sports associations promoting amateur competitions in a variety of pastimes; many such clubs are affiliated with international organizations as well as with the national Olympic Committee.

Since World War II, international cultural associations have appeared, chief among them being Turkish-American, Turkish-French, Turkish-German, and Turkish-English. The Research Center for Islamic History, Art and Culture, based in Istanbul, is multinational subsidiary organization of the Organization of the Islamic Conference (OIC). The Scientific and Technical Research Council of Turkey and the Turkish Academy of Sciences promote public interest, education, and research in a broad range of scientific fields. The Medical Association of Turkey also promote public health and advanced research in fields of medicine.

There are national chapters of the Red Crescent Society, UNICEF, Habitat for Humanity, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

In addition to the museums and monuments of Istanbul, places of interest include the Aegean ports of İzmir and Bodrum; the ancient cities of Troy (Ilium), Ephesus, Tarsus, Konya, Samsun, Erzurum, and Trabzon; Mt. Ararat, traditionally considered the landing place of Noah's Ark, the remains of which some expeditions have tried to find; the ski resort of Uludag, 36 km (22 mi) south of Bursa; and the sea resort of Antalya, on the Mediterranean coast. Water sports, mountaineering, and football (soccer) are popular forms of recreation, as are such traditional Turkish sports as grease wrestling (*yağlı güreş*), camel fighting (*deve güreşi*), and a horseback javelin competition (*cirit oyunu*) played mainly in eastern Turkey.

All visitors need a valid passport as well as a visa. Citizens of the United States and Canada may get their visas at the border; other nationals must obtain their visas in advance. A vaccination against meningitis is required by all tourists, and precautions are recommended for typhoid, malaria, and hepatitis.

In 2003, about 13,341,000 tourists arrived in Turkey, of whom 41% came from Western Europe. There were 201,510 hotel rooms with 418,177 beds and a 47% occupancy rate that year.

In 2005, the US Department of State estimated the daily cost of staying in Istanbul at \$284; in Ankara, \$278; and in other areas, \$235.

#### 48 FAMOUS TURKS

The most famous rulers before the coming of the Turks were Croesus (c.560–546 BC), a king of Lydia noted for his wealth and for the loss of his kingdom to the Persians; Constantine I (the Great; Flavius Valerius Aurelius Constantinus, b.Moesia, AD 280?–337), the first Roman emperor to accept Christianity and to use Constantinople as a capital; and Justinian I (the Great; Flavius Petrus Sabbatius Justinianus, b. Illyricum, 483–565), a Byzantine emperor whose collection of laws and legal principles has been the model for European law down to modern times. Outstanding political figures since the arrival of the Turks include Sultan Mehmet II (1429–81), conqueror of Constantinople in 1453; Sultan Süleyman I (the Magnificent, 1495–1566); the Barbarossa brothers, Aruj (1473?–1518) and Hayreddin Paşa (Khayr ad-Din, 1466?–1546), naval commanders, born in Mytilene, who established Turkish supremacy in the Mediterranean; Mehmet Köprülü Paşa (1583–1661), Mehmet IV's grand vizier and founder of a family line of outstanding grand viziers; Sultan Abdul Hamid II (1842–1918), a despotic ruler whose tyranny led to the formation of the Young Turk movement; Enver Paşa (1881–1922), Young Turk leader who was the ruler of Turkey during World War I; Mustafa Kemal Atatürk (1881–1938), World War I military commander, nationalist leader, and first president of the republic; İsmet İnönü (Paşa, 1884–1973), Atatürk's chief of staff and prime minister, who succeeded him as president (1938–50) and was the first prime minister of the Second Republic (1961–65); Celâl Bayar (1883–1986), who helped found the Democrat Party and was president (1950–60) until ousted by the military; and Adnan Menderes (1899–1961), prime minister (1950–60) until he was forced to resign and then executed. Outstanding religious figures include Hacı Bektaş Veli (1242–1337), founder of the Bektashi dervishes, and Mevlana (Celâleddin-i Rumi or Jalal al-Din Rumi, 1207–73),

author of the epic *Mesnevi* (or *Mathnavi*) and founder of the Mevlevi dervishes.

Revered literary figures include the mystical poets Yunus Emre (1238?–1320?) and Süleyman Çelebi (d.1422), author of *Mevlidi Sherif* (*Birth Song of the Prophet*). Other significant poets of the imperial epoch are Ahmedî (1334–1413), Şeyhî (d.1429?); Fuzulî (1494–1555), renowned for his lyrical verses about platonic love; Ali Şîr Nevâî (1441–1501); Nef'î (1582?–1636); Nâbî (1642?–1712); Ahmet Nedim (1681–1730), perhaps Ottoman Turkey's greatest love poet; and Şeyh Galib (1757–98), the last great poet of the mystical and classical tradition. Renowned for his geographical and historical writings is Kâtip Çelebi (known in Europe as Haji Khalifa, 1609–57); the great traveler Evliya Çelebi (1611–82) is noted for his books on travel and history. The greatest folk poet was the 17th-century minstrel Karacaoglan.

Sinasi (1826–71), a dramatist, journalist, and essayist, was the first Turkish writer in the Western tradition. Other significant playwrights are Musaipzade Celal (1870–1959), Haldun Taner (1916–86), and Necati Cumali (1921–2001). The poet Ziya Paşa (1825–80) was the outstanding literary figure of the reform period. Namik Kemal (Ahmed Kemal, 1840–88) and Mehmet Emin Yurdakul (1869–1944) dedicated their poetry to the achievement of political ideals. Four widely read novelists are Huseyin Rahmi Gurpınar (1864–1944), Ahmet Rasim (1864–1932), Halit Ziya Usakligil (1865–1945), and Mehmet Rauf (1871–1931). Omer Seyfettin (1884–1920) was a major short-story writer. Ziya Gökalp (1875–1924) was a noted poet and sociologist. Significant contemporary novelists include Halide Edib Adivar (1884–1966), Yakup Kadri Karaosmanoglu (1888–1974), Refik Halit Karay (1888–1974), Reşat Nuri Güntekin (1892–1957), Kemal Tahir Demir (1910–74), Orhan Kemal (1914–70), and Yasar Kemal Gokceli (b.1922). Two fine modern poets were Yahya Kemal Beyatli (1884–1958) and Nazim Hikmet Ran (1901–60). Two prominent journalists and political writers were Hüseyin Çahit Yalçın (1875–1957) and Ahmet Emin Yalman (1889–1973). Outstanding historians were Naima (1752–1815), Mehmet Fuat Köprülü (1890–1966), and Ahmet Zeki Velidi Togan (1890–1970).

Other famous Turks include the architect Sinan (1490–1588), the miniaturist Abducelil Celebi Levni (d.1732), and the modern painter Bedri Rahmi Eyuboglu (1913–75). Famous contemporary composers include Ulvi Cemal Erkin (1906–72) and Ahmet Ad-

nan Saygun (1907–93). The operatic soprano Suna Korad (1935–2003) and bass-baritone Ayhan Baran (b.1929) have won renown in European musical circles.

## 49 DEPENDENCIES

Turkey has no territories or colonies.

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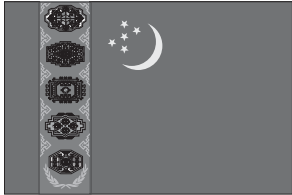
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# TURKMENISTAN

**CAPITAL:** Ashkhabad (Ashgabat)

**FLAG:** Green field with claret stripe of five carpet patterns; white crescent and five white stars symbolizing five major regions of Turkmenistan to the right of the stripe. In 1997, two crossed olive branches were added beneath the carpet patterns.

**ANTHEM:** *Independence Turkmenistan.*

**MONETARY UNIT:** Manat (MN), the unit of currency, was introduced by the government in November 1993. \$1 = MN0.00019 (or \$1 = MN5,200) as of 2005, but exchange rates fluctuate widely.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1 January; Flag Day, 19 February; International Women's Day, 8 March; Novruz Bairam (first day of spring), 21 March; Victory Day, 9 May; Revival and Unity Day, 18 May; Independence Day, 27 October; Neutrality Day, 12 December.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Turkmenistan is located in central Asia, bordering the Caspian Sea, between Iran and Uzbekistan. Comparatively, Turkmenistan is slightly larger than the state of California, with a total area of 488,100 sq km (188,456 sq mi). Turkmenistan shares boundaries with Kazakhstan and Uzbekistan on the N, Afghanistan on the SE, Iran on the SW, and the Caspian Sea on the W. Turkmenistan's boundary length totals 5,504 km (3,420 mi), of which 1,768 km (1,099 mi) is shoreline along the Caspian Sea. Turkmenistan's capital city, Ashkhabad (which means "city of love"), is located in the southwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography features flat to rolling sandy desert with dunes to the Caspian Sea, which lies in the west. The Kara Kum desert occupies over 80% of Turkmenistan's total area. The desert is bounded by oases in the north that are watered by the Amu Dar'ya, and by the Murgab, Tejen, and Atrek rivers in the south. Only 4% of Turkmenistan's land is arable with approximately 2.5% under irrigation. The highest point in Turkmenistan is the Gora Ayribaba (3,139 m/10,299 ft), located along the eastern border near Uzbekistan. The lowest point in the country is Vpadina Akchanaya (Ak-dzhakaya Depression) at 81 m (266 ft) below sea level in the north central region of the country.

The Kopet-Dag Mountains of the southern border are part of a seismically active region that has experienced devastating earthquakes. One of the most destructive earthquakes in history occurred near Ashkhabad on 5 October 1948 when a 7.3 magnitude quake resulted in the deaths of 110,000 people.

## <sup>3</sup>CLIMATE

The climate is arid continental. In July the mean temperature is 28°C (82°F). The mean temperature in January is -4°C (25°F). It can

become very hot in the Kara Kum desert, with daytime temperatures of 50°C (122°F) not unusual. It does not rain much in Turkmenistan. Rainfall averages 25 cm (9.8 in) a year).

## <sup>4</sup>FLORA AND FAUNA

The Kara Kum (Black Sea) desert covers most of the country, and there is little plant or animal life. Herders raise goats, camels, and sheep in the desert. Farmers use reservoirs for irrigation to grow crops not indigenous to the area. As of 2002, there were at least 103 species of mammals and 204 species of birds throughout the country.

## <sup>5</sup>ENVIRONMENT

The most significant environmental problems in Turkmenistan include salinization of the soil and water pollution. The nation's water supply is threatened by chemical contaminants from farming activity. The problem is complicated by a lack of adequate sewage treatment facilities. A large share of the Amu Darya River's flow is diverted for irrigation, decreasing its contribution to the water supply from the Aral Sea. Water cycles have also affected the Garabogazol Aylagy, a lagoon-like appendage in the northwest that adjoins the Caspian Sea. It became fully enclosed because of a drop in the volume of the Caspian Sea, but is starting to rise again as the sea returns to previous levels.

As of 2003, 4.2% of the country's total land area was protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 12 types of mammals, 13 species of birds, 2 types of reptiles, 8 species of fish, and 5 species of invertebrates. Threatened species included the cheetah, tiger, Aral salmon, slender-billed curlew, and white-headed duck. Wild goats and cheetahs are listed as vulnerable animals.

## 6 POPULATION

The population of Turkmenistan in 2005 was estimated by the United Nations (UN) at 5,240,000, which placed it at number 111 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 97 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as satisfactory. Between 1990 and 2005, the fertility rate declined from 4.3 births per woman to 3.4. The projected population for the year 2025 was 6,579,000. The population density was 11 per sq km (28 per sq mi).

The UN estimated that 47% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.27%. The capital city, Ashkhabad (Ashgabat), had a population of 574,000 in that year. Other large cities (and their estimated populations) include Chärjew (Chardzhou) (203,000), Dashhowuz (Tashauz) (165,400), Mary (123,000), and Nebitdag (119,000).

## 7 MIGRATION

Emigration to other former USSR republics exceeded immigration by 20,600 during 1979–90. More than 40,000 people fled from Tajikistan to Turkmenistan in 1992 to escape civil war. Repatriation of the Tajik refugees started in early 1998. As of 1999, nearly 5,000 Tajik refugees had voluntarily repatriated. There were also some 13,000 Tajik refugees, mostly ethnic Turkmen, who expressed the desire to remain in Turkmenistan. Between 1993 and 1995, 100,000 Russians left Turkmenistan. In 2000 there were a total of 223,000 migrants, including 14,200 refugees, living in Turkmenistan. In 2004, there were 13,253 refugees mainly from Tajikistan and 3 asylum seekers. The net migration rate was estimated as 0.82 migrants per 1,000 population in 2005. The government views the immigration level as satisfactory, but the emigration level as too high.

## 8 ETHNIC GROUPS

There are over 100 distinct ethnic groups living in Turkmenistan. According to unofficial estimates in 2003, about 85% of the population consists of ethnic Turkmen, Uzbeks account for 5% of the population, and Russians for about 4%. The Turkmen generally divide themselves into five main tribes: the Teke, Yomut, Ersary, Yasyr, and Goklen. Smaller groups of people include Kazakhs, Ukrainians, Armenians, Azeris, Tatars, and Beluji. Other groups present include Belarussians, Germans, Jews, Georgians, Moldovans, Uighurs, and Koreans. Like the Turkmen, the Uzbeks, Kazakhs, and Azeris are Turkic-speaking peoples.

## 9 LANGUAGES

Turkmen, spoken by about 72% of the population, is mandatory in the schools and the primary language of the government, which has campaigned to make it the only language of official business. It is a Turkic language of the Oghuz group, related to Azeri, Turkish, and Uzbek. Prior to the Soviet era, Turkmen wrote their language using the Arabic script. In Turkmenistan, that script was changed to Latin and then Cyrillic before World War II. The government has begun to institute the Latin script again. The Turkmen lan-

guage has been influenced by Persian and Arabic elements. In recent decades, many borrowed words from Russian also have been adopted. Russian remains in common use in government and business and is spoken by 12% of the population. Uzbek is spoken by 9%; various other languages are spoken by 7%.

## 10 RELIGIONS

There is no state religion, but about 89% of the population are Muslim, primarily Sunni, with strong elements of local shamanism and Sufi mysticism included in its practices. About 9% of the population are Eastern Orthodox, including Russian and Armenian churches. There are small groups of Bahai's Baptists, Seventh-Day Adventists, Lutherans, Roman Catholics, Jehovah's Witnesses, Jews, and a few other Protestant denominations.

Although the constitution provides for religious freedom, the government does not protect this right in practice. In 2003, the government implemented a new law on religion that requires all religious organizations to be registered with the government; unregistered organizations face criminal charges if they continue to operate by holding services or other activities. Religious education is restricted. As of 2004, only six religions had been officially registered: Sunni Islam, Russian Orthodox, Seventh-Day Adventists, Bahai's, Baptists, and Hare Krishnas.

## 11 TRANSPORTATION

Nebitdag, Ashkhabad, Mary, and Chärjew (Chardzhou) are connected by railroad to the nation's main port of Turkmenbashi on the Caspian Sea. Other lines include a railroad from Mary along the Murgab and Kushka rivers to Afghanistan and a line from Chärjew (Chardzhou) along the Amu Dar'ya which nearly parallels Uzbekistan's border. Smaller rail spurs are located at Dashhowuz (Tashauz) and Kerki. Rail lines were estimated at a total of 2,440 km (1,498 mi) in 2004, all of it broad gauge. Also in 2002, there were an estimated 22,000 km (13,671 mi) of roadways, of which 18,000 km (11,185 mi) were hard-surfaced. In 2003, Turkmenistan had 1,300 km (809 mi) of navigable inland waterways, which includes the Amu Dar'ya River and the Kara Kum canal. As of 2005, the country's merchant marine consisted of seven ships of 1,000 GRT or more, totaling 6,873 GRT. In 2004, Turkmenistan had an estimated 53 airports. As of 2005 a total of 22 had paved runways, and there was also one heliport. In 2003, about 1.412 million passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The territory of present-day Turkmenistan has been inhabited since the Stone Age, with evidence of agricultural communities as early as 6000 BC and of planned irrigation works from 3500 BC. The first states were Margiana and Parthia, from about 1000 BC. In 7th–6th centuries BC, Margiana was part of Bactria, while Parthia was part of the Median state. In the 6th–4th centuries BC the region was ruled by the Achaemenids, who were conquered by Alexander the Great at the end of the 4th century. In his wake there emerged a Parthian Empire which lasted until AD 224, when Persians of the Sassanid dynasty seized the territory. In the 5th century much of Turkmenistan was conquered by Ephthalites, who in turn were conquered in the 6th century by the Tiu-chue nomads, of Turkic origin. The Arab caliphate conquered Turkmenistan in



LOCATION: 40°0' N; 60°0' E. BOUNDARY LENGTHS: Total boundary lengths, 3,736 kilometers (2,322 miles); Afghanistan, 744 kilometers (462.3 miles); Iran, 992 kilometers (616.4 miles); Kazakhstan, 379 kilometers (236 miles); Uzbekistan, 1,621 kilometers (1007.3 miles).

716, and began to introduce Islam. In the 10th century part of Turkmenistan was under Samanid control.

Oghuz Turks began to migrate into Turkmenistan in the 9th century. In 1040 the Seljuk clan took control of the territory, and held sway until the 13th century, when Turkmenistan was part of the Khwarazm-Shah state. The entire region was conquered by Mongols in 1219–21, and Turkmenistan was split between the Golden Horde and the Chagatai Khanate, as well as the Hulaguid Khanate of Persia.

In the 1380s Turkmenistan became part of the empire of Timur (Tamerlane). By the 16th century part of the territory was ruled by the Khiva Khanate, part by Bukhara, and part by Persia. The course of the Amu Dar'ya River changed, and the Kara Kum desert claimed a great deal of once arable land.

Russia began to make commercial contacts with the Turkmens as early as the 16th century; by the 18th century almost all trade between Europe and Central Asia passed through Turkmenistan. Local tribes were used diplomatically by the Persians, Russians, and British as part of the Great Game of the 18th and 19th cen-

turies. Beginning in 1865, Russia undertook direct annexation, which because of heavy resistance by the Turkmen tribesmen was not complete until the 1885, making Turkmenistan the last portion of the Russian Empire to be conquered. The territory then was called the Transcaspian District.

Turkmen joined the uprising of 1916, when the Tsar attempted to draft Central Asians into work battalions, and remained in general rebellion throughout the period of the revolution and civil war. Muslim and nationalist opposition, whom the Russians called *basmachi*, resisted the Bolsheviks until 1924, when the area was made part of the Trans-Caspian Republic. In 1925, the present-day territory became a Soviet Socialist Republic.

Throughout the Soviet period, Turkmenistan was the poorest and least assimilated of the republics. In 1985, longtime Communist Party boss M. Gapurov was fired by Mikhail Gorbachev, who picked Sapamurat Niyazov as new republic head. Niyazov has remained in power ever since. On October 27, 1990, Niyazov received 98.3% of the popular vote in an uncontested election to the new post of president of Turkmenistan. Turkmenistan declared

independence on 27 October 1991. After independence, Niyazov won another uncontested presidential election in June 1992 with 99.95% of the vote. In a referendum in January 1994, he received the support of 99.99% of the vote for extending his term until 2002. An elaborate cult of personality has grown up around Niyazov, who now prefers the title "Turkmenbashi," or "chief of all Turkmen." Niyazov is president, supreme commander of the armed forces, first secretary of the Democratic Party of Turkmenistan, head of the quasi-legislative Khalk Maslahaty (People's Council), and chairman of the Cabinet of Ministers and the National Security Council. Changes to the constitution were introduced in late December 1999 during a joint meeting of the Mejlis (legislature), the Khalk Maslahaty, and Niyazov's National Revival Movement, to include naming Niyazov president for life.

Turkmenistan's "neutral" foreign policy is enshrined in its constitution. Niyazov has declared that Turkmenistan's "open door" or "permanent neutrality" policy precludes joining political or military alliances and entails good relations with the East and the West, though priority will be placed on relations with Central Asian and other Islamic states. Turkmenistan joined the Non-Aligned Movement in 1995, and the United Nations General Assembly in 1995 recognized Turkmenistan's status as a neutral state. Turkmenistan has pursued close ties with both Iran and Turkey. In addition to growing trade ties with Iran, Turkmenistan is also interested in cultural ties with the approximately one million Turkmen residing in Iran. Turkey is the largest foreign investor in Turkmenistan and has far surpassed Russia in trade turnover with Turkmenistan. Turkmenistan supports some of Russia's policies in the region while endeavoring, where possible, to resist, contravene, or reduce Russian influence. Russian military and border troops assisted Turkmenistan until it built up its own forces, and Russia's presence has been used to counter Uzbek policies in the region. In 1993, Russia and Turkmenistan agreed that Russian border guards would work with Turkmen border guards under Turkmen command at borders with Iran and Afghanistan. In 1999, Turkmenistan canceled this agreement, and the last of Russia's 1,000 border troops in Turkmenistan left in late 1999.

The new country has abundant resources that could bring in ample export earnings, ranging from oil, gas, electricity, coal, aluminum, and cotton to wool, grapes, and carpets. Although the potential for great quantities of exported materials exist, poor infrastructure and government inefficiency has contributed to a 2005 unemployment rate of 60%. Turkmenistan's main natural gas export pipeline runs through Russia, which has closely controlled the volume, price, and destination. Seeking alternatives, Turkmenistan in December 1997 opened a 125-mile gas pipeline to connect with the Iranian pipeline system. On 18 November 1999, Turkmenistan, Azerbaijan, Georgia, and Turkey signed a declaration on a trans-Caspian and trans-Caucasus gas pipeline territory that would deliver Turkmen gas to Turkey (expected to be completed in 2002 with an eventual capacity of 16 billion meters per year), boosting chances for international financing for the pipeline. In December 2002, Turkmenistan, Afghanistan, and Pakistan signed an agreement to build a 1,500-km pipeline to carry gas from Turkmenistan's Dauletabad-Donmez field through Afghanistan to Pakistan.

In October 2001, Azerbaijan announced the planned trans-Caspian gas pipeline would not be realized. It had discovered its

own huge gas reserves in Shahdeniz, and subsequently demanded a share of the exports to the amount of half of the trans-Caspian pipeline's capacity. Turkmenistan regarded such demands as contrary to its interests. In July 2002, an Azerbaijani tanker exploded in the Turkmen port of Turkmenbashi, killing six Azeri sailors. Some blamed the Turkmen government for the incident. Suspicions between the two governments ran deep in 2002, as mutual enmity between Azerbaijan's president Heydar Aliyev and Niyazov has made the gap between the ethnically close nations wide.

Following the 11 September 2001 terrorist attacks on the United States, Turkmenistan offered to aid the US-coalition in its military and humanitarian campaign in Afghanistan. Over one-third of all food aid reaching Afghanistan since 11 September transited Turkmenistan. The United States has stated that Turkmenistan can play a positive role in the rebuilding of Afghanistan. However, Turkmenistan demonstrates strong discrimination against non-Turkmen, and in 2003 the State Service for the Registration of Foreign Citizens was established to monitor foreign visitors, whose activities are strictly regulated.

On 25 November 2002, an assassination attempt was made on Niyazov. Following the attack on his motorcade, the Niyazov government began a wide investigation, and 61 people were arrested in connection with the assassination plot. Turkmenistan's National Assembly granted powers to the Supreme Court to administer "special punishment" to people found guilty of involvement in the plot. The resolution permits the Supreme Court to hand out life sentences to those convicted, with no possibility of amnesty, pardon, early release, or change of prison. Former foreign minister Boris Shikhmuradov was sentenced to life in prison for his involvement. As of January 2003, more than 30 people were given lengthy sentences by Turkmen courts, including at least three life sentences amid reports of torture and coerced confessions. The US State Department expressed concern with Turkmenistan's conduct of the investigations into the assassination plot, stating that while the United States recognized the government's right to apprehend those involved, the US government could not condone actions that violate international practice. The United States claimed the Turkmen government conducted summary trials of alleged suspects without due process of law, and cited credible reports of torture and abuse of suspects.

In January 2003, the Turkmen government announced parliamentary elections would be held on 6 April, nearly two years ahead of schedule (elections had been scheduled for December 2004) for the unicameral People's Council or Halk Maslahaty. There was no election campaign, and the state media did not provide information about the candidates, all of whom were nominated by the presidential administration. The People's Council, which is considered the ultimate representative body, has 65 members. All candidates at the elections of April 2003 belonged to Niyazov's party, or the Democratic Party of Turkmenistan (DPT). The CEC announced voter turnout of 99.8%. Also in January, Niyazov ordered the forced relocation of ethnic Uzbeks living along the Turkmen border with Uzbekistan. He stated he wanted "unworthy people" to be moved from the border area and replaced with ethnic Turkmen. The 2004 elections for the unicameral Parliament or Mejlis, which consists of 50 seats, were also all won by the DPT. The next parliamentary elections were to be held in December 2008.

### <sup>13</sup> GOVERNMENT

In May 1992, Turkmenistan became the first Central Asian republic to enact a postindependence constitution. It sets up a “secular democracy,” and formally upholds the balance of powers between executive, legislative, and judicial branches, but in reality the republic is a presidential autocracy, under the control of President Niyazov. The executive branch of government is the responsibility of a prime minister and his cabinet, all of whom are appointed by the president. The republic’s economy is centrally planned and controlled, as in Soviet times, giving the government wide powers. Niyazov issues edicts that have the force of law and appoints and removes judges and local officials. The constitution includes an impressive list of individual rights and safeguards (though not freedom of the press), but cautions that the exercise of rights must not violate national morality and public order, or damage national security.

The new constitution created a People’s Council (Halk Maslahaty) with mixed executive and legislative powers, consisting of the president, ministers, the 50 legislators of the Supreme Council (Mejlis), 50 “people’s representatives,” and others. The people’s representatives were elected by district in a virtually uncontested vote in December 1992. The Halk Maslahaty serves as a forum and rubber stamp for the president’s policy initiatives. Resurrecting pre-Soviet customs, a Council of Elders, hand-picked by Niyazov, was also created to advise the president and choose presidential candidates. Oppositionists complained that both these bodies were designed to stifle dissent. In 2001 Niyazov published *Rukhname*, a spiritual guide that became an informal legal code for the country. It is a guide to Turkmen national cultural and ethical personal behavior. A new Mejlis of 50 members was elected in December 2004. The candidates were all nominated by Niyazov, ran unopposed, and most were members of his Democratic Party of Turkmenistan (DPT). The Mejlis routinely supports presidential decrees and has little legislative initiative. In the wake of a 25 November 2002 alleged coup attempt, the country’s constitution was amended in 2003 to give the Halk Maslahaty dominance over the parliament in the hierarchy of power, and is now Turkmenistan’s supreme legislative body.

Elections to the Turkmen 50-seat legislature (Mejlis) were held on 19 December 2004. Niyazov rejected a role for parties and there was no discussion of political issues or problems during the campaign. Niyazov’s Party was ‘elected’ into all 50 seats. The lack of democratization in Turkmenistan was accentuated during the 2003 election of the Halk Maslahaty. Turnout was reported at 99.5%, though some of the candidates ran unchallenged and no real campaigning or political party contestation occurred. All members of parliament are also members of the Halk Maslahaty, a body that has no set number of seats but which is said to have about 3,000 members.

### <sup>14</sup> POLITICAL PARTIES

The only legally registered party in the republic is the Democratic Party of Turkmenistan, which is what the Communist Party renamed itself in September 1991. Seeking to bring together most major cultural, religious, and public groups in a wider political bloc, in early 1994, Niyazov created a National Revival Movement, which he heads. Unregistered parties are tiny and have been se-

verely repressed. Many of their leaders have been forced into exile or arrested. Most significant is the “Agzybirlik” (Unity) popular front. Banned in 1990, it mostly consists of Turkmen intellectuals and backs democratization and ties to Turkey. Opposition figure Avdy Kuliyeve, former foreign minister, is in exile. Physician Pirkuli Tangrikuliyev announced that he wanted to create an opposition party and would run in the 1999 Mejlis election, but he was arrested and convicted of corruption. In late December 1999, a constitutional change was enacted naming Niyazov president for life.

The assassination attempt on president Niyazov in 2002 created further crackdown on opposition groups within Turkmenistan.

### <sup>15</sup> LOCAL GOVERNMENT

There are five large regional subdivisions, called *velayets*. Beneath these are *shekher*s, then *etraps*, then *ovs*. Velayets, shekher, and etraps have executives called *vekils* who are appointed and dismissed by the president. In addition each administrative sub-unit has an elected assembly called a *gengeshchi*, the chairman of which is an *archyn*.

The clan system is said still to be very strong in Turkmenistan, and the velayets reflect distribution of the five major clans, whose totems are represented in the state flag.

### <sup>16</sup> JUDICIAL SYSTEM

The court system remains substantially similar to that which existed in the Soviet era. There are 61 district and city courts, 6 provincial courts (including one for the capital city of Ashkhabad), and a Supreme Court. A supreme economic court hears cases involving disputes between business enterprises and ministries. Military courts were abolished in 1997 and cases involving the armed forces are now tried in civilian courts. Decisions of lower courts are appealable to higher courts.

The constitution declares the establishment of an independent judiciary. In practice, the president’s role in selecting and dismissing judges compromises judicial independence. The president appoints all judges for a term of five years, without legislative review, except for the chairman of the Supreme Court.

Defendants in criminal cases are afforded a number of procedural due process rights, including the right to a public trial and the right to defense counsel. In practice, the government often denies these rights. There are few private lawyers. Defendants may petition the president for clemency. He has traditionally released large numbers of prisoners in periodically declared amnesties, though some political prisoners have appeared exempt from the amnesties. Prisons conditions are unknown as international organizations are not permitted to visit prisons. Although there have been reports of overcrowding and inadequate nutrition and medical care.

Journalists face severe restrictions on what they can report. Even mild criticism of the president is forbidden. Subscription to foreign magazines or other media is also forbidden. Freedom of religion is also severely restricted and there are reports that in 2004 at least 7 mosques were destroyed for unauthorized worship. A 2003 law requires all religious groups to be registered in order to practice. Freedom of assembly is also restricted; there is only one union, the Colleagues Union, which is government-controlled.

Turkmenistan is a member of the United Nations.

## 17 ARMED FORCES

In 2005, Turkmenistan's armed forces consisted of 26,000 active personnel. The Army numbered 21,000 with equipment that included 702 main battle tanks, 170 reconnaissance vehicles, 942 armored infantry fighting vehicles, 829 armored personnel carriers and 488 artillery pieces. The country's 4,300-member Air Force had 92 combat capable aircraft that included 22 fighters and 66 fighter ground attack aircraft. In addition, the service also had 10 attack helicopters. Turkmenistan's Navy has an estimated 700 personnel, operating a total of five patrol/coastal boats from a single base at Turkmenbashi. The defense budget for 2005 was \$173 million.

## 18 INTERNATIONAL COOPERATION

Turkmenistan was admitted to the United Nations on 2 March 1992; it participates in several nonregional specialized agencies, such as, the FAO, the World Bank, UNSECO, UNIDO, and the WHO. The nation is a member of the Asian Development Bank, the WTO, the Commonwealth of Independent States, the Euro-Atlantic Partnership Council, the European Bank for Reconstruction and Development, G-77, OSCE, and the Organization of the Islamic Conference (OIC). Turkmenistan is part of the Nonaligned Movement and the NATO Partnership for Peace. In environmental cooperation, Turkmenistan is part of the Basel Convention, the Convention on Biological Diversity, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Turkmenistan, though one of the poorest and least developed of the former members of the Soviet Union, boasts rich deposits of oil, gas, potassium, sulfur, and salts. It is the fourth-largest producer of natural gas in the world with proven reserves of about 2.9 trillion cu m (101 trillion cu ft), ranking it within the top 15 countries in the world in terms of natural gas reserves. Proven oil reserves are 546 million barrels, with possible reserves as high as 1.7 billion. Despite this wealth of industrial raw materials, the labor force remains dominantly in agriculture, which, with forestry, generated an estimated 26.9% of the 2005 GDP. Turkmenistan was formerly the world's tenth-largest cotton producer. Industry contributes about 39.5% of the GDP and occupies 13.9% of the labor force, and services account for 33.6% of GDP and occupy 37% of the labor force.

Turkmenistan's transition from a command economy to a free market economy was initially cushioned by its relatively low level of development, as well as by the central government's plans for a gradual reform over a 10 year period with the state continuing to play strong directive and protective roles in the economy. The slow pace of privatization and reliance on central directives has meant that much of the economy has not been exposed to market disciplines, and remains subject to the inefficiencies and distortions inherent in central controls. Although evidence suggests that living standards remain low and that structural development has been impeded, assessment is difficult because the government continues to treat economic statistics like state secrets.

Turkmenistan became independent in October 1991. The initial decontrol of prices resulted in a 90% increase in retail prices

in 1991, followed by a megasurge of 800% in 1992. Contraction in output occurred mainly in industrial output while growth in the agricultural and transportation sectors—the latter particularly due to increased government investment—lessened the rate of decline in the overall economy. Enlarged subsidies, increased wages and family allowances, and the reinstatement of some price controls were used to offset the impact of rising prices and the potential for social unrest, particularly in light of the eruption of violence in Tajikistan and other former Soviet socialist republics (SSRs). In November 1993 Turkmenistan dropped out of the ruble-based monetary union and introduced its own currency, the Turkmeni manat. In the same month, Russia, on whose Gazprom pipelines Turkmenistan relied to take its natural gas to market, cut Turkmenistan's access to the hard currency markets of Western Europe, diverting its competitor's gas instead to the cash-strapped markets of Ukraine and the ex-SSRs of the Transcaucasus. The result was one of the worst bouts of hyperinflation experienced by one of the newly independent states. The manat, introduced at two to a dollar, was at 125 to the dollar before the end of 1994, with unofficial rates often three times as high. In November 1995, with inflation at over 1000% for the year and the Turkmeni government threatening to cut off gas to its late paying customers, an agreement was reached with Russia for the creation of a joint stock company TurkmanRosGaz (TRAO)—51% Turkmen, 44% Gazprom, and 5% Itera International Energy Corp. (US)—whereby Gazprom would purchase and transport all the gas that Turkmenistan could sell to Ukraine and the Transcaucasus countries. This did not solve Turkmenistan's basic problem of getting hard currency export earnings to back its currency. Azerbaijan, Kazakhstan, and Ukraine had all run up substantial gas debts. Aggravating the situation, a below average cotton harvest extended poor economic conditions into 1996, as inflation raged on at about 992% for the year. GDP continued its postindependence slide, registering a decline in GDP of -8.2% in 1995 and -7.7% in 1996. Gross domestic product plunged further (-25.9%) in 1997 when Russia cut off access to its pipelines in a dispute over prices to be paid for Turkmeni gas. External debt, which had already increased 86.5% from \$401 million to \$750 million 1995 to 1996, jumped 136% to \$1.77 billion in 1997 as the government was forced to borrow to cover shortfalls in export payments. More promising were the effects of reforms in monetary and fiscal policy adopted in 1996 and 1997.

Although not officially under an IMF program, the government voluntarily undertook to follow IMF recommendations about controlling credit expansion, reducing budget deficits, and liberalizing foreign exchange. From this point inflation began a steady retreat, falling to 84% in 1997, to about 20% in 1998 and 1999, to 14% in 2000, and to a reported 6% in 2001. However, internal evidence from the government's published figures suggested a resurgence of inflation in double digits in 2002. Another positive development was the completion in 2002 of the \$190 million, 24 mile Korpędzhe Kurt-Kui pipeline connecting Turkmenistan to the Iranian gas pipeline system. In 2001 agreement was reached on a route whereby Turkmenistan gas could be delivered to Armenia through a still-to-be-built Iran-Armenian pipeline. A more ambitious project is the Trans-Afghanistan pipeline, called the Central Asia Gas Pipeline (or Centgas) that would run 1440 km (900 mi) from the Daulet Abad gas field in Turkmenistan through Qandahār, Afghanistan and end at Multan in Pakistan. The Cent-

gas consortium was set up by Unocal in October 1997, but suspended 22 August 1998 in the face of a lack of success in obtaining funding, continuing civil war in Afghanistan (and opposition in the United States to Unocal negotiations with the unrecognized Taliban regime), and, finally, US cruise missile attacks against al-Qaeda training camps.

In May 2002, Turkmenistan led the reopening of discussions on the Trans-Afghan pipeline, now generally referred to as the TAP, and in December 2003 the leaders of Turkmenistan, Pakistan and Afghanistan reached an agreement in principle to build the \$3.2 billion plus project. The ADB was enlisted to carry out a six-month feasibility study, and a summit is planned for September 2003 to put together the consortium that will build the TAP. In February 2003, the three TAP countries extended an invitation to India to join the project, apparently on the realization that its viability would depend on access to the Indian market. India, not wanting to work with Pakistan, did not accept the offer. In any case, the 1997 opening of the pipeline connection to Iran helped make 1998 the last year of postindependence decline in Turkmenistan's GDP, which reportedly fell only 1% despite the ongoing Russian financial crisis, although earlier reports had put this decline at closer to 11%. Decisive in restoring the economy to growth was the reopening of access to the Russian gas lines in 1998 following the resolution of their price dispute. There followed four years of double digit growth: 16% in both 1999 and 2000, 20.5% in 2001 and an estimated 13% in 2002.

By the agreement reached with Russia in 1998, Turkmenistan was supposed export 20 billion cu m (706 billion cu ft) of natural gas to Russia by 2000 and increase this figure by 10 billion cu m (353 billion cu ft) per year until a level of 50–60 billion cu m (1,765–2,118 billion cu ft) was reached in 2004 or 2005. These levels were not achieved and in 2003 Russia was seeking a new agreement with Turkmenistan. The Turkmeni economy by US government estimates had reached about 70% of its preindependence level by 2001. The country's production of natural gas in 2001 was at about 60% of its preindependence level. Unemployment has apparently declined sharply during the last several years, dropping from 24% in 1998 to 14% in 2001, though this series of data was incomplete. In the meantime, payments problems with gas customers continue.

On 14 May 2001 Turkmenistan and Ukraine reached an agreement for the supply of natural gas between 2002 and 2006 in exchange for 60% payment in cash and the rest in participation in 20 construction and industrial projects in Turkmenistan worth \$412 million. In May 2002, with Ukraine still owing \$46 million in cash, President Niyazov expressed concern that work on the projects was progressing too slowly. In the meantime, cotton production experienced an unprecedented shortfall in 2002. Government planners had set an ambitious target of 2 million tons of cotton for the 2002 harvest despite the fact that the level had fallen from 1.3 million tons to 1.136 million tons (12.6%) from 2000 to 2001. To achieve the envisioned 80% increase, the government agreed to sign contracts only with farmers achieving a yield of more than 30 centners (about 1.65 tons) per hectare. The government's long-range targets for cotton are for 3 million tons of cotton by 2010 processed into 900,000 tons of cotton fiber. However, poor harvests in the early- and mid-2000s led to an almost 50% reduction in cotton exports.

Turkmenistan has taken a cautious approach to economic reform, relying upon its cotton and gas exports to sustain its inefficient economy, based as it is on an authoritarian, post-Communist political structure and a tribally-based social structure. From 1998–2005, Turkmenistan suffered from a lack of adequate export routes for its natural gas and from its external debt burden. Nevertheless, due to high international oil and natural gas prices over the 2003–05 period, Turkmenistan registered a 20–30% rise in exports per year. In 2005, the IMF estimated Turkmenistan's GDP growth rate at 7%, while the government's statistics, notoriously unreliable as they are, recorded a 21.4% GDP growth rate. The US Central Intelligence Agency (CIA) estimated the unemployment rate in 2004 to be 60%, and the percentage of people living below the poverty line to be 58% in 2003. The inflation rate was estimated by the CIA at 10% for 2005.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Turkmenistan's gross domestic product (GDP) was estimated at \$29.4 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$5,900. The annual growth rate of GDP was estimated at 7%. The average inflation rate in 2005 was 10%. It was estimated that agriculture accounted for 26.9% of GDP, industry 39.5%, and services 33.6%.

Foreign aid receipts amounted to \$27 million or about \$6 per capita and accounted for approximately 0.4% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Turkmenistan totaled \$3.34 billion or about \$687 per capita based on a GDP of \$5.8 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

Approximately 32% of household consumption was spent on food, 14% on fuel, 6% on health care, and 18% on education. It was estimated that in 2003 about 58% of the population had incomes below the poverty line.

## 21 LABOR

From 1985 to 1991, the size of the labor force in Turkmenistan grew by 2.7% per year. Of an estimated 2.32 million inhabitants of working age in 2003, it was estimated that agriculture engaged 48.2%, with 13.8% in industry and 37% in the services sector. In 2004, unemployment was estimated at 60%.

The right to form or join unions is not provided by law. As of 2002, there were no independent unions. The Federation of Trade Unions, now renamed the Colleagues Union, the government-associated organization of the Soviet era, is still present. In 2002, the union claimed 1.3 million members. Although Turkmen law does not protect the right to bargain collectively, strikes are allowed. State economic control is still prevalent, and little progress toward privatization has occurred.

The standard legal workweek is 40 hours. Many industrial workers often labor in unsafe conditions, and agricultural workers especially are subjected to ecological health hazards. The minimum

working age is 16 years except for in a few heavy industries where it is 18. Violations of the minimum working age do occasionally occur in rural areas, especially during the cotton harvesting season. There is no set minimum wage. As of 2002, the average wage for public-sector employees was \$77 per month.

## 22 AGRICULTURE

About 30–35% of Turkmenistan is considered arable, but only 4.8% was under cultivation in 2003. Almost 80% of the sown agricultural land is under irrigation. Yields are relatively low because of poor water usage, salinization, inefficient irrigation, and overdevelopment of cotton cultivation. In 2003, agriculture engaged 33% of the economically active population. Agriculture accounts for about 25% of GDP.

Cotton is the main crop, grown on some 500,000 hectares (1.24 million acres), with production on the Mary and Tejen oases and along the Amu Dar'ya. Estimated cotton production for 2004/05 was 501,000 tons, up from 137,000 tons in 1996. Lack of machinery had caused significant portions of the cotton crop to go unharvested. Wheat also is cultivated to avoid dependency on unstable cotton export earnings. In 2004, estimated production was 2,600,000 tons. Citrus fruit, dates, figs, grapes, pomegranates, olives, and sugarcane are grown in irrigated groves and fields in the southwest. Sesame, pistachios, and oilseeds are other important export crops.

## 23 ANIMAL HUSBANDRY

The inability to raise sufficient fodder impedes livestock development. The livestock population in 2005 included sheep, 13,000,000; cattle, 2,000,000; goats, 370,000; pigs, 30,000; asses, 25,000; horses, 16,000; and chickens, 7,000,000. Karakul sheep are raised for wool export; in 2005, 20,000 tons of greasy wool and 12,000 tons of sheep skins were produced. A private tannery in Mary processes about 100,000 sheepskins per year, selling its product to the state-run leathery factory.

Akhaltekin horses, raised at the Akhaltekin oasis, are a breed which dates date to the 3rd century. Bucephalus, the favorite horse of Alexander the Great, was Akhaltekin. In 1986, an Akhaltekin horse, Dancing Brave, was sold for \$50 million. Akhaltekis have a large share of the racehorse breeding market worldwide, and are depicted on Turkmenistan's national emblem.

## 24 FISHING

The Caspian Sea provides fishing resources; fishing is an important export activity. In 2003, the total catch was 14,567 tons, primarily Azov sea sprat.

## 25 FORESTRY

About 8% of the land is forested. Arid conditions and the expansive Kara Kum desert inhibit the development of commercial forestry. Forestry imports amounted to \$3.9 million in 2004.

## 26 MINING

Turkmenistan had the world's third-largest reserves of sulfur, and was a leading producer of natural gas. Its top industries in 2002 were the production of natural gas, oil, and petroleum products. Gas and oil accounted for 33% and 30%, respectively, of its export

earnings in 1999, and 90% of foreign direct investment went into the oil and natural gas sectors.

In 2002, estimated outputs included: sulfur (mined at the Gaurdak complex, in the Gora deposit), 9,000 metric tons; gypsum, 100,000 metric tons; sodium sulfate (from an extensive mirabilite site in the Gararbogazköl), 60,000 metric tons; iodine, 200,000 metric tons; and nitrogen (content of ammonia), 75,000 metric tons. Turkmenistan also produced bentonite, bentonite powder, bischofite, cement, all of the FSU's supply of epsomite, ferrous bromide, lime, and salt (north of Nebitdag).

Ozocerite, iodine, and bromine were found on the Cheleken Peninsula and in Vyshka, Stantsiya. The Garabogaz Aylagy lagoon, off the Caspian Sea, was one of the world's largest sources of raw materials for the chemical industry. Commercial interest in the salts of the region began at the end of the 19th century, and it supplied all of the FSU's supply of medicinal Glauber's salt. Other mineral deposits included potassium and polymetallic ores.

## 27 ENERGY AND POWER

Turkmenistan has large reserves of oil and natural gas, but exports have been hampered by a reluctance to use Russian-controlled pipelines.

Turkmenistan, according to the Oil and Gas Journal and contained in an Energy Information Administration analysis of September 2005, the country has proven oil reserves of approximately 546 million barrels, and natural gas reserves of around 71 trillion cu ft. In 2004, oil production in Turkmenistan averaged an estimated 260,000 barrels per day, while natural gas output totaled 2,312 billion cu ft in that year. Exports that same year averaged around 170,000 barrels per day. Turkmenistan operates a pair of refineries, the Turkmenbashi and the Chärjew (Chardzhou), which have a combined capacity of 240,000 barrels per day. However, the refineries operate well below capacity and in the period from January through May 2005, an average of only 137,000 barrels per day were processed. Turkmenistan has no oil pipelines, which requires that the oil be shipped by sea via tanker to the Russian Caspian Sea port of Makhachkala.

In 2002, Turkmenistan's total electrical generating capacity was 3,921 million kW, of which 3,920 million kW of capacity was dedicated to conventional thermal fuel plants. Hydropower accounted for the remainder of the country's generating capacity. In that same year, net electricity generation was 10.528 billion kWh, of which more than 99% came from fossil fuels. In the same year, consumption of electricity totaled 8.781 billion kWh.

## 28 INDUSTRY

After growing at an average rate of 2.3% during the 1980s, the industrial sector declined after the breakup of the Soviet Union. Industrial output declined by 15% in 1992, and fell 25% in 1994 when it became clear that Turkmenistan's gas exports were going to be diverted from hard currency markets, and therefore from external sources of capital finance. After a further decline of 7% in 1995, gross industrial output reportedly surged ahead 17.9% in 1996, despite a 7.7% decline in the wider economy, as agreements were reached for gas supplies to Ukraine and the Transcaucasus. However, in 1997 deepening financial problems stemming from Russia's cutoff of Turkmenistan's access to its Gazprom lines over a price dispute, arrears in payments from its ex-Soviet custom-

ers, and declines in cotton processing helped to produce a fall in industrial production of 29.3%. From this low point, however, industrial output has expanded consistently. In December 1997 the \$190 million, 124 mile Korpezhe-Kurt Kui pipeline connecting to Iran's gas pipeline system was completed, and in 1998 access was restored to the Gazprom's pipelines.

Industrial production increased 1% in 1998, damped by the effects of the Russian financial crisis, but then rose 16% in 1999, 29% in 2000, and 8% in 2001. Nevertheless, the Turkmenistan economy remains dominated by primary production—gas, oil and cotton—and there has been little privatization of medium and large enterprises that might promote industrial development. Industry as a percent of the GDP declined over this period from 50% to 45%, and industrial workers as a percent of the labor force declined from 19% to 15%. By 2005, the industrial sector had declined further, to 39.5% of GDP, employing approximately 14% of the labor force. Economic reforms have been held back by the deliberately gradualist approach adopted by the government, which has left over 90% of economic activity in government hands. Industrial development is a secondary goal, subordinated to the primary objectives of gradualism, maintaining state leadership of the economy and maintaining a comprehensive welfare program. As part of the government's economic diversification policies, investment from the public sector and foreign exchange earnings have been used to build textile and garment manufacturing plants, often in joint ventures with Turkish partners. From 1995 to 2000 the share of the textile sector in total industrial production increased from 10.4% to 26%, while the share of cotton processed domestically rose from 3% to 35%. However, the commercial viability of these joint ventures is difficult to assess because of the implicit subsidies provided by the Turkmenistan government, multiple exchange rates, and incomplete data.

Turkmenistan's leading industries are those related to its main raw material exports. Most of country's plants and infrastructure continue to rely on Soviet-style equipment and technology. The textile industry is dominated by large state-owned enterprises (SOEs). As of 1998, only 33 manufacturing enterprises had been privatized, including one knitting factory whose sales price of 43.3 billion manats (about \$8.2 million at official exchange rates) constituted over 40% of the value of all privatized assets. Turkmen carpets are known world wide for their quality and are a source of national pride: ornaments of Turkmen carpets are components of the national flag and the national emblem of Turkmenistan. They are sometimes erroneously identified in Western markets by the label "Bukhara," which is actually just the Uzbekistan city where the carpets are sold. Turkmen carpets feature deep red wool, with stylized geometric patterns.

Fuel-related production (mainly gas and oil) is the second-largest component of the industrial sector, accounting for about 22% of total sector output in value terms. Turkmenistan has two oil refineries and plans for building a third. The older one at Turkmenbashi (formerly Krasnovodsk) has a 116,500 bbl/d capacity and was undergoing a \$1.46 billion upgrade and modernization with financing from Germany and Japan. Turkmenistan's record, slightly larger, 120,150 bbl/d capacity Chardzou refinery at Seidi was not completed until 1991, but is also slated for modernization and expansion. The Chardzou refinery depends on Russian oil piped in from Western Siberia, and has been operating at

about half capacity. In 2002, the president solicited bids for a third 100,000 bbl/d refinery. Food processing (especially meat and dairy processing), construction materials, and electricity generation account for about 20% of total industrial output. Chemicals and machinery are other important manufacturing subsectors.

## 29 SCIENCE AND TECHNOLOGY

The Turkmen Academy of Sciences, headquartered in Ashkhabad, has eight attached institutes concerned with natural sciences and technology. In addition, six independent institutes conduct medical research. In 1991, the Academy of Agricultural Sciences was established, and in 1992, the Academy of Medical Sciences was created, both in Ashkhabad. The Turkmen A.M. Gorkii State University, founded in 1950 at Ashkhabad, has faculties of physics, mathematics, and biology. Also in the same city are the Turkmen Agriculture Institute, the Turkmen Polytechnic Institute, and the Turkmen State Medical Institute (founded in 1932). In 2002, high technology exports were valued at \$8 million, or 5% of the country's manufactured exports.

## 30 DOMESTIC TRADE

Like the rest of the Turkmenistan economy, much of the country's retail and wholesale sector remain under the control of the central government. However, informal markets also operate in the country, at which a wide variety of consumer goods, including food, clothing and household wares, may be purchased. In 1994, the government established the State Commodity and Raw Materials Exchange as a means to regulate all trade and to restrict foreign competitors from controlling the market during the economic transition to a free market economy. Domestic trade involving locally produced goods is free from government regulations. Distribution of these products is generally facilitated through a state wholesale network. Most transactions are conducted only in cash. A value-added tax of 20% applies to most goods and services. Commercial advertising is under government control.

The work week is from 9 AM to 6 PM, Monday to Friday, with an hour for lunch. Many government officials and businesses regularly work on Saturday.

### Principal Trading Partners – Turkmenistan (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	2,505.5	1,785.5	720.0
Russia	1,029.3	254.5	774.8
Italy-San Marino-Holy See	401.3	7.4	393.9
Iran	242.0	90.9	151.1
Turkey	186.0	253.3	-67.3
Ukraine	164.9	214.3	-49.4
Switzerland-Liechtenstein	91.9	5.9	86.0
United Arab Emirates	61.4	158.7	-97.3
Cyprus	48.5	0.4	48.1
Armenia	38.0	105.3	-67.3
Afghanistan	38.0	...	38.0

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

### 3<sup>1</sup> FOREIGN TRADE

Like other Central Asian countries, Turkmenistan is highly trade dependent. While natural gas and processed cotton fiber are the country's most important export items, Turkmenistan is heavily dependent on imports for industrial equipment, industrial raw materials, and a number of basic food items such as grain, milk and dairy products, potatoes, and sugar. Agricultural products, of which cotton makes up the vast majority, accounted for about 9% of total exports in 2000, while mineral fuels brought in 81% of export receipts.

Poor harvests in recent years have led to a decline of almost 50% in cotton exports. Continuing difficulties with gas export payments and use of Russian gas pipelines to reach the European market resulted in a decrease in that sector as well.

Turkmenistan's primary export markets in 2004 were: Ukraine (46.6%); Iran (17.3%); Turkey (4.2%) and Italy (4.1%). Primary import partners in 2004 were: the United States (11.8%); Russia (9.7%); UAE (9.2%); Ukraine (9%); Turkey (8.6%); Germany (8%); France (5%); Georgia (4.6%); and Iran (4.5%).

### 3<sup>2</sup> BALANCE OF PAYMENTS

In 2005, the value of Turkmenistan's exports was estimated at \$4.7 billion, and imports were estimated at \$4.175 billion. The current-account balance was estimated at -\$204.3 million.

### 3<sup>3</sup> BANKING AND SECURITIES

The State Central Bank of Turkmenistan (SCBT) is charged with issuing currency and executing a monetary policy, and represents the top tier of a two-tiered banking system. Commercial banks are responsible for collection, settlement, and handling of assets for clients and other banks. The State Bank for Foreign Economic

Activities has been established to provide hard currency credits for foreign economic activities.

The government has not released details of monetary policy since Turkmenistan left the ruble zone in November 1993. The currency reform involved a high degree of confiscation. Since then, the government is thought to have severely contracted the money supply in real terms as part of its bid to tackle inflation.

The banking decree of 20 February 1995 stated that: 75% of 1994 bank revenue was to be used for capital expenditure projects; banks were to lend to state-owned firms at an annual interest rate of 15%; and all excess bank profits were to be transferred to the state. Turkmenistan's banks are shackled with the usual problems of the former communist bloc. The Turkmen banks are poorly capitalized, have large loss-making portfolios to state-owned enterprises, and are burdened by an antiquated payments system which builds up arrears with ease.

Sberbank (the State Savings Bank) ranks second behind the SCBT in significance, holding most household deposits, and is still state-owned. The local branch of Vneshekonombank has been incorporated as an independent foreign trade bank, and is also state-owned. Investbank is the industrial sector bank and Agroprombank the agricultural sector bank. Both are state-owned via stock distributed to state-owned enterprises. In 1994, there were 10 further banks owned by state enterprises, two cooperative banks and two private banks.

### 3<sup>4</sup> INSURANCE

The joint-stock insurance company "TIS" is operating direct insurance lines for aviation, cargo, fire, accident, and auto in Ashkhabad.

### 3<sup>5</sup> PUBLIC FINANCE

Although still a centrally planned economy, Turkmenistan has slowly begun to decrease the size of the public sector's influence. Among the steps it has taken are a drive toward a unified market-based exchange rate, the allocation of government credits by auction, and stricter limits on budget deficits.

The US Central Intelligence Agency (CIA) estimated that in 2005 Turkmenistan's central government took in revenues of approximately \$1.4 billion and had expenditures of \$1.5 billion. Revenues minus expenditures totaled approximately -\$141 million. Total external debt was \$2.4 to \$5 billion.

### 3<sup>6</sup> TAXATION

Turkmenistan significantly lowered income tax rates in 2002. The top rate was 11%, down from 25% in 2000, and 40% in the 1990s. The marginal rate for the average taxpayer is also 11%. The top corporate rate is 25%, down from 45%. A 15% rate is charged on income from dividends, copyrights, licenses, leases, royalties and other forms of passive income, although investors holding more than 30% of hard currency shares in an enterprise's capital fund are exempt from the dividend tax. Enterprises are not required to pay the profit tax until investors have fully recovered their original investment. Also, companies that reinvest profits are exempt from tax payments on the reinvested capital. Equipment contributing to the capital of joint ventures is exempt from import duties. Free economic zones have been created to attract foreign capital. There is a value-added tax (VAT) imposed on all goods and services,

#### Balance of Payments – Turkmenistan (1997)

(In millions of US dollars)

<b>Current Account</b>		<b>-580.2</b>
Balance on goods		-230.9
Imports	-1,005.1	
Exports	774.2	
Balance on services		-402.8
Balance on income		84.9
Current transfers		-31.3
<b>Capital Account</b>		<b>-8.9</b>
<b>Financial Account</b>		<b>1,060.0</b>
Direct investment abroad	...	
Direct investment in Turkmenistan	107.9	
Portfolio investment assets	-5.4	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	205.6	
Other investment liabilities	751.9	
<b>Net Errors and Omissions</b>		<b>-72.9</b>
<b>Reserves and Related Items</b>		<b>-398.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

sold or bartered, of 10% for foodstuffs and 20% for all other items. In March 1994, the president exempted from the VAT registered foreign investors, private enterprises (other than Turkmenpotrel-soyuz enterprises) and businesses importing and selling consumer goods.

### **37 CUSTOMS AND DUTIES**

Technically, Turkmenistan does not levy tariffs except on imports by individuals. However, in practice, the excise tax system applies higher rates to imported goods than domestic, effectively putting an unspoken tariff in place. Additionally, certain domestic products are exempted from the VAT and, by special presidential decree, government regulatory agencies have the power to go into certain markets and determine the prices of domestically produced goods and the prices for which importers pay for foreign products. Certain imports from countries outside the rural area are prohibited or require a license. Turkmenistan is not a member of any free trade agreements and is not a member of the Commonwealth of Independent States customs union. It has signed trilateral agreements with Iran and Ukraine, Iran and Armenia, Iran and Bangladesh, and Iran and the Philippines and is pursuing more such agreements. Turkmenistan has most-favored nation status with the United States and Austria. Duties run from 10–100%, the average being 30%.

### **38 FOREIGN INVESTMENT**

A law on foreign investment and other legislation regarding private entrepreneurship passed since 1991 now provides most of the conventional guarantees to foreign investors in Turkmenistan. However, until 1994, the purchase of property by foreign parties remained highly restricted. Reflecting some of this ambiguity, by 1992, only 23 joint ventures had been established, most of a relatively small scale and with negligible impact on foreign trade. Nevertheless, the country's political stability and rich natural resources are likely to make it a favored target for foreign investors in the near future. Significant inflows of foreign assistance have already allowed expansion of the petroleum industry to begin. Negotiations with foreign firms and several countries are underway for establishing a liquefied natural gas plant and the joint construction of a new gas pipeline to Europe that would bypass the need to transverse potentially unstable states of the former USSR.

In 1994, Turkmenistan's laws were modified to offer greater protection for property and rights of foreign investors and exemptions from duties and taxes for specific categories of investment; foreign investors registered in Turkmenistan, and enterprises importing and selling consumer goods there have been exempt from the value-added tax since March 1994. The Commodity and Raw Materials Exchange, created in 1994 to regulate all commercial transactions in Turkmenistan, registers individual trade contracts concluded by foreign companies and joint ventures, and charges a 0.2% commission. The State Agency for Foreign Investment (SAFI), established by presidential decree in 1996, monitors investments, reviews proposals and foreign currency credits, and may award priority status to projects favored by the government. There were no investment statistics available in 2005. However, leading sectors for US investors include: the oil and gas sector, in terms of exploration, development, equipment, and services; elec-

trical energy—development, equipment, and services; the chemical and mining sector—equipment, development, and services; transportation—infrastructure construction, distribution, and services; communications—equipment and services; environmental technology and services; health care and the medical industry; and agriculture.

### **39 ECONOMIC DEVELOPMENT**

Turkmenistan's president Niyazov, or Turkmenbashi (Father of the Turkmen) as he has increasingly insisted on being called, has spoken of his country becoming the next Kuwait after its independence in 1991, with the state funding a high standard of living, a comprehensive welfare program, and industrial development from the invested proceeds of state-owned natural gas, oil and cotton operations. To date this vision has foundered on Turkmenistan's geographical and political isolation from hard currency markets for its exports, a position that help produce, after an initial soft landing in 1992, a sharp decline in economic activity, hyperinflation, and increasing external debt from 1993 to 1998. Although official statistics show double-digit growth since 1999 and inflation reduced to a single digit by 2001 (6%), the reliability of these statistics that the government treats like state secrets is highly questioned. The country does not submit economic information to the scrutiny of the IMF, which it has avoided by avoiding balance of payments problems (though not without difficulty judging from the harsh measures, including gas cut-offs, it has employed to get delinquent country's to pay their gas debts).

Turkmenistan's relatively well-educated population and natural resources provide a promising foundation for the growth of a diverse set of industries. The government's transition strategy consisted of three overarching principles: a gradualist pace to privatization and liberalization, a leading role for the state in developing the economy, and the maintenance of a full array of welfare supports to minimize the human costs of the economic transition. It is within these constraints that the government has pursued goals of food self-sufficiency and economic diversification.

The guiding principles of this program were detailed in a formal document in early 1991 calling for a series of legislative, fiscal, and monetary measures related to price controls, privatization, and industrial infrastructure development. More specific measures followed, including new laws on privatization and foreign investment adopted in 1992, price decontrol measures taken the same year, adoption of a value-added tax and other tax reform, and measures taken in 1996 and 1997 to control the growth of money supply. Under the liberalized property regime, leasing arrangements have expanded in both the agricultural and industrial sectors. The leasing or purchase of individual enterprises by workers is favored by the current legislation, although land, water, and the oil and gas industries are excluded from the possibility of outright purchase by private individuals or companies. Public money and foreign exchange earnings have been used to establish textile and garment manufacturing plants, often as joint ventures with Turkish partners. The share of the textile sector in total industrial production has increased since independence from about 11% to about 26%, and the percent of Turkmenistan's cotton production processed domestically instead of exported has increased from 3% to 35%. However, it is difficult to judge the competitiveness of these state-supported enterprises. Overall the gradualist pace

in privatization has left over 90% of the economy by value under state control employing about 80% of the work force. Most medium and large industrial enterprises continue to run on the basis of centrally planned state orders and resource allocations, although there has been a substantial amount of privatization among small enterprises and in the service sector.

Following the government's expressed commitment to minimizing the negative impact of post-Soviet economic restructuring on the population, the terms for Turkmenistan's social safety net are more generous than many other former Soviet countries: allowances for large families, social security payments, and pensions have all been increased substantially since 1992, and as of 1993 all citizens were to receive free electricity and free water. Potential fiscal imbalances resulting both from these increased expenditures and the end of transfers from the Soviet government have thus far been avoided by increased profit transfers from key enterprises, export duties, and a variety of smaller revenue sources. Twenty-nine percent of the 1992 budget expenditures was allocated to price-differential subsidies paid to retail agencies required to sell food and medicines below wholesale prices. Capital expenditures claimed a further 12% of total expenditures while combined social and cultural expenditures allocated to education, health care, and social security totaled about 30%. In 2002, an estimated 80% of the government's budget was spent reinforcing the social welfare safety net.

Historically, landlocked Turkmenistan has depended on imports for most its food. Although there has been marked improvement in the government's prime target of wheat production since independence—total grain production, including wheat, rye, barley, corn, rice and miscellaneous grains, was 776 metric tons in 1992 whereas wheat alone had attained the government target of 1.2 metric tons by 1998—the goal has not been fully met. In recent barter deals with Ukraine over past gas debts Turkmenistan has contracted for shipments of Ukrainian wheat and sugar.

A five-year production and investment plan set out in 1992 proposed large investments in the development of infrastructure and the energy sector financed by tax receipts and foreign exchange receipts from gas and cotton exports. The budget for 1993 included financing for projects to expand grain production and cotton processing. Under the government's central planning approach to economic development, the ambitious targets set have often not been met. In allotting its reduced cotton production, the needs of the newly expanded domestic industry appear to be given priority over exports, although raw cotton is an important foreign exchange earner.

The key to Turkmenistan's economic success rests on securing development finance through the exploitation of its natural gas resources. The completion of the Korpezhe-Kurt Kui Pipeline to the Iranian gas pipeline system in December 1997 plus restored access to Gazprom's pipelines in 1998 laid the basis for the economy's first return to growth since independence in 1999.

In 1998 the government restructured its oil and gas industries into several state-owned companies to better attract foreign investment. Progress has been made on two other gas pipeline schemes: the Iran-Armenian pipeline that would allow Turkmenistan to deliver its gas to Armenia, and the Trans-Afghanistan

Pipeline (TAP), that, as originally envisioned, would pipe Turkmenistan gas across Afghanistan to Pakistan. Neither, however, is free of economic and political problems. Armenia remains a poor and uncertain market, particularly, as a source of hard currency, plus it is not clear if the arrangement would be exempt from US sanctions against countries dealing with Iran. Representatives of the three main participants in the TAP project have attempted to persuade India to agree to be the final terminus for Turkmenistan's gas apparently on the realization that neither Afghanistan nor Pakistan could provide markets large enough to justify the \$3.2 billion cost of construction. India initially refused participation because of its conflicts with Pakistan, but in 2005 expressed interest in the idea of participating in the project, despite its geostrategic fears and security issues. For oil, Turkmenistan's third major export earner, the president announced a 10-year program to reach an output of one million barrels per day in 2010. The US Department of Energy forecasts Turkmenistan's oil production level in 2010 at only 200,000 barrels per day.

#### **40 SOCIAL DEVELOPMENT**

Turkmenistan's current social security system provides old age, disability and survivor pensions to employed persons. A social pension is provided to those not eligible for employment-related pensions. Old age benefits are provided at age 62 for men who have 25 years of covered employment and at age 57 to women with 20 years of employment. The social security program is financed by contributions from employers and employees. The government provides subsidies as needed and completely funds social allowances. Unemployment benefits are provided for up to one year. Sickness and maternity benefits and workers' compensation were introduced in 1998, and a child care allowance is also available.

Women are entitled to equal rights as men under the law, however due to societal constraints the woman's role is primarily that of homemaker and mother. Opportunities for education and careers outside the home are limited. Violence against women, including domestic violence, is not discussed and victims keep silent. Women are underrepresented in management positions in most state economic enterprises. Despite constitutional provisions, Muslims often follow religious practices giving men precedence over women in property and inheritance matters.

Turkmenistan's human rights record is extremely poor. Arbitrary arrest, detention, unfair trials, and interference with citizens' privacy and correspondence are reported. Security forces beat and mistreat suspects and prisoners. There are no international or domestic human rights monitoring groups operating in Turkmenistan. The government funds almost all print media and completely controls television and radio. Academic freedom and publishing are restricted. All forms of religious expression are controlled by the government. The government severely restricts freedom of speech and completely controls and censors the media, forbidding the expression of criticism of the government.

#### **41 HEALTH**

As of 2000, systematic health care reforms had been undertaken, including enhancement of primary care, training programs for medical personnel, and infrastructure improvements. Seri-

ous inadequacies remained in the condition of medical facilities and equipment. Primary care was provided by two types of rural health units and by urban health centers. The number of hospital beds has been greatly reduced since independence. Total health care expenditure was estimated at 5.2% of GDP. As of 2004, there were an estimated 317 physicians, 619 nurses, 23 dentists, and 25 pharmacists per 100,000 people. Approximately 58% of the population had access to safe drinking water and 100% had adequate sanitation.

Immunization rates for children up to one year old were tuberculosis, 97%; diphtheria, pertussis, and tetanus, 87%; polio, 94%; and measles, 90%. The rates for DPT and measles were, respectively, 98% and 97%. The infant mortality rate in 2005 was 73.08 per 1,000 live births. The maternal mortality rate was 65 per 100,000 live births. Average life expectancy was 61.01 years in 2005.

In this former Soviet republic, mortality rates have increased significantly since the breakup. Leading causes of death were communicable diseases and maternal/perinatal causes, noncommunicable diseases, and injuries. The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 200 people living with HIV/AIDS in the country. There were an estimated 100 deaths from AIDS in 2003.

#### 42 HOUSING

In 1989, 27.3% of all privately owned urban housing had running water, 7.2% had sewer lines, 16% had central heating, and 1% had hot water. In 1990, Turkmenistan had 11.1 sq ft of housing space per capita and, as of 1 January 1991, 108,000 households (or 30.9%) were on waiting lists for urban housing.

#### 43 EDUCATION

Before the Soviet Union established control over the region in the 1920s, few schools, mainly Muslim, existed. The government has control over all aspects of education. Education is now state-funded and compulsory from the age of 7 to 16. Basic education is completed in two stages of three and six years. Students may then take a two- to four-year specialized academic program or a one-year vocational program. In most schools, instruction is in the Turkmen language; Uzbek, Russian, Kazakh, and Karakalpak languages are used in others. In the early 1990s, primary school enrollment was estimated at about 77% of all age-eligible students.

In 1990/1991, all higher-level institutions had 76,000 pupils enrolled. There are 14 institutions of higher learning, including one university at Ashkhabad, the Turkmen State University (founded in 1950) with an enrollment of over 11,000 pupils. Turkmenistan also has 90 technical colleges. As of 1995, public expenditure on education was estimated at 4.3% of GDP. The adult literacy rate has been estimated at about 98%.

#### 44 LIBRARIES AND MUSEUMS

The National Library of Turkmenistan in Ashkhabad holds 5.5 million volumes and is the largest in the country. The Republican Scientific and Technical Library of Turkmenistan holds 900,000 volumes and the Turkmen Academy of Sciences, in the capital,

holds 2.1 million volumes. Turkmen University has the nation's largest academic library, holding 542,000 volumes.

In early 2005, President Saparmurat Niyazov called for the closure of nearly all of the nation's public libraries, with the exception of the National Library and some libraries associated with educational institutions. The president called for these closings claiming that most of the citizens don't read books or visit libraries.

There are several fine museums in Ashkhabad, including the National Museum, the State Museum of Fine Arts, and the Carpet Museum, as well as museums devoted to history and literature. There are historical and ethnographical museums in the cities of Mary, Turkmenabat, and Turkmenbashi.

#### 45 MEDIA

Telephone links to other former Soviet republics and Iran are provided by land link or microwave and to other countries through Moscow. In 2003, there were an estimated 77 mainline telephones for every 1,000 people; about 36,800 people were on a waiting list for telephone service installation. The same year, there were approximately two mobile phones in use for every 1,000 people.

Turkmen Radio in Ashkhabad broadcasts transmissions from Moscow, as does Turkmen Television, which also receives Turkish television broadcasts. All broadcasts are controlled by the government. In 2005, there were four television channels and two radio stations, all owned and operated by Turkmen TV and Radio. Many programs can be received from Russia and Turkey. Orbita and INTELSAT are received by satellite earth stations. In 2003, there were an estimated 279 radios and 182 television sets for every 1,000 people. The same year, only two of every 1,000 people had access to the Internet, available only through the government-owned Turkmen Telecom.

In 2004, there were 22 newspapers published in Turkmen and 1 official newspaper in Russian. The two main daily papers are *Turkmenistan* (circulation 73,170 in 1995) and *Turmenskaya Iskra* (in Russian, 40,000). There are also a number of periodicals, mostly in Ashkhabad.

The constitution provides for free expression, but in practice the government is said to severely limit press rights. The government owns and directly controls all radio, television, and print media, and is said to rarely allow criticism or opposition opinion in even the mildest forms.

#### 46 ORGANIZATIONS

The economic affairs and other concerns of workers are handled by the Chamber of Commerce and Industry, and the Federation of Trade Unions of Turkmenistan, respectively. The most important mass movement in the country is the Communist Party. It controls all aspects of Turkmenistan's politics, society and culture. Its organizations of control are the Committee on National Security, Ministry of Internal Affairs, and various trade unions. The trade unions, all controlled by the state, serve to promote government production plans and policies. Cultural and educational associa-

tions are somewhat restricted by the government. There is a national chapter of the Red Crescent Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Tourism has been designated a priority area of economic development with a focus on its infrastructure. Turkmenistan is home to the largest modern airport in Central Asia, and Turkmenistan Airlines flies nonstop to Europe. The hotels do not yet take credit cards but are working to improve their system. Geological and archeological sites and museums are primary tourist spots in this mostly desert state. Casinos and health spas are popular at the five-star hotels. A valid passport as well as a visa is required to enter Turkmenistan. There are no vaccination requirements although precautions against malaria, typhoid, and hepatitis are recommended.

In 2005, the US Department of State estimated the daily expenses of staying in Ashkhabad at \$108.

#### **48 FAMOUS TURKMENISTANIS**

Saparmuryat A. Niyazov (b.1940) has been president of Turkmenistan since December 1991. Outstanding representatives of culture and literature of Turkmenistan include Abdulhekin Qulmukam Medoghli, a writer, researcher and political activist who was killed in 1937 during one of Stalin's purges, and the poet and

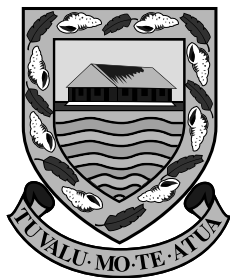
thinker, Maktum Kuli, who first envisioned an independent Turkmenistan. The country has established the Makhtumkuli International Prize in his name and awarded it to President Niyazov.

#### **49 DEPENDENCIES**

Turkmenistan has no territories or colonies.

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# TUVALU



**CAPITAL:** Funafuti

**FLAG:** The national flag has the Union Jack in the upper quarter nearest the hoist; nine yellow stars on a light blue field are arranged in the same pattern as Tuvalu's nine islands.

**ANTHEM:** *Tuvalu mo te Atua (Tuvalu for the Almighty).*

**MONETARY UNIT:** Both the Australian dollar (A\$) and the Tuvaluan dollar (T\$) of 100 cents are legal tender. There are coins of 1, 2, 5, 10, 20, and 50 Tuvaluan cents; 1 and 5 Tuvaluan dollars; and notes of 5, 10, 20, 50, and 100 Australian dollars. T\$1 = US\$0.76336 (or US\$1 = T\$1.31) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is being introduced, but imperial measures are still commonly employed.

**HOLIDAYS:** New Year's Day, 1 January; National Children's Day, first Monday in August; Tuvalu Day, 1 October; Christmas Day, 25 December; Boxing Day, 26 December. Movable holidays include Commonwealth Day (March), Queen's Official Birthday (June), and Prince of Wales's Birthday (November); movable religious holidays include Good Friday and Easter Monday.

**TIME:** Midnight = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Tuvalu (formerly the Ellice Islands) comprises a cluster of nine islands, plus islets, located in the southwestern Pacific Ocean just south of the Equator. These remote atolls are situated about 1,050 km (650 mi) N of Suva, Fiji, and 4,000 km (2,500 mi) NE of Sydney, Australia. They lie in a 595-km-long (370-mi) chain extending over some 1,300,000 sq km (500,000 sq mi) of ocean and have a total land area of 26 sq km (10 sq mi). Comparatively, the area occupied by Tuvalu is about 0.1 times the size of Washington, D.C. Tuvalu has a coastline of 24 km (15 mi).

Tuvalu's capital city, Funafuti is located on the island of Funafuti.

## <sup>2</sup>TOPOGRAPHY

Tuvalu consists entirely of low-lying coral atolls, none of which is more than 5 m (16 ft) above sea level; few of the atolls are more than 0.8 km (0.5 mi) wide. The islands are coral reefs on the outer arc of ridges formed by pressure from the Central Pacific against the ancient Australian landmass. On five islands, the reefs enclose sizable lagoons; the others are mere pinnacles rising abruptly from the ocean floor. Only two of the islands, Funafuti and Nukufetau, have natural harbors for oceangoing ships. There are no rivers on the islands.

## <sup>3</sup>CLIMATE

Tuvalu has a tropical climate with little seasonal variation. The annual mean temperature of 30°C (86°F) is moderated by trade winds from the east. Rainfall averages over 355 cm (140 in), with most rain falling between November and February. Although the

islands lie north of the main cyclone belt, Funafuti was devastated in 1894, 1972, and 1990.

## <sup>4</sup>FLORA AND FAUNA

The surrounding sea is rich in flora and fauna, but land vegetation is limited to coconut palm, pandanus, and imported fruit trees. Pigs, fowl, and dogs, all of which were imported in the 19th century, flourish on the islands. The only indigenous mammal is the Polynesian rat. Birds include reef herons, terns, and noddies. There are 22 known species of butterfly and moth.

## <sup>5</sup>ENVIRONMENT

Environmental dangers include uncontrolled spread of the crown of thorns starfish, which flourishes in deepened channels and is destructive to coral reefs; erosion of beachheads from the use of sand for building materials; and excessive clearance of forest undergrowth for firewood. About 40% of Funafuti is uninhabitable because the United Kingdom authorized the United States to dig an airstrip out of the coral bed during World War II. Global warming and the related rise of sea levels are also a significant environmental concern for Tuvalu's residents. The encroachment of sea water also poses a threat of contamination to the nation's limited water supply, whose purity is already at risk due to untreated sewage and the by-products of the mining industry and farming. Natural hazards include earthquakes, cyclones, and volcanic activity.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 1 species of bird, 1 type of reptile, 5 species of fish, and 1 type of mollusk. Current fishing methods

threaten Tuvalu's marine life. The green sea turtle, hawksbill turtle, bay shark, and the leatherback turtle are endangered.

## **6 POPULATION**

The population of Tuvalu in 2005 was estimated by the United Nations (UN) at 10,000, which placed it at number 192 in population among the 193 nations of the world. In 2005, approximately 6% of the population was over 65 years of age, with another 36% of the population under 15 years of age. According to the UN, the annual population rate of change for 2005–10 was expected to be less than 0.5%, due to ongoing emigration. The projected population for the year 2025 was 14,000. The population density was 386 per sq km (1,000 per sq mi). Population is distributed among the islands as follows: Vaitupu (approximately 15%), Niutao (11%), and Nanumea (11%), with the remaining 63% divided among Nukufetau, Nanumanga, Nui, Nukulaelae, and Niulakita (formerly uninhabited).

The UN estimated that 47% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 2.51%. The capital city, Funafuti, had a population of 6,000 in that year.

## **7 MIGRATION**

During the 19th century, recruitment of Tuvaluans to work on plantations in other Pacific islands, Australia, and South America reduced the resident population from about 20,000 to 3,000. Migrants account for about 3% of the total population. A steady rate of emigration has resulted in little population growth over the past decade. The net migration rate was zero in 1999 and in 2005. The government views the migration levels as satisfactory.

## **8 ETHNIC GROUPS**

Apart from a few Europeans, the islanders are almost entirely Polynesian (96%) and have strong ties with the Samoans and Tokelauans. There is no evidence of pre-Polynesian settlement. Language and tradition indicate that the Tuvaluans were part of a Samoan-Tongan migration from the 14th through the 17th century.

## **9 LANGUAGES**

English and Tuvaluan, a Polynesian tongue related closely to Samoan, are the principal languages. A Gilbertese dialect (Kiribati) is spoken on Nui.

## **10 RELIGIONS**

In 1865, a member of the London Missionary Society reached Tuvalu from Samoa and Samoan pastors were sent to the islands. The Tuvaluans rapidly embraced the Christian faith and about 91% of them are Protestant members of the Church of Tuvalu, a Congregationalist group. Seventh-Day Adventists account for 3% of the population, Baha'is for 3%, Jehovah's Witnesses for 2%, and Catholics for 1%. There are also small numbers of Muslims, Baptists, Mormons, and atheists.

The constitution provides for freedom of religion and the separation of church and state; however, the government seems to favor Christian practices, even by opening sessions of parliament with Christian prayer. Traditional chiefs from all of the nine island groups are members of the Church of Tuvalu. Religious groups are required to register with the government and may be prosecuted

for failure to do so. A group must have more than 50 members in order to register.

## **11 TRANSPORTATION**

Transportation is inadequate. Most roads are little more than tracks, although Funafuti has about 19.5 km (12.1 mi) of coral-impacted roads for use by the island's few cars and trucks. Funafuti and Nukufetau are the only seaports, used chiefly by freighters in the copra trade. Ships drawing up to 9 m (30 ft) can dock in Funafuti harbor at a deepwater wharf completed in 1980. In 2005, Tuvalu had a merchant fleet of 23 ships of 1,000 GRT or more, totaling 54,993 GRT. All the islands are served by Tuvalu's one inter-island ferry. As of 2004, Funafuti had one lone airport, a grass strip that cannot be used for jet aircraft.

## **12 HISTORY**

The islands were probably settled between the 14th and 17th centuries by Polynesians drifting west with prevailing winds from Samoa and other large islands. The first European to discover Tuvalu is thought to have been the Spanish navigator Álvaro de Mendaña de Neyra, who sighted Nui in 1568 and Niulakita in 1595. Further European contact was not made until the end of the 18th century. Between 1850 and 1875, the islands were raided by ships forcibly recruiting plantation workers for South America, Fiji, Hawaii, Tahiti, and Queensland. To help suppress such abuses, the Office of British High Commissioner for the Western Pacific was created in 1877.

In 1892, after ascertaining the inhabitants' wishes, the United Kingdom proclaimed the Ellice Islands (as Tuvalu was then known), together with the Gilberts, as a British protectorate. After further consultation, the protectorate became the Gilbert and Ellice Islands Colony in 1916. After the Japanese occupied the Gilberts in 1942, US forces occupied the Ellice group in 1943 and drove the Japanese out of the Gilberts. After the war, the ethnic differences between the Micronesians of the Gilberts and the Polynesians of the Ellice Islands led the Ellice Islanders to demand separation. In 1973, a British commissioner appointed to examine the situation recommended administrative separation of the two island groups. The British government agreed, provided that the Ellice Islanders declared their wishes by referendum. The vote, held during August–September 1974 with UN observers in attendance, produced an overwhelming majority of 3,799–293 for separation. Accordingly, on 1 October 1975, the Ellice Islands were established as the separate British colony of Tuvalu, and a ministerial system was instituted. Pursuant to a constitutional conference held at London in February 1978, Tuvalu became an independent member of the Commonwealth of Nations on 1 October 1979. Sir Fiatau Penitala Teo became Tuvalu's first governor-general, and Toaripi Lauti, chief minister at the time of independence, took office as Tuvalu's first prime minister. Following new elections in September 1981, Tomasi Puapua, who was reelected in September 1985, succeeded Lauti in office. In March 1986, Tupua Leupena replaced Sir Fiatau Penitala Teo as governor-general. In a poll held that same year, Tuvaluans rejected the idea that Tuvalu should become a republic. As a result of the 1989 general election the parliament elected Bikenebeu Paeniu as prime minister in September 1989. In the same election, Naama Latasi became the first woman to serve in Tuvalu's parliament.

In the 1993 legislative elections Paeniu and Puapua, the man who he replaced as prime minister, each received six votes from the newly elected 12-member parliament. A second round of votes were held in December that year, from which Puapua withdrew, and Kamuta Latasi was elected prime minister. In 1994 Latasi spearheaded a movement to remove the British Union Jack from the country's flag as a symbolic gesture of independence. In 1995, after conservative French President Jacques Chirac announced his country's intention to conduct above-ground nuclear tests in the South Pacific, Tuvalu emerged as a regional leader in the highly vocal opposition.

In April 1997 the Union Jack was restored as part of Tuvalu's national flag by a vote of seven to five in the Parliament. Newly reelected Prime Minister Bikenibea Paeniu restored the former flag design, which Latasi had changed without consideration of the views of Tuvalu's citizens. Tuvalu, Nauru, and Kiribati aligned with the Cook Islands and Niue to put pressure on Australian production of "greenhouse gases." These low-lying island nations are particularly vulnerable to future global warming. Already flooding in stormy weather, they pressed for a worldwide cut of 20% of 1990 emission levels by 2005. Australia rejected the proposal, citing 90,000 jobs would be lost if Australia was forced to reduce emissions. None of Tuvalu's islands rise more than 16 feet (5 m) above sea level, and their future existence may be imperiled.

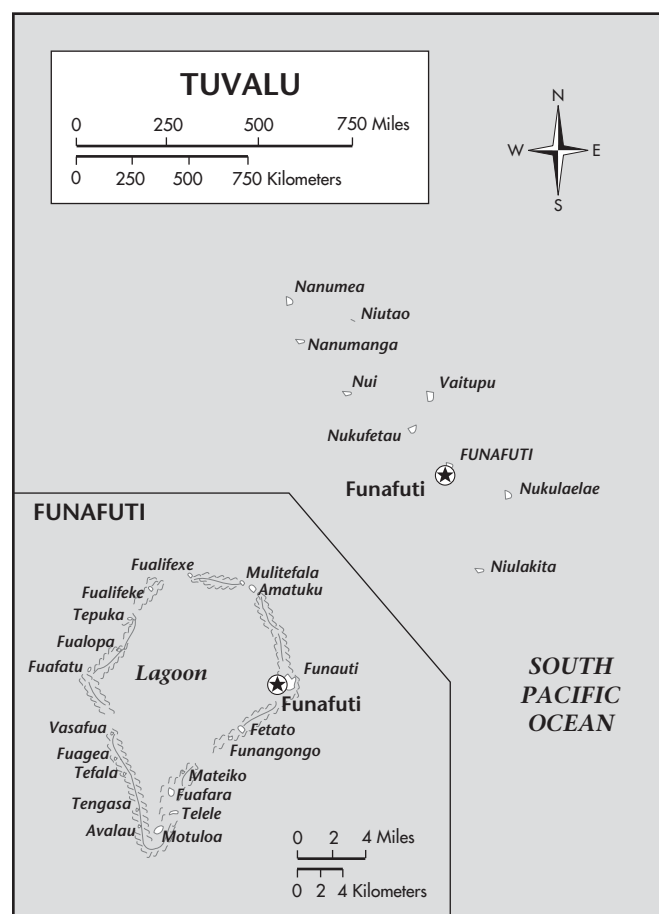
In 1998 Tuvalu began selling Internet addresses in its TV domain, i.e., all Tuvaluan Internet addresses end with the letters "tv."

By April 1999 there was growing dissatisfaction with Prime Minister Paeniu's leadership. Paeniu was forced to give up his office after a no confidence vote of parliament. On 27 April 1999 Ionatana Ionatana, former Minister of Education, was elected as prime minister by the 12-member parliament.

In August 1999 Tuvalu sought economic aid as it suffered through a severe drought. Australia, New Zealand, Japan and Britain promised assistance to ease the water shortage with desalination plants. Japan agreed to provide the plants; New Zealand would pay to transport them. Australia would provide technical assistance toward formulating water policies.

Reportedly, Tuvalu licensed its dot-tv domain for us\$50 million over 10 years to an Internet incubator. In February 2000 Prime Minister Ionatana received the first installment of the licensing deal, us\$20 million, and invested it in trust funds. In the continuing dispute with Britain over Tuvaluan separation with the Gilberts (Kiribati), Ionatana suggested that Tuvalu become a republic. In 2000 Tuvalu was admitted to the United Nations.

On 9 December 2000, Ionatana collapsed from cardiac arrest and died. Tuvalu had 4 prime ministers from 2000 to 2002. Faimalaga Luka, who was elected prime minister in February 2001, was replaced by Koloa Talake in December 2001 after a vote of no confidence. Saufatu Sopoanga became prime minister in August 2002 after general elections were held on 25 July. The elections and appointment of Sopoanga were expected to herald a period of stability in Tuvalu after Ionatana's death. However, Sopoanga's majority was by one seat. When the seat of Nanumea was declared vacant after the Chief Justice ruled that a government member of parliament had lodged his nomination papers after the legal deadline and a second seat held by the government became vacant following the death of the parliamentary speaker, a by-election



LOCATION: 5° to 11° S; 176° to 180° E. TOTAL COASTLINE: 24 kilometers (15 miles).  
TERRITORIAL SEA LIMIT: 12 miles.

tion was called. After the by-election Sopoanga did not have a majority. Sopoanga was defeated 8–6 in the 15-seat parliament, with one absentee. His defeat resulted mainly from Parliament Speaker Otinielu Tausi's joining the opposition camp because of his disagreement with Sopoanga's financial policies. Following this no-confidence vote on 25 August 2004, Saufatu Sopoanga resigned his parliamentary seat on 27 August 2004.

Deputy Prime Minister Maatia Toafa succeeded Sopoanga in an acting capacity on 27 August 2004. After having earlier resigned as prime minister, Sopoanga won the by-election on Nukufetau. He did not seek reelection for prime minister, but supported Toafa. Toafa was confirmed as Tuvalu's ninth prime minister in a Parliamentary election (8–7 vote) on 11 October 2004. He is the first prime minister of Tuvalu to hail from the island of Nanumea, the most northern of the group. In June 2005, Toafa lost one of his key allies with the resignation of Sio Patiale for medical reasons.

### 13 GOVERNMENT

Tuvalu is an independent constitutional monarchy. The head of state is the British monarch, whose representative on the islands is the governor-general, a Tuvaluan who has the power to convene and dissolve parliament (Filoimea Telito since 15 April 2005). There is a unicameral legislature, or Fale I Fono, the House of Assembly, with 15 members elected to four-year terms by universal adult suffrage. Seven islands elect two members each and one is-

land elects one member. The prime minister and deputy prime minister are elected by and from the members of parliament. The cabinet is headed by the prime minister and has up to five ministers (all House members). Suffrage is 18 years of age. An election for prime minister was last held 11 October 2004, the next was to be held following parliamentary elections in 2006.

## **14 POLITICAL PARTIES**

There are no political parties, and political life and elections are dominated by personalities. Small island constituencies with a few hundred kin-related electors judge the leaders by their service to the community.

## **15 LOCAL GOVERNMENT**

Local administration by elected island councils was established following the creation of the protectorate in 1892. Local governments were established on the eight inhabited islands by a 1966 ordinance that provided the framework for a policy aimed at financing local services at the island level. Funafuti's town council and the other seven island councils each consist of six elected members, including a president. Under the Falekapule Act of 1997, increasing power devolved from the central government to the island councils.

## **16 JUDICIAL SYSTEM**

District magistrates were established with the protectorate in 1892, and native courts have observed a simple code of law based on mission legislation and traditional councils. Eight island courts (with limited jurisdiction) were constituted in 1965 to deal with land disputes, among other local matters. In 1975 a High Court of Justice was set up to hear appeals from district courts. Appeals from the High Court may go to the Court of Appeals in Fiji and ultimately to the UK Privy Council in London. In the High Court a chief justice visits twice a year to preside over its sessions.

The right to a fair public trial is respected in practice. Services of the public defender are available to all Tuvaluans free of charge. Defendants have the right to confront witnesses, present evidence, and to appeal. The judiciary is independent and free of governmental interference.

## **17 ARMED FORCES**

Tuvalu has no armed forces except for the local police, which includes a maritime surveillance unit. For defense the islands rely on Australian-trained volunteers from Fiji and Papua New Guinea.

## **18 INTERNATIONAL COOPERATION**

Tuvalu became a member of the Commonwealth of Nations on 1 September 2000, and the 189th member of the United Nations on 5 September 2000. Tuvalu serves on the FAO, IMO, ITU, UNC-TAD, UNESCO, UPU, and the WHO. The country is also part of the Asian Development Bank, the ACP Group, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Alliance of Small Island States (AOSIS), and the Pacific Island Forum (formally called the South Pacific Forum).

In 1979, Tuvalu signed a treaty of friendship with the United States, which in 1983 formally dropped its prior claim to four of the nine islands. Tuvalu opposes French nuclear testing in the South Pacific and signed the 1985 Rarotonga Agreement declar-

ing the region a nuclear-weapons-free zone. In environmental cooperation, Tuvalu is part of the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## **19 ECONOMY**

Prime Minister Toaripi Lauti noted at the time of independence (1979) that all Tuvalu has is sun and a portion of the Pacific. Economic life is simple, but there is no extreme poverty. Subsistence is based on intensive use of limited resources, namely coconuts and fish; copra is the only cash crop. The sale of stamps and coins and worker remittances were the primary sources of government revenue in the mid-2000s. About 1,000 Tuvaluans work in Nauru in the phosphate mining industry. The islands are too small and too remote for development of a tourist industry. Fewer than 1,000 visitors visit the island annually, most attached to international aid delegations. However, the largest export sector is tourism, which in 2003 accounted for 34.8% of total exports of goods and services. Its vulnerability to external shocks includes the real possibility that the nine low-lying coral islands that constitute the country could disappear beneath a rising ocean level as one of the effects of global warming. Already, thousands in this rather densely populated country have been displaced by ocean swamping parts of the land.

In the meantime, the economy has been kept afloat by two more fortunate developments: the success of the Tuvalu Trust Fund (TTF) and proceeds from the sale of Tuvalu's internet address, ".tv." The Trust Fund was set up in 1987 with A\$27 million derived from contributions from Tuvalu, Australia (the largest donor at A\$8 million), New Zealand, and the United Kingdom, with smaller grants from Japan and South Korea. Helped by occasional lump sum contributions from Australia, and modest withdrawals by Tuvalu, the TTF had grown to A\$37 million by 1999. The TTF was valued at more than A\$70 million in 2006. The government derives about one-fourth of its revenues from returns on Trust Fund investments. More unique are the profits the government has been able to derive from its internet domain name. In 1990, the government leased the right to the suffix .tv to Idealab, a California company, for A\$90 million over 12 years, retaining a 20% share in the .tv Corporation. Some of the funds generated have been put in other investments and some have been used for infrastructure projects like airport development, electrification, and the construction of roads, office buildings and hospitals. The corporation .tv became a major shareholder in Air Fiji, which has exclusive flying rights to Tuvalu. In January 2002 .tv Corp. became a wholly owned subsidiary of VeriSign Corp., which bought it for US\$45 million in an agreement by which Tuvalu maintains control of the management of its domain name. Returns from .tv Corp. have been highly variable. The United Nations ranks Tuvalu among the least-developed countries.

## **20 INCOME**

The US Central Intelligence Agency (CIA) reports that in 2005 Tuvalu's gross domestic product (GDP) was estimated at US\$12.2 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current

dollars. The per capita GDP was estimated at us\$1,100. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2000 was 5%.

## 21 LABOR

The estimated workforce numbered 7,000 in 2001. The economy relies primarily on subsistence ventures including fishing, and gathering coconuts. Many laborers work abroad and send wages home. In Funafuti, the government-controlled philately bureau is the largest single employer, with a staff of several dozen workers. There is no data on Tuvalu's unemployment rate. The nation's only trade union, the Tuvalu Seamen's Union, has about 600 members who work abroad on foreign merchant vessels. The nearly 1,000 public employees in Tuvalu were not unionized as of 2002, but do belong to associations. The law protects the right to strike, but no strike has ever occurred.

The minimum working age is 14 (15 for industrial employment). Generally children do not work outside of the traditional economy. The minimum age for shipboard employment is 18. As of 2002, the biweekly minimum wage was us\$75.66. The law sets the workday at eight hours. Basic health and safety standards, such as clean drinking water, are mandated by law but irregularly enforced.

## 22 AGRICULTURE

Although agriculture is the principal occupation, it contributes only 26% to the GDP. Agriculture is limited because of poor soil quality (sand and rock fragments), uncertain rains, and primitive catchment. Coconuts form the basis of both subsistence and cash cropping; the coconut yield in 2004 was about 1,600 tons. Other food crops are *pulaka* (taro), pandanus fruit, bananas, and papayas.

## 23 ANIMAL HUSBANDRY

The Agricultural Division, based on Vaitupu, has attempted to improve the quality and quantity of livestock to lessen the islands' dependency on imports. Pigs and fowl, which were imported in the 19th century, have been supplanted by goats and rabbits. In 2005, there were some 45,000 chickens and 13,500 pigs on the islands. Honey is also produced.

## 24 FISHING

Sea fishing, especially for tuna and turtle, is excellent. Although fishing is mainly a subsistence occupation, fish is sold in the capital, and *bêche-de-mer* is exported. The fish catch in 2003 was 1,505 tons, up from around 500 tons annually between 1997 and 2001. Japanese aid in 1982 provided a commercial fishing vessel for the islands. The Republic of Korea and Taiwan are both licensed to fish within the territorial waters of Tuvalu. In October 1986, Tuvalu, along with several other Pacific island nations, signed an agreement with the United States giving US tuna boats the right to fish its offshore waters. The sale of fishing licenses an-

nually contributes about A\$80,000 to the government's revenues. Fishery exports amounted to us\$301,000 in 2003.

## 25 FORESTRY

There is little useful timber on the islands.

## 26 MINING

There was no commercial mining.

## 27 ENERGY AND POWER

International aid by UNDP and the European Development Fund is helping to develop electrical power. Funafuti has a limited amount of electricity to operate its meteorological and broadcasting stations and for use by the hospital and hotel; very few private households have electrical service. Installed electrical capacity totaled 2,600 kW in 1990. Both production and consumption of electricity amounted to 3,000,000 kWh, or 330 kWh per capita, in 1995. The Tuvalu Solar Electric Cooperative Society, formed in 1984, provides a limited supply of photovoltaic electricity.

## 28 INDUSTRY

There is no industry apart from handicrafts, baking, and small-scale construction; the islands lack the population, capital, and resources to make commercial enterprises cost effective. In 1995, the latest year for which data was available, manufacturing accounted for 3% of GDP and construction about 14%. With the utilities sector, industry accounted for 19% of GDP. In recent years, construction has particularly benefited from the windfalls of money the government has through the .tv Corporation and related ventures.

## 29 SCIENCE AND TECHNOLOGY

There is no advanced science and technology except for that imported under foreign aid programs.

## 30 DOMESTIC TRADE

The local economy is based primarily on agriculture, which employs a majority of the resident population. Most residents of smaller villages and islands can grow or create their own necessary goods. Barter remains an important part of this subsistence economy. In larger communities, cooperative societies dominate commercial life, controlling almost all retail outlets, the marketing of local handicrafts, and the supply of fish to the capital. Offices are open from 7:30 AM to 4:15 PM, Monday through Thursday, and from 7:30 AM until 12:45 PM on Friday.

## 31 FOREIGN TRADE

Copra, the main cash crop, took many years to recover from the 1972 hurricane and has been affected by fluctuating market prices (although there is a subsidy to producers). Other exports include handicrafts and postage stamps. Most food, fuel, and manufactured goods are imported. Tuvalu's principal export partners in 2004 were: Germany (56.5%), Fiji (14.3%), Italy (10.9%), the United Kingdom (7.7%), and Poland (4.9%). The principal im-

### Principal Trading Partners – Tuvalu (1996-1999)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	1.1	8.1	-7.0
United Kingdom	0.9	...	0.9
Spain	0.1	...	0.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

port partners in 2004 were: Fiji (50.2%), Japan (18.1%), Australia (9.6%), China (8%), and New Zealand (5.5%).

### 32 BALANCE OF PAYMENTS

In 2004, Tuvalu's exports were valued at an estimated us\$1 million, while imports were valued at us\$31 million. Tuvalu's main economic aid donors are Australia, Japan, and the United States. Official development assistance (ODA) net inflows amounted to us\$8 million in 2004.

### 33 BANKING AND SECURITIES

The Bank of Tuvalu was founded in Funafuti in 1980 and has branches on all the islands. The bank is jointly owned by the Tuvalu government (75%) and by Barclays Bank, which was responsible for its operation until mid-1985.

In 1995, the government bought Westpac's 40% shareholding in the National Bank of Tuvalu and now owns the bank outright. Westpac has managed the bank since it was established in 1980 and is expected to provide an advisory support service.

### 34 INSURANCE

Insurance plays a minimal role in Tuvaluan life.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimated that in 2000 Tuvalu's central government took in revenues of approximately us\$22.5 million and had expenditures of us\$11.2 million. Revenues minus expenditures totaled approximately us\$11.3 million.

### 36 TAXATION

Revenue is obtained principally by means of indirect taxation: stamp sales, the copra export tax, fishing licenses, telephone line leasing, earnings from the Tuvalu Trust Fund, and profits from .tv Corporation, the enterprise set up in 1990 through a leasing arrangement with Idealab, a California corporation, to market the country's internet address, .tv.

The personal income tax rate on chargeable income is 30%. The company income tax rate on chargeable income is also 30%, down from 40%. The income of both nonresidents and foreign resident companies is taxed at a flat rate of 40%. There are a variety of sales taxes applied to a variety of goods and services. Island councils also levy a head tax and a land tax based on territorial extent and soil fertility.

## 37 CUSTOMS AND DUTIES

Since a single-line tariff was implemented on 1 January 1975, trade preferences are no longer granted to imports from Commonwealth countries. Tariffs, applying mostly to private imports, are levied as a source of revenue. Most duties are ad valorem, with specific duties on alcoholic beverages, tobacco, certain chemicals, petroleum, cinematographic film, and some other goods.

## 38 FOREIGN INVESTMENT

The cash economy is not sufficiently developed to attract substantial foreign investment. In 1981, the government established the Business Development Advisory Board to promote local and foreign investment in the Tuvalu economy; in 1993, the board became the Development Bank of Tuvalu, the country's only commercial bank. UNCTAD reported that the annual flow of foreign direct investment (FDI) to Tuvalu for 1997 and 1998 was no more than us\$100,000, zero for 1999, us\$100,000 in 2000, and zero again in 2001. In 2004, net FDI inflow amounted to us\$8.5 million. More important are the government's returns on its outward investments through the Tuvalu Trust Fund (TTF) and the .tv Corporation, returns on which are used to meet government expenses and invest in infrastructural development, lessening dependence on external aid. Profits from the .tv Corporation, for instance, were used to pay the country's UN dues, build a school and improve roads. The TTF is the leading source of revenue, regularly supplying about one-fourth of the government's budget, and is reported to have increased from its original A\$27 million capitalization in 1987 to over A\$70 million in 2006.

## 39 ECONOMIC DEVELOPMENT

Development aid, which rose rapidly during the 1960s, peaked at independence in 1979, when the United Kingdom undertook to provide £6 million. The Tuvalu Trust Fund (TTF) was established in 1987 with A\$27 million. The Fund receives contributions from Australia, New Zealand, the United Kingdom, Japan, Korea, and Tuvalu itself. The net income is paid to the Tuvalu government annually. As of 2006, the Fund amounted to more than A\$70 million. In 1990, the government discovered a very profitable, if variable, source of income in leasing its internet domain address, .tv, to a California company, Idealab, and then retaining a 20% share in .tv Corporation that was established to market the suffix. Besides direct lease payments and dividends from its operations, the country stands to gain profits from other enterprises in which the corporation invests. The corporation, .tv, owns a major share, for instance, of Air Fiji which has exclusive rights on flights to Tuvalu. Unlike the prudently managed TTF, however, income from .tv Corp. is highly variable, presenting potential problems for rational budgeting. Due mainly to income received by from Tuvalu fishermen working for non-Tuvalu operations, the country GNP's is considerably higher than its GDP. Fishing and telecommunications license fees are an increasingly important source of government revenue, as are remittances from workers overseas, official transfers, and revenue from overseas investments.

In 2002, the government announced the Island Development Program (IDP) designed to reduce the disparity between household income on the main island, Funafuti, and the outer islands, and thereby slow the migration to the capital city. The program

centers around the creation of a trust fund, the Falekanpule Trust Fund (FTF), modeled on the successful TFF. The FTF was capitalized at US\$8.2 million, contributed by the government and donor countries (principally New Zealand and Australia). Four types of policies are to be followed to achieve IDP goals: 1) decentralization of administration; 2) improvement of public service delivery; 3) promotion of small business development, and 4) a sustained augmentation of money available for the IDP through the prudent management of the FTF. In the first distribution of earnings from the FTF, the island councils were each given US\$318,000 for development projects, and US\$104,000 was allocated to a buffer account.

All development efforts in Tuvalu are overshadowed by the real possibility that an increase in global warming that ends up raising normal sea level could mean the disappearance altogether of the nine low-lying coral islands that constitute the country. The government has consequently pushed hard on two fronts: urging industrialized countries to ratify and adhere to the Kyoto Protocol on limiting greenhouse gasses, and, in other countries, particularly, Australia, to have a plan for accepting displaced Tuvaluans.

#### **40 SOCIAL DEVELOPMENT**

Tuvaluans cling strongly to their traditional way of life. Villages are organized on a communal rather than a clan basis and have a customary system of social welfare. Young men's clubs and women's committees are standard features of social life, concerning themselves with sailing, fishing, crafts, and child welfare.

Women generally play a subordinate role within the family and society at large. Working women are primarily concentrated in the education and health sectors. Violence against women and domestic abuse are not widespread problems. Children's welfare is protected, and free medical care is provided until 18 years of age.

Human rights are well respected in Tuvalu. Serious crime is virtually nonexistent, and most prisoners are held for one night for offenses such as public drunkenness.

#### **41 HEALTH**

There are no serious tropical diseases on the islands except for a dwindling number of leprosy and dysentery cases. In 2004, there were an estimated 57 physicians, 277 nurses, 96 midwives, and 19 dentists per 100,000 people. Approximately 85% of the population had access to sanitation, and the entire population had access to safe water.

The infant mortality rate was estimated at 20.03 per 1,000 live births in 2005. In the same year, the fertility rate was an estimated 3.1 per 1,000 people. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 21.4 and 7.5 per 1,000 people. Immunization rates for a child under one were as follows: diphtheria, pertussis, and tetanus, 82%; polio, 92%; measles, 94%; and tuberculosis, 88%. About 49% of children under one had been immunized for hepatitis B. The average life expectancy was estimated at 68.01 years. Malaria was one of the most reported diseases.

#### **42 HOUSING**

Most islanders live in small villages and provide their own housing from local materials. After the 1972 hurricane, Funafuti was rebuilt with imported permanent materials, but there is still a crit-

ical housing shortage on Funafuti and Vaitupu. Government-built housing is largely limited to that provided for civil servants. At the 2002 census, the housing stock stood at about 1,568 houses. About 640 houses, or 40% of the housing stock, are on Funafuti. Niulakita only reported eight houses at the census. About 74% of all houses are single-family permanent structures. These are made of wood or concrete or both. A little over 17% of all homes are of traditional construction, primarily with thatch and mud walls and thatched or iron-sheeted roofs. About 22% of the housing stock was between 21 and 50 years old. Another 26% was between 11 and 20 years old. Only about 30% of all houses had an indoor flush toilet. About 89% of all households had kerosene stoves for cooking. Only 40 households had microwave ovens.

#### **43 EDUCATION**

All children receive free primary education from the age of seven. Education is compulsory for 10 years. The Tuvaluan school system has seven years of primary and six years of secondary education. Secondary education is provided at Motufoua, a former church school on Vaitupu now jointly administered by the government. In 2004, there were 2,010 students enrolled in primary schools with a student-teacher ratio of about 24:1. The same year, there were about 446 students enrolled in secondary schools with a student-teacher ratio of 11:1.

Tuvalu Marine School was opened in 1979 with Australian aid. In the same year, the University of the South Pacific (Fiji) established an extension center at Funafuti. The Tuvalu Technical Education Center offers technical and vocational training for adults.

#### **44 LIBRARIES AND MUSEUMS**

The first book published in Tuvalu was the Bible, in 1977. The National Library and Archives of Tuvalu is located on Funafuti; documents from parliamentary proceedings are collected there. The Ministry of Finance and Economic Planning maintains a small depository library for the Asian Development Bank.

#### **45 MEDIA**

In 2002, there were 700 mainline telephones in use nationwide. As of 2004, there were no registered mobile phone subscribers. The government-owned Tuvalu Broadcasting Service, on Funafuti, transmits daily in Tuvaluan and also broadcasts news in English. The only radio station in the country was converted from government owned to public corporation status in the form of the Tuvalu Media Corporation in 2001. According to the charter, the secretary to government serves as the chairman of the board, and the prime minister's duties include oversight of the TMC. There is no national television station, but some islanders own satellite dishes to receive foreign broadcasts. Internet access is available through the management of the Office of the Prime Minister and the Department of Telecommunications. In 2002, there were about 1,300 Internet users.

There is no commercial press, but *Tuvalu Echoes* (2002 circulation, 250) is published biweekly by the government. Other local publications are produced by the churches or the government. The government is reported to respect freedom of speech and of the press.

## <sup>46</sup>ORGANIZATIONS

Apart from cooperative societies and local traditional bodies connected with island councils, there are few organizations. Organized youth groups include the Boy's Brigade, the Tuvalu Youth Fellowship and Pathfinder, and Girl Guide and Boy Scout troops. The Tuvalu Amateur Sports Association and the Pacific Red Cross are also notable. The Tuvalu Association of Nongovernmental Organizations is an umbrella group that provides a network for several religious organizations and some political and human rights advocacy groups. The National Council of Women of Tuvalu serves as an umbrella organization for women's cooperatives.

## <sup>47</sup>TOURISM, TRAVEL, AND RECREATION

Tuvalu's remoteness has discouraged tourism; the few visitors are on commercial or official business. The many atolls, flora and fauna, and the World War II remains are the primary attractions of the islands. In 2003, about 1,300 tourists visited Tuvalu; half of the visitors were there on business. A valid passport, onward/return ticket and proof of sufficient funds are required to enter Tu-

valu. Visitor permits are issued upon arrival and are valid for up to three months.

## <sup>48</sup>FAMOUS TUVALUANS

Tuvalu's first prime minister was Toaripi Lauti (b.Papua New Guinea, 1928). He later became governor-general of Tuvalu. Sir Tomasi Puapua (b.1938) was prime minister from 1981–89, and the governor-general from 1998–2003. Faimalaga Luka (1940–2005) was governor-general (2003–05) and prime minister of Tuvalu (2001).

## <sup>49</sup>DEPENDENCIES

Tuvalu has no territories or colonies.

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# UNITED ARAB EMIRATES

United Arab Emirates

*Al-Imarat al-'Arabiyah al-Muttahidah*



**CAPITAL:** Abu Dhabi (Abu Zaby)

**FLAG:** The flag consists of a red vertical stripe at the hoist and three equal horizontal stripes of green, white, and black.

**ANTHEM:** The National Anthem is an instrumental piece without words.

**MONETARY UNIT:** The United Arab Emirates dirham (UD), introduced as the currency in May 1973, is divided into 100 fils. There are coins of 1, 5, 10, 25, and 50 fils and 1 and 5 dirham and notes of 5, 10, 50, 100, 200, 500, and 1,000 dirhams. UD1 = \$0.27337 (or \$1 = UD3.658) as of January 2003.

**WEIGHTS AND MEASURES:** The metric system and imperial and local measures are used.

**HOLIDAYS:** New Year's Day, 1 January; Accession of the Ruler of Abu Dhabi (Abu Dhabi only), 6 August; National Day, 2 December; Christmas, 25 December. Muslim religious holidays include Lailat al-Miraj, 'Id al-Fitr, 'Id al-'Adha, Hijra New Year, and Milad an-Nabi.

**TIME:** 4 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Comprising a total area of approximately 82,880 sq km (32,000 sq mi), including some 6,000 sq km (2,300 sq mi) of islands, the United Arab Emirates (UAE), in the eastern Arabian Peninsula, consists of seven states: Abu Dhabi, or Abu Zaby; Dubai, or Dubayy; Sharjah; Ra's al-Khaimah, or Ra's al-Khaymah; Fujairah, or Al-Fujayrah; Umm al-Qaiwain, or Umm al-Qaywayn; and 'Ajman. Comparatively, the area occupied by United Arab Emirates is slightly smaller than the state of Maine. Extending 544 km (338 mi) NE-SW and 361 km (224 mi) SE-NW, the United Arab Emirates is bordered on the N by the Persian (or Arabian) Gulf, on the E by Oman, on the S and W by Saudi Arabia, and on the NW by Qatar, with a total boundary length of 2,185 km (1,358 mi), including a coastline of 1,318 km (819 mi).

In the late 1970s, Saudi Arabia and Qatar reportedly reached a boundary agreement according to which a narrow corridor of land was ceded by Abu Dhabi, thus allowing Saudi Arabia access to the Gulf near the Khawr Duwayhin and eradicating the former Qatar-UAE frontier. However, through 2005, no documents attesting to the accord had been submitted to the United Nations. The remainder of the boundary with Saudi Arabia is not yet fully demarcated. A 1999 border treaty with Oman was reportedly signed and ratified in 2003, but the contents of the agreement had not been published as of late 2005.

The UAE's capital city, Abu Dhabi, is located on the Persian Gulf.

## <sup>2</sup>TOPOGRAPHY

The United Arab Emirates consists mainly of sandy desert. It is bounded on the west by an immense sebkha, or salt flat, extending southward for nearly 112 km (70 mi). The eastern boundary runs northward over gravel plains and high dunes until it almost

reaches the Hajar Mountains in the Ra's Musandam near Al 'Ayn. The flat coastal strip that makes up most of the United Arab Emirates has an extensive area of sebkha subject to flooding. Some sand spits and mud flats tend to enlarge, and others enclose lagoons. A sandy desert with limestone outcroppings lies behind the coastal plain in a triangle between the gravel plain and the mountains of the east and the sands of Saudi Arabia to the south. Far to the south, the oases of Al-Liwa' are aligned in an arc along the edge of dunes, which rise above 90 m (300 ft).

The main gravel plain extends inland and southward from the coast of Ra's al-Khaimah to Al 'Ayn and beyond. Behind Ra's al-Khaimah and separating Fujairah from the Persian Gulf is an area of mountains that rise over 900 m (3,000 ft) in height, with isolated cultivation. Finally, alluvial flats on the Gulf of Oman fill the bays between rocky spurs. South of Khor Fakkan (Sharjah), a continuous, well-watered fertile littoral strip known as the Batinah Coast runs between the mountains and the sea and continues into Oman. There are, in addition, many islands, most of which are owned by Abu Dhabi. These include Das, the site of oil operations, and Abu Musa, exploited for oil and red oxide.

## <sup>3</sup>CLIMATE

The months between May and October are extremely hot, with shade temperatures of between 38–49°C (100–120°F) and high humidity near the coast. Winter temperatures can fall as low as 2°C (36°F) but average between 17–20°C (63–68°F). Normal annual rainfall is from 5–10 cm (2–4 in), with considerably more in the mountains; most rainfall occurs between November and February.

## <sup>4</sup>FLORA AND FAUNA

Apart from cultivated plants, there are two categories of plant life in the United Arab Emirates: the restricted salt-loving vegetation

of the marshes and swamps, including the dwarf mangrove, and the desert plant community, which includes a wide range of flora that is most abundant after the fall of rain.

Animal and reptile life is similar to that of Bahrain, with the addition of the fox, wolf, jackal, wildcat, and lynx. Hedgehogs have been seen. More than 250 species of small birds have been seen in the United Arab Emirates, along with many of the larger birds—kites, buzzards, eagles, falcons, owls, and harriers. However, the number of breeding species in the country may be much less than 100. Sea birds include a variety of gulls, terns, ospreys, waders, and flamingos. Popular game birds include the houbara (ruffed bustard), as well as species of ducks and geese.

## **5 ENVIRONMENT**

The clearing of natural vegetation, livestock overgrazing on rangelands, and extensive deforestation (in ancient times) have led to desertification. Overpumping of groundwater has brought a rise in soil salinity levels, and effluents from the oil industry have contributed to air pollution. In 1992, the United Arab Emirates ranked among 50 countries with the world's highest levels of industrial carbon dioxide emissions, which totaled 70.6 million metric tons, a per capita level of 42.28 metric tons. In 2000, the total of carbon dioxide emissions was at 58.9 million metric tons.

The nation has about 0.2 cu km of renewable water resources, with 67% of annual withdrawals used for farming activity and 10% used for industrial purposes. The nation's cities produce an average of 0.5 million tons of solid waste per year.

As of 2001, the nation had two land areas protected by environmental legislation. The Al 'Ayn zoological gardens contain some 280 species of wildlife, including the gazelle, which had been on the verge of extinction in the region. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 types of mammals, 11 species of birds, 1 type of reptiles, and 6 species of fish. Endangered species in the United Arab Emirates are the peregrine falcon, South Arabian leopard, hawksbill turtle, gray wolf, Arabian oryx, Arabian tahr, green sea turtle, and desert monitor.

## **6 POPULATION**

The population of United Arab Emirates in 2005 was estimated by the United Nations (UN) at 4,618,000, which placed it at number 115 in population among the 193 nations of the world. In 2005, approximately 1% of the population was over 65 years of age, with another 25% of the population under 15 years of age. There were 214 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 4.4%. Government development policies have resulted in large-scale immigration of foreign workers, contributing to the high growth rate; the government in 2005 viewed the immigration rate as too high. The projected population for the year 2025 was 6,875,000. The population density was 55 per sq km (143 per sq mi).

The UN estimated that 78% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.79%. The capital city, Abu Dhabi, had a population of 475,000 in that year.

## **7 MIGRATION**

About 80% of the UAE's population originates from outside its borders. In the early 1980s, the government took steps to reduce the immigration rate by limiting the number of visas issued to foreign workers. By 2003, foreigners were 90% of the 1.7 million work force, with over 50% from India, and 400,000 foreigners arriving annually. The government aimed at nationalization of the workforce by prohibiting foreigners in some jobs, and by instituting a "cultural diversity policy" aimed at favoring Arabic-speakers over Asian.

In 2000, there were some 1,922,000 migrants living in the United Arab Emirates. This includes the small number of refugees. The net migration rate for 2005 was estimated as 0.84 migrants per 1,000 population, a considerable drop from 15.0 migrants per 1,000 in 1990.

## **8 ETHNIC GROUPS**

Only about 19% of the population were native Emirati. South Asians accounted for 50% of the total population at last estimate, while other Arabs and Iranians made up 23%. Other expatriates, including Westerners and East Asians, totaled 8%. Jordanians, Palestinians, Egyptians, Iraqis, and Bahrainis are employed throughout the bureaucracy, including the educational system.

## **9 LANGUAGES**

Arabic is the official and universal language. Hindi and Urdu are minority languages. English is widely used in business. Farsi is spoken in Dubai.

## **10 RELIGIONS**

Islam is the official religion of all seven emirates. As such, about 76% of the population are Muslims, primarily Sunnis with a Shia minority. In emirates that officially recognize and grant legal identity to non-Muslim groups, only a limited number of Christian groups are granted this recognition. While recognizing the difference between Roman Catholic, Eastern Orthodox, and Protestant Christianity, the authorities make no other legal distinction between Christian groups, particularly Protestants. About 9% of the population are Christians. Other faiths include Hindus, Buddhists, Parsis, Baha'is, and Sikhs.

The constitution provides for freedom of religion within the scope of established customs. The government retains the right to enforce certain restrictions, such as a prohibition on proselytizing of non-Muslim faiths and limited rights of assembly. Many non-Muslims meet in private homes.

## **11 TRANSPORTATION**

With most of the population concentrated in coastal towns and the Al 'Ayn oasis, road links between these centers have been given priority. There is now a paved coastal road linking Abu Dhabi, Dubai, Sharjah, 'Ajman, Umm al-Qaiwain, and Ras al-Khaimah. Roads linking the interior to the main towns have been constructed; of particular importance is the transpeninsular road from Fujairah through the Hajar Mountains. A six-lane, 209-km (130-mi) highway has been built between Abu Dhabi and Al- 'Ayn, and two bridges connect Abu Dhabi island with the mainland. Another highway links the UAE coastal network with the Trans-Ara-

bian Highway at As-Silah on the Qatar border. In 2002, there were 4,835 km (3,004 mi) of paved highways. Of registered vehicles in 2003, there were 240,573 passenger cars and 70,000 commercial vehicles in use. There are no railways or waterways in the United Arab Emirates.

The United Arab Emirates is well provided with port facilities. Dubai's Port Rashid, with its deep-water berths and warehouses, is one of the largest artificial harbors in the Middle East. Other ports are the Jabal 'Ali complex, also in Dubai, completed in 1980. Abu Dhabi's Port Zayid; Sharjah's Port Khalid; and the deepwater port at Ra's al-Khaimah. Sharjah constructed a new port at Khor Fakkan in the early 1980s; the Fujairah port became fully operational in 1983. Jabal 'Ali in Dubai is the largest man-made port in the world. In 2005, the merchant fleet consisted of 56 ships of 1,000 GRT or more, totaling 578,477 GRT.

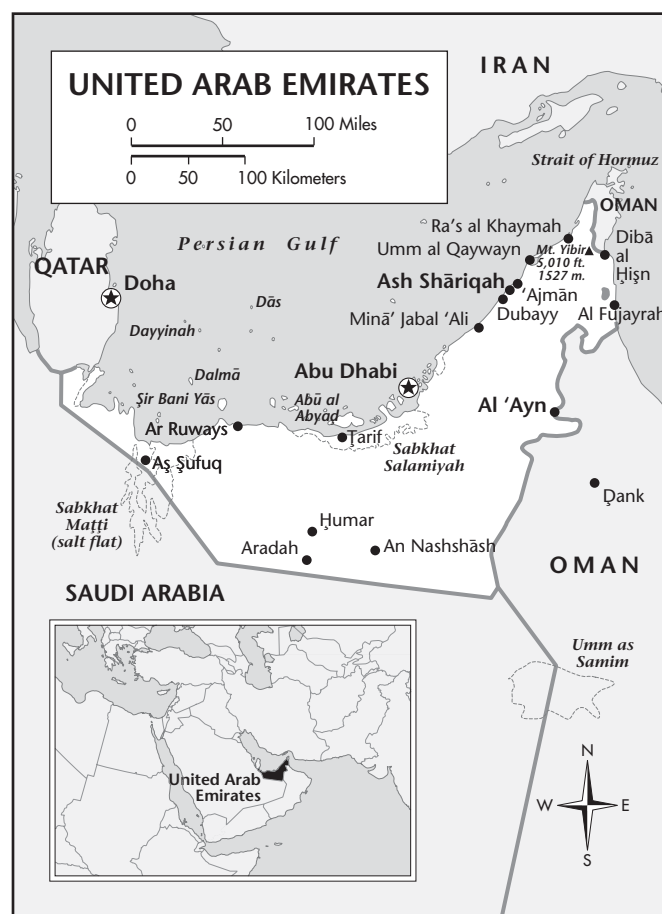
In 2004, there were an estimated 35 airports. As of 2005, a total of 22 had paved runways, and there were also two heliports. A new international airport in Abu Dhabi, on the mainland across from the island, opened in 1982. The other international airports in the United Arab Emirates are in Dubai, Sharjah, and Ra's al-Khaimah. In July 1991, a "cargo village" opened at Dubai Airport, designed to handle 250,000 tons of cargo per year by 1997. The village operations can transfer cargo received at the port into air containers ready for airlift in three hours, and have the facilities to handle frozen and hazardous goods. In 2003, about 11.384 million passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Although the Trucial Coast has for centuries been situated on one of the main trade routes between Asia and Europe, very little is known about the early history of the states that now make up the United Arab Emirates. The northern states of the United Arab Emirates, and in particular Ra's al-Khaimah, first came into historic prominence during the period of Portuguese occupation in the 16th and early 17th centuries, when Portugal used the territories as a base to fight a rear guard action against Persia. At that time and down to the mid-18th century, neighboring Oman played an integral role in the history of the maritime states.

Abu Dhabi island was settled by its present ruling family, Al Nahyan, toward the end of the 18th century, and Dubai was founded by an offshoot of the same family in 1833. The late 18th and 19th centuries brought the division of the area between the Nahyan and the Qawasim, who ruled Ra's al-Khaimah and neighboring territories and whose clashes with British and Indian shipping led to British naval expeditions against what came to be known as the Pirate Coast. Treaties concluded in 1820 and 1835 established a formal relationship between the states of the southern Gulf and Britain that was to last until 1971. In 1853, the sheikhs agreed to a "perpetual maritime truce" to be enforced by the British navy. Under a treaty signed in 1892, the United Kingdom promised to protect the Trucial Coast from all aggression by sea and to lend its good offices in case of land attack. In 1955, the United Kingdom effectively intervened on the side of Abu Dhabi in the latter's dispute with Saudi Arabia over the Buraymi oasis, control of which is now shared by Abu Dhabi and Oman.

When, in 1968, the United Kingdom announced its intention to withdraw its forces from the area, a decision to establish a federa-



LOCATION: 51°3' to 56°23'E; 22°30' to 26°17' N. BOUNDARY LENGTHS: Persian Gulf coastline, 1,318 kilometers (817 miles); Oman, 410 kilometers (256 miles); Saudi Arabia, 457 kilometers (285 miles). TERRITORIAL SEA LIMIT: 3 miles, except Ash Shāriqah (12 miles).

tion of Arab emirates—embracing the seven Trucial States, Bahrain, and Qatar—was agreed on in principle. However, it proved impossible to reconcile the differences among all the members. Six Trucial States (excluding Ra's al-Khaimah) agreed on the establishment of the United Arab Emirates, which was officially proclaimed a sovereign, independent nation on 2 December 1971, with Ra's al-Khaimah joining in early 1972.

Externally, the move to independence in 1971 placed the United Arab Emirates in difficult straits with its two powerful neighbors, Saudi Arabia and Iran. Saudi Arabia asserted a territorial claim on a group of oases in the south of the United Arab Emirates, and Iran laid claim to its offshore islands. In 1974, a border agreement on the Liwa' oases was signed with Saudi Arabia, but apparently has not been fully recognized by the rulers of either country. The dispute with Iran over the Abu Musa and Tumb Islands became tense when Iranian forces unilaterally asserted control over the UAE section of Abu Musa in 1992. In 1996, Iran rejected a proposal by the Gulf Cooperation Council (GCC) to put the dispute over the islands to the International Court of Justice (ICJ) for arbitration. In 2005, Iran still occupied the islands. In the dispute, the United Arab Emirates has received support from the GCC, UN, and the United States.

The United Arab Emirates became a founding member in 1981 of the Gulf Cooperation Council (GCC), a political and economic

alliance directed, at least implicitly, against Iran. During the Iran-Iraq war, the United Arab Emirates gave aid to Iraq but also maintained diplomatic relations with Iran and sought to mediate the conflict.

In the Gulf War, forces from the United Arab Emirates participated with allied troops and the government gave some \$4.5 billion to the coalition war effort. Subsequently, the United Arab Emirates has increasingly looked to the GCC, the United States, and friendly Arab states for its security protection. The UAE's generosity with foreign aid to Arab states made it a significant player in the affairs of the region. In the years immediately after the war, the United Arab Emirates accepted the stationing of US troops on its soil.

During the Yugoslav civil war, the United Arab Emirates airlifted wounded Bosnian Muslim women and their families to Abu Dhabi, where they were given free medical treatment and housing, and financial support for one year. The country has also given heavily to Red Crescent relief organizations in Bosnia. Unlike its neighbors and partners in the GCC, Oman and Qatar, the United Arab Emirates did not establish liaison offices in Israel—although it relaxed the Arab-wide boycott of Israel in the hope that lasting peace between the Palestinians and Israel would be forthcoming as a result of the Oslo Accords.

In 1991, the Bank of Commerce and Credit International (BCCI), which was based in the United Arab Emirates and largely owned by the ruling family of Abu Dhabi, collapsed, causing repercussions all around the world. Accused of fraudulent dealings, the bank was officially liquidated in 1996, and the UAE cabinet resigned the following year. A sharp decline in oil prices in 1998 strongly affected the economy of the United Arab Emirates, which recorded a drop of almost 6% in its GDP. At the end of 1999, the United Arab Emirates celebrated the 25th anniversary of its founding, and the 30th anniversary of rule its president, Sheikh Zayid bin Sultan Al Nahyan.

Following the 11 September 2001 terrorist attacks on the United States, the United States called upon the nations of the world to implement counterterrorism measures. In November, the United Arab Emirates ordered financial institutions in the country to freeze the assets of 62 organizations and individuals suspected by the United States of supporting terrorist movements.

During 2002 and into 2003, the United Arab Emirates, along with the other countries of the Persian Gulf, were confronted with the situation of a potential US-led war with Iraq. In November 2002, the UN Security Council passed a resolution calling on Iraq to immediately disarm itself of weapons of mass destruction (WMD) and to allow the immediate return of International Atomic Energy Agency (IAEA) and UN weapons inspectors. The United States and the United Kingdom began amassing troops in the region, and by the end of February 2003, the number of troops in the Persian Gulf was approximately 200,000. At a 1 March 2003 Arab League summit held at Sharm el-Sheik, Egypt, Sheikh Zayid bin Sultan Al Nahyan called upon Iraqi president Saddam Hussein to relinquish power and leave Iraq in exchange for immunity from prosecution. Iraq would be placed under the tutelage of the UN and the Arab League until a new government could be formed. Bahrain and Kuwait supported the UAE proposal. However, on 19 March 2003, the United States launched air strikes against Baghdad, and war began.

Sheikh Zayid bin Sultan Al Nahyan, founder of the UAE and its first president, died on 2 November 2004. He was succeeded by his eldest son, Sheikh Khalifa bin Zayid Al Nahayyan. A 40-day period of mourning was held for Sheikh Zayid, who was much loved by the people.

### **<sup>13</sup>GOVERNMENT**

According to the provisional constitution of the United Arab Emirates, promulgated on 2 December 1971, the executive branch of the UAE government consists of the Federal Supreme Council, headed by the president, and the Council of Ministers. The Federal Supreme Council (FSC), composed of the hereditary rulers of the seven emirates, has responsibility for formulation and supervision of all UAE policies, ratification of federal laws, and oversight of the union's budget. Sheikh Zayid bin Sultan Al Nahyan, emir of Abu Dhabi, was elected president upon independence and was continuously reelected to five-year terms until his death on 2 November 2004. His eldest son, Sheikh Khalifa bin Zayid Al Nahyan, was unanimously elected by the FSC to succeed his father. The president is assisted by the Council of Ministers, or cabinet, headed by the prime minister. Sheikh Maktum bin Rashid al-Maktoum, ruler of Dubai, served as vice president and prime minister since 1990, succeeding his father upon the latter's death. His positions were reaffirmed in January 2006. The member states are represented in the cabinet in numbers relative to their size and importance.

After extending the 1971 interim constitution at five-year intervals for 25 years, the Supreme Council and the Federal National Council approved a measure removing the term "interim" in 1996, making the document a permanent constitution. The Federal National Council, consisting of 40 delegates from the member emirates, appointed by their respective rulers for two-year terms, can question cabinet ministers and make recommendations to the Supreme Council, but it has no legislative powers. The constitution stipulates the distribution of the 40 seats as follows: Abu Dhabi and Dubayy, 8 each; Sharjah and Ra's al-Khaymah, 6 each; and 'Ajmān, Umm al-Qaywayn, and Al Fujayrah, 4 each. The Supreme National Council meets only occasionally.

Most of the emirates are governed according to tribal traditions, including open meetings in which citizens express themselves directly to their rulers.

### **<sup>14</sup>POLITICAL PARTIES**

No political parties exist in the UAE. Arab nationalist feeling has developed, however, and there is growing sentiment, particularly among urban youth, in favor of political liberalization and accelerated economic development. Several small clandestine groups with ties to radical Arab organizations or militant Islamic groups are believed to be active and are watched closely by the federation's security services.

### **<sup>15</sup>LOCAL GOVERNMENT**

The major institutions of local government are the municipalities of Abu Dhabi town, Al-'Ayn, Dubayy, Sharjah, Ra's al-Khaymah,

Al Fujayrah, 'Ajmān, and Umm al-Qaywayn and a handful of traditional councils known as *majalis* and *amiri diwans*.

## 16 JUDICIAL SYSTEM

Abu Dhabi, Dubai, and Sharjah have developed relatively sophisticated judicial systems based, as in other Gulf states, on a combination of Shariah laws and contemporary legal codes. The 1971 constitution established a Federal Supreme Court and an indeterminate number of courts of first instance. The Supreme Court consists of a president and a maximum of five judges, all of whom are appointed by presidential decree upon approval of the Federal Supreme Council. The Supreme Court president and member judges are deemed independent of the executive and legislative branches; once appointed, they cannot be removed. In 1983 a comprehensive law governing the federal judiciary was issued, creating a full federal judicial system, though the member emirates retain significant and varying degrees of judicial autonomy. The federal system consists of primary courts, appeals courts, and the Supreme Court.

Shariah courts in each emirate are subject to review in the Federal Supreme Court. There is no separate national security court system. Military tribunals try only military personnel and apply a system based on Western military judicial procedure.

Court systems in the Emirates of Dubai and Ra's-al-Khaymah function independently of the federal system. Each system has multiple levels of appeal and verdicts in capital cases are appealable to the president.

There are no jury trials. Under the Criminal Procedural Code, the accused has a right to counsel in capital cases and in those involving a possible penalty of life imprisonment. Due process rights are uniform under both the civil court and the Shariah court procedure.

## 17 ARMED FORCES

The armed forces of the UAE were placed under a unified command in 1976, and the forces of Abu Dhabi, Dubai, Ra's al-Khaimah, and Sharjah were merged. In 2005, the combined forces totaled 50,500 active personnel. The Army had 44,000 soldiers including the Royal Guard. Equipment included 469 main battle tanks, 76 *Scorpion* light tanks, 113 reconnaissance vehicles, 430 armored infantry fighting vehicles, 860 armored personnel carriers, and over 501 artillery pieces. The Navy was comprised of an estimated 2,500 personnel. Major naval units included 2 frigates, 2 corvettes, and 14 patrol/coastal vessels. The Air Force had 4,000 active personnel and was outfitted with 146 combat capable aircraft, including over 57 fighter ground attack aircraft. The service also had 30 attack helicopters.

Many military personnel are expatriates from Oman, Jordan, and other countries. The US maintained a 1,300-manned military presence in the UAE. The defense budget for 2005 totaled \$2.65 billion.

## 18 INTERNATIONAL COOPERATION

On 9 December 1971, shortly after achieving independence, the United Arab Emirates became a member of the United Nations, and it now belongs to ESCWA and several nonregional specialized agencies, such as the World Bank, the IAEA, FAO, UNESCO, UNIDO, and the WHO. The country is a member of G-77, WTO,

the Arab Bank for Economic Development in Africa, the Arab Fund for Economic and Social Development, the Arab League, the Arab Monetary Fund, the Gulf Cooperation Council, the Islamic Development Bank, the Organization of the Islamic Conference (OIC), OAEPC, and OPEC. The UAE is part of the Nonaligned Movement.

In environmental cooperation, the United Arab Emirates is part of the Basel Convention, the Convention on Biological Diversity, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

The economy of the UAE centers primarily on oil and oil-based industries, but the share of this contribution to the GDP fell from 70% in 1980 to an estimated 22% in 1998. This was principally the result of falling oil prices, but also reflected the growth in other sectors of the economy, such as manufacturing, finance and insurance, real estate, and government services.

In 2002, the oil industry's share was at 24%, but manufacturing had reached 15.1% of GDP from only 3.8% in 1980. The oil industry accounts for about 30% of exports and provides 70–80% of government revenues. In Abu Dhabi, by far the wealthiest of the seven emirates, oil revenues are supplemented by income from a huge investment fund. Dubai joined the ranks of the oil producers only in 1971, and entrepôt trade continues to play a major role in its economy. In 2000, Abu Dhabi completed a capacity expansion program has increased the UAE's crude oil production capacity to 2.6 million barrels per day (million barrels per day). Third quarter production in 2002 was 1.99 million barrels per day, somewhat over the official OPEC quota of 1.89 million barrels per day.

Although 'Ajman has a small shipbuilding and ship repair yard and a cement company, and Umm al-Qaiwain has a fish hatchery, a cement plant, and some small handicraft operations, these poorer emirates depend on federal aid—in effect, on revenue sharing by Abu Dhabi and Dubai. Oil production in Sharjah began in July 1974, and manufacturing and tourism there have been expanded. The number of factories in Sharjah rose from 74 in 1974 to 931 in 2000, increasing 13.4% from 1998. Ra's al-Khaimah has six large cement plants (three built since 1998), a pharmaceutical factory, a lime kiln, and the gulf's first explosives plant. Fujairah remains predominantly agricultural, but the emirate's government has also been developing an industrialization program, with emphasis on establishing mining-based industries. In 2002 it had 33 factories, a third producing nonmetallic metal products.

In 2003, the GDP growth rate was 7.0% (up from 1.9% in 2002), but by 2004 it fell to 5.9%; in 2005, it was expected to grow back to 6.8%. Inflation has remained fairly constant, at around 3%. There is no recent data for the unemployment numbers, although the unemployment rate is believed to be somewhere around 2.5%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 the United Arab Emirates' gross domestic product (GDP) was estimated at \$51 billion. The per capita GDP was estimated at \$21,100. The annual growth rate of GDP was estimated at 5.6%. The average inflation rate in 2005 was 10.5%. The annual rate of GDP growth between 1988 and 1998 was about 4.2%. The CIA

defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. Petroleum extraction accounts for approximately 34.2% of GDP; manufacturing, 11%; wholesale and retail trade, 10%; government services, 9.6%; business, 8%, and construction, 7.4%. Foreign aid receipts amounted to about \$1 per capita.

## 2<sup>1</sup> LABOR

In 2005, the United Arab Emirates' (UAE) workforce was estimated at 2.8 million. As of 2001, (the latest year for which data was available) the service sector provided jobs for 78% of the workforce, with industry amounting to 15%, and agriculture 7%. For that same year, the unemployment rate was 2.4%. Around 74% of the UAE's population, between the ages of 15 and 64 years, is made up of foreign nationals.

The UAE leans heavily on skilled labor, technology, and management abilities provided by foreigners. Non-UAE Arabs are employed at all economic levels, including the government bureaucracy and civil service. Manual labor is largely performed by Pakistanis and Iranians, while many Indians are to be found in clerical positions. Most domestic servants are women from Sri Lanka or the Philippines. There is a high proportion of Europeans at management levels. The large influx of immigrants was insufficient to cope with labor needs. A 1984 decree guarantees UAE nationals priority in hiring, in order to reduce dependence on expatriates.

Unionization is prohibited by law. Collective bargaining provisions do not exist, and strikes are strictly prohibited in the public sector. Rather, all labor contracts are reviewed by the Ministry of Labor to ensure that the pay will satisfy the employee's basic needs and secure a means of living.

There is no minimum wage. A standard workweek of eight hours per day, six days per week and minimum occupational health and safety requirements are not effectively enforced. Foreign workers are especially vulnerable to abuse. Widespread and credible reports indicate that foreign workers have had their passports confiscated, pay withheld, and are forced to work excessively long days far beyond the statutory maximum. Women working as domestic servants have also reported being sexually and physically abused. Foreign workers have little redress for their grievances. UAE administrative bodies virtually never rule against a UAE employer, and UAE employers can prevent a foreign worker from switching to another employer.

## 2<sup>2</sup> AGRICULTURE

Only about 81,000 hectares (200,000 acres) of land are cultivated. About 24% of cultivated land is used to grow vegetables, 30% fruit, 10% feed crops, and 36% for other uses. The most productive region is Ra's al-Khaimah, which receives underground water supplies from the nearby mountains of Oman and which enjoys the most plentiful rainfall. The main crops are tomatoes, melons, and dates.

The Digdaga Agricultural Trials Station in Ra's al-Khaimah is central to all agricultural research and training efforts in the UAE. Abu Dhabi has two large wheat farms at Al 'Ayn, and experimental farms at Rawaya and Mazaid (near Al 'Ayn) are designed to en-

courage local Bedouins to take up settled farming. The Abu Dhabi Arid Land Research Center on Sadiyat Island produces vegetables through special irrigation and hydroponic techniques. In 2004, UAE agriculture produced 506,400 tons of vegetables and melons, and 786,000 tons of fruit. Produce includes citrus, mangos, tomatoes, celery, potatoes, cucumbers, lettuce, melons, peppers, and fodder crops.

Crop production during 2002–04 was down 40% from 1999–2001. Dates, traditionally grown on oases by nomads, are becoming less important because of vegetable and fruit production. In 2004, the UAE produced 760,000 tons of dates. The UAE satisfies about 60% of its domestic fruit and vegetable demand; bans on imports of certain vegetables and government incentives and subsidies are used to encourage domestic production. Roses and chrysanthemums are grown for export to Europe.

## 2<sup>3</sup> ANIMAL HUSBANDRY

Livestock production has risen sharply in recent years. In 2005, the UAE had 1,520,000 goats, 570,000 sheep, 250,000 camels, and 115,000 head of cattle. Dairy farming is centered in Ras al-Khaimah, with other dairy farms in Al Ain, Umm Al Quwain, Sharjah, and Dubai. The UAE produces about 90% of its dairy needs. Local poultry and egg production satisfy 27% and 40% of domestic demand, respectively. Five major producers account for 75% of the domestic chicken production. The poultry farm at Fujairah has the capacity to supply over 15% of domestic demand for broilers and eggs. Ras al-Khaimah and Al Ain are other centers of poultry production. Production of poultry meat reached 36,000 tons in 2005, with imports of poultry meat (mainly from France, Denmark, the United States, and Brazil). The UAE also re-exports poultry meat, mostly to Oman, former Soviet republics, and Iran.

## 2<sup>4</sup> FISHING

Fishing is an important source of domestic food and fodder. Per capita annual consumption of fish and shellfish in the UAE is more than any other country in the Middle East. UAE coastal waters abound in fish and shellfish, and the country borders two high-potential fishing regions, the Persian Gulf and the Gulf of Oman. Many varieties of fish are caught, including rock cod, tuna, mackerel, sardines, anchovies, jack, marlin, red mullet, bream, and snapper. Over 70% of the catch typically is dried and processed into animal feed and fertilizer. The fish catch in 2003 was 97,450 tons, which supplied about 50% of local demand. Modern fishing techniques have been introduced with government assistance, and two new ports permitting the use of larger fishing boats were opened in 1981. The government also provides facilities for ship maintenance pro bono, as well as interest-free loans for the purchase of fishing boats and equipment. More than 3,000 fishing vessels annually operate in UAE waters. Umm Al Quwain is the site of a new 1,300 sq m marine farm which will research fish breeding. A fishmeal plant is in operation in Ra's al-Khaimah.

## 2<sup>5</sup> FORESTRY

Natural woodland is scarce, apart from palm groves along the northern and eastern coasts. Forested areas covered 321,000 hectares (793,000 acres), or about 3.8% of the total land area in 2000. The Forestry Department planted 80 million trees during 1980–95, at a cost of over \$3 billion, resulting in a 2.8% increase in the

forested area during 1990–2000. Imports of forest products totaled \$322.7 million in 2004.

## 26 MINING

Apart from oil and natural gas, the minerals sector included fertilizer production and production of construction materials, marble, and stone quarried from the Hajar Mountains. Copper and chromium have been found in Fujairah and Ra's al-Khaimah. In 2003, an estimated: 10,000 metric tons of chromium; 421,000 metric tons of ammonia (nitrogen content); and 400,000 metric tons of urea (nitrogen content) were produced. Lime, gypsum, hydraulic cement, and, presumably, common clays, diabase, gravel, limestone, marble sand, and shale were also produced.

## 27 ENERGY AND POWER

The United Arab Emirates (UAE), a federation of seven emirates, contains almost 8% of the world's proven oil reserves and is ranked fifth in the world by the size of its natural gas reserves. The UAE is also a significant exporter of liquefied natural gas (LNG) and a member of the Organization of Petroleum Exporting Countries (OPEC).

As of 1 January 2005, the UAE's proven reserves of crude oil totaled 97.8 billion barrels, according to the Oil and Gas Journal. Of that amount, the emirate of Abu Dhabi holds 94%, or around 92.2 billion barrels, followed by the emirate of Dubai with an estimated 4 billion barrels, and the emirates of Sharjah with 1.5 billion barrels and Ras al-Khaima with 100 million barrels of oil. In 2004, oil production was estimated at 2.76 million barrels per day, of which crude oil accounted for 2.38 million barrels per day. Domestic consumption of oil in that year averaged an estimated 430,000 barrels per day, with net exports estimated at 2.33 million barrels per day. As a member of OPEC, the UAE is subject to OPEC's crude oil production quota. As of March 16, 2005, the quota was set at 2.50 million barrels per day, which is total production capacity. In 2004, Japan accounted for an estimated 60% of the UAE's crude oil exports, with the rest of Asia accounting for 20%. As of 1 January 2005, the UAE's crude oil refining capacity was estimated at 514,250 barrels per day.

The UAE's proven natural gas reserves, as of 1 January 2005, were estimated at 212 trillion cu ft, according to the Oil and Gas Journal. The largest reserves are located in the emirate of Abu Dhabi, with 196.1 trillion cu ft, with smaller reserves in the emirates of Sharjah (10.7 trillion cu ft), Dubai (4.1 trillion cu ft), and Ras al-Khaimah (1.2 trillion cu ft). In 2002, the UAE's output of natural gas was estimated at 1.28 trillion cu ft, with exports that year estimated at 0.25 trillion cu ft. Domestic consumption of natural gas has been spurred by a growing demand from the country's petrochemical and electric power industries.

All electricity is thermally generated from oil or natural gas. Electric power production was 39.622 billion kWh in 2002. Consumption of electricity that year was 36.848 billion kWh. Total installed capacity in 2002 was 5.820 million kW.

## 28 INDUSTRY

The process of industrialization gathered momentum after the formation of the federation in 1971. By 2002, manufacturing was second only to the oil sector in contributions to economic output. To diversify the economy, in the early 1990s the UAE introduced new

industries, including aluminum, cement, pharmaceuticals, fabricated metals, processed foods, fertilizer, and explosives. Manufacturing as a percentage of GDP rose from 3.8% in 1980 to 7.7% in 1990 to 8.7% in 1995 to 15.1% in 2002.

The Ar-Ruwais industrial complex in Abu Dhabi includes an oil refinery with a processing capacity of 120,000 barrels per day; a fertilizer factory, with a production capacity of 1,000 tons of ammonia and 1,500 tons of urea per day; and a gas liquefaction installation. In June 2002 agreement was reached on a contract to expand the refinery capacity Ruwais refinery to 500,000 barrels per day to be completed by 2005. The UAE has five other smaller refineries: In Abu Dhabi, a 88,5000 barrels per day capacity facility run, like the Ruwais refinery, by the Abu Dhabi National Oil Company (ADNOC); in Fujairah, a 90,000 barrels per day refinery run by Metro Oil; in Dubai, the 120,000 barrels per day Jebel Ali condensate refinery run by the Emirate National Oil Company (ENOC), first opened in 1999; near Jebel Ali, a 40,000 barrels per day second-hand gasoline unit run by ISO Octane, opened May, 2000; and in Sharjah, another second-hand unit with 71,250 barrels per day capacity opened in 2001 and run by the Sharjah Oil Refining Company (SORC). The UAE's crude oil refining capacity as of January 2001 was 514,750 barrels per day.

Near Umm An-Nar, a large plant belonging to National Chlorine Industries produces salt, chlorine, caustic soda, and hydrochloric acid. In Dubai the industrial port complex at Jebel 'Ali is the largest manmade port in the world and includes the largest dry dock in the world with capacity of one million tons. The Jebel Ali Free Zone (JAFZ) is the UAE's most developed free trade zone, including close to 200 factories, prominent among them being a major power plant with water desalination units, a steel fabrication plant, and an aluminum smelter, built in 1979, producing 290,030 tons of aluminum products per year. Plans have been announced to expand the Dubai Aluminum Company's capacity to 372,600 tons per year. Dubai's older industrial zone of Rashidiya is the site of some 40% of the emirate's processing industries. The other emirates have developed industries that produce construction-related materials such as cement, asphalt, and concrete blocks.

According to the statistics of UAE's Ministry of Finance and Industry (MOFI), there were 2,153 registered industrial establishments in 2000 (up from 1,261 in 1995) employing 176,260 people. Forty percent of the units—854—were in Dubai, which also accounted for 46.7% of industrial investment (\$3.6 billion of \$7.76 billion). Abu Dhabi accounted for 25% of investment (\$2 billion) but only 10% of industrial units (235). Sharjah and Ras Al-Khaimah had industrial investment of \$790 million and \$763 million, respectively, each about 10% of the total. Outside of the oil sector, chemicals commanded the largest portion of investment (14.5%), with food and beverages second (11.2%). Metal production accounted for 3.6% of industrial investment and garments 0.8%.

Industry made up 58.5% of the economy in 2002, and employed around 15% of the population—which indicates that this sector is highly productive; agriculture participated with 4% to the overall GDP, and employed approximately 7% of the working population; services contributed with 37.5% to the economy, and represented around 78% of the labor force.

## 2<sup>9</sup> SCIENCE AND TECHNOLOGY

Advanced technology in the United Arab Emirates has been imported mostly by foreign oil companies and is limited largely to heavy industry. Nearly all of its technological specialists are foreigners. In the 1980s, the United Arab Emirates took major steps to decrease its reliance on foreign scientists and technicians. The Ministry of Agriculture and Fisheries has a research center in Ra's al-Khaimah. United Arab Emirates University, founded in 1976 at Al Ain, has faculties of sciences, engineering, agricultural sciences, medicine and health sciences. Ajman University College of Science and Technology was founded in 1988, Etisalat College of Engineering at Sharjah in 1989, and the Higher Colleges of Technology at Abu Dhabi in 1988. In 1987–97, science and engineering students accounted for 24% of college and university enrollments. High technology exports in 2002 were valued at \$17 million, or 2% of all manufactured exports.

## 3<sup>0</sup> DOMESTIC TRADE

Dubai remains the most important center of trade and commerce, both for the nation and the region. Many food importers also serve as wholesalers, distributors, and retailers. There are about four or five large companies controlling most of the food retail sector. Franchising has become very popular in a variety of retail sectors including, restaurants, clothing, hardware supplies, beauty products, health care products, toys, sporting goods, etc.

Business hours tend to vary, although general hours of 8 AM to 1 PM and 4 to 7 PM are observed; most offices are closed Thursday afternoon, and Friday is the weekly holiday. Banks are open from 8 AM to noon, Saturday through Thursday.

## 3<sup>1</sup> FOREIGN TRADE

UAE's commodity exports were crude oil (45%), natural gas, re-exports, dried fish, and dates as of 2000. Imports include machinery, vehicles, electrical equipment, aircraft, cosmetics, tobacco, steel, furniture, plastics, chemicals, and food products.

In 2004, UAE's exports grew to \$69.5 billion (FOB—Free on Board), while its imports followed from behind at \$46.7 billion (FOB). Export commodities mainly went to Japan (which re-

ceived 24.9% of total exports), South Korea (9.9%), India (5.4%), and Thailand (5.2%). Imports chiefly came from China (10%), India (9.8%), Japan (6.8%), Germany (6.5%), the United Kingdom (6.2%), France (6.1%), and the United States (6%), and included machinery and transport equipment, chemicals, and food.

## 3<sup>2</sup> BALANCE OF PAYMENTS

Oil and natural gas exports have allowed the UAE to sustain a trade surplus for many years, but changes in oil prices cause the surplus to fluctuate widely from year to year. In the early 2000s traders in the UAE were beginning to seek out new markets in locales such as Russia, the Central Asian states, and East and South Africa. The government does not provide statistics for workers' remittances, investment income, oil and gas export revenues, foreign direct investment transactions, and capital transactions, which seriously compromises the compilation of balance of payments statistics.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of the United Arab Emirates' exports was \$47.6 billion while imports totaled \$28.6 billion resulting in a trade surplus of \$19 billion.

Exports of goods and services reached \$82.7 billion in 2004, and were expected to grow to \$103.7 billion in 2005. Imports were expected to reach \$60.2 billion in 2005, up from \$54.2 in 2004. The UAE have thus managed to keep both a positive resource balance (\$28.5 billion, and \$43.5 billion respectively), and a positive current account balance (\$12.7 billion in 2004, and an expected \$26.2 billion in 2005).

## 3<sup>3</sup> BANKING AND SECURITIES

The UAE Currency Board came into existence with its issuance of the UAE dirham in May 1973. In 1975–76, statutes came into force providing for the board's gradual transformation into a central bank, including powers to impose minimum liquidity ratios and other credit regulations. The board was replaced in 1980 by the UAE Central Bank, with enhanced authority to regulate the banking system. Capitalized at \$81.7 million, the bank was granted additional capital of \$2 billion from the government in 1982, which was to increase by 20% per year until a total deposit of \$4 billion had been reached.

The oil boom of the 1980s brought with it the proliferation of commercial banks, making the UAE one of the most overbanked countries in the world. By 1987, strains were beginning to show and two banks collapsed. Bad loans were prevalent and some borrowers used the Islamic prohibition on *riba* (interest) as an excuse not to repay debts.

UAE banks were hit hard by the invasion of Kuwait in 1990, when partial withdrawals amounted to an estimated UD7 billion (\$1.9 billion), or 7% of total deposits. In 1991, the Bank of Commerce and Credit International (BCCI), based in the United Arab Emirates and owned in large part by the ruling family of Abu Dhabi, was accused of fraudulent dealings, and closed, damaging the credibility of the UAE banking system. However, because of improvements in the banking system, in 1999 the government cleared the way for establishment of an offshore banking center to be based in the free zone on Saadiyat Island, to enable UAE to compete with Bahrain. Also in 1999, the merger of two banks—National Bank of Dubai and Emirates Bank International—was announced. The International Monetary Fund reports that in 2001, currency and

### Principal Trading Partners – United Arab Emirates (2001)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	32,668.9	30,544.3	2,124.6
Japan	9,932.0	182.9	9,749.1
Areas nes	6,328.4	73.0	6,255.4
Other Asia nes	6,116.4	50.8	6,065.6
Kuwait	820.1	...	820.1
Bahrain	537.5	...	537.5
India	519.3	658.1	-138.8
Other Africa nes	344.2	...	344.2
Iran	225.7	520.6	-294.9
United States	210.7	206.0	4.7
Saudi Arabia	142.5	394.6	-252.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

demand deposits—an aggregate commonly known as M1—were equal to \$10.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$42.6 billion.

As of 2000, the United Arab Emirates was planning a stock exchange as part of the financial center on Saadiyat Island in Abu Dhabi.

### 34 INSURANCE

Because of tightening federal regulations, the number of insurance companies declined from 126 in 1980 to 56 in 1987. The Federal Insurance Companies and Agents Law of 1984 requires all insurance companies established in the UAE to be public joint-stock companies, with equity wholly owned by UAE nationals. Companies already established in the country can obtain a concession from the local equity provision. Minimum capital must be UD10 million. In 2003, the value of all direct insurance premiums written totaled \$971 million, of which nonlife premiums accounted for \$744 million. In that same year, Dubai was the country's leading life insurer, with gross written life insurance premiums of \$22.3 million. There was no data on the UAE's top nonlife insurer. In 1999, there were 19 National Insurance companies practicing in UAE, and 28 foreign insurance companies.

### 35 PUBLIC FINANCE

A federal budget is prepared according to the UAE's development policy, while each emirate is responsible for municipal budgets and local projects. Conservative public expenditure policies became necessary in the 1980s and 1990s, when oil revenues declined; by the 2000s, oil revenues had rebounded. Abu Dhabi's oil income accounts for the bulk of federal revenues; under the constitution, each emirate contributes 50% of its net oil income to the federal budget.

The US Central Intelligence Agency (CIA) estimated that in 2005 the United Arab Emirates' central government took in revenues of approximately \$34.9 billion and had expenditures of \$29.4 billion. Revenues minus expenditures totaled approximately \$5.5 billion. Public debt in 2005 amounted to 17.5% of GDP. Total external debt was \$30.21 billion.

The International Monetary Fund (IMF) reported that in 1999, the most recent year for which it had data, central government revenues were UD20,217 million and expenditures were UD20,050 million. The value of revenues was us\$5,505 million and expenditures us\$5,459 million, based on a official exchange rate for 1999 of us\$1 = UD3.6725 as reported by the IMF. Government outlays by function were as follows: general public services, 20.8%; defense, 30.1%; public order and safety, 13.8%; economic affairs, 4.5%; housing and community amenities, 1.6%; health, 7.2%; recreation, culture, and religion, 1.4%; education, 17.3%; and social protection, 3.2%.

### 36 TAXATION

Each emirate has its own decrees on corporate taxation. Corporate taxes are paid only by oil companies (at rates that vary among emirates) and branches of foreign banks (at 20%). Municipal taxes are 5% on residential and 10% on commercial rents. A 5% tax is

#### Public Finance – United Arab Emirates (1999)

(In millions of dirhams, central government figures)

<b>Revenue and Grants</b>	<b>20,217</b>	<b>100.0%</b>
Tax revenue	3,481	17.2%
Social contributions	92	0.5%
Grants	...	...
Other revenue	16,644	82.3%
<b>Expenditures</b>	<b>20,050</b>	<b>100.0%</b>
General public services	4,167	20.8%
Defense	6,027	30.1%
Public order and safety	2,763	13.8%
Economic affairs	910	4.5%
Environmental protection	...	...
Housing and community amenities	329	1.6%
Health	1,448	7.2%
Recreational, culture, and religion	290	1.4%
Education	3,474	17.3%
Social protection	642	3.2%

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

imposed on hotel services and entertainment. There is no personal income tax.

### 37 CUSTOMS AND DUTIES

Dubai, the major area for foreign trade, is a free trade zone and free port with no restrictions on imports or exports. The individual emirate governments exert no control over imports, except for licensing. Customs duties are levied ad valorem; the rates differ among the emirates but are generally nominal (4% for most goods), except for a duty of 50% on alcoholic beverages (importation of which requires special permission). The duty on tobacco was is 90% of the CIF (cost, insurance, and freight) value. Duty-free imports include machinery, construction materials, foodstuffs, medicine, and printed matter. Food imports require a health certificate and meats require a certificate from a slaughterhouse that has been approved under Islamic law. Import licenses are required for all firms desiring to engage in importation. The United Arab Emirates is a member of the Gulf Cooperation Council (GCC) along with Bahrain, Kuwait, Oman, Qatar, and Saudi Arabia. The GCC has been in discussions for a common external tariff (CET) for some years.

### 38 FOREIGN INVESTMENT

All the emirates are eager to attract foreign investment. One obstacle to foreign investment may be the federal requirement that investments must be on a joint venture basis with the local partner owning at least 51% of the venture. The exception is investment in the free trade zones where 100% foreign ownership is allowed. In 2002, there were 11 free trade zones in the UAE in various stages of development. Most provide 100% import and export tax exemption, 100% exemption from commercial levies, 100% repatriation of capital and profits, multiyear leases and other services, including assistance with recruiting labor. The largest and most successful is the Jebel Ali industrial free zone (JAFZ) in Dubai incorporating close to 2,000 companies from over 100 countries. The

JAFZ has attracted more than \$3 billion of foreign investment. In 2002, three new zones were announced: The Dubai International Financial Centre; the Dubai Metals and Commodities Centre; and the Mohammed bin Rashid Technology Zone. In 2000, Dubai Internet City, the world's first e-commerce free zone, was opened, and in 2001, the Dubai Media City began was launched. Other free zones are located in the Dubai International Airport, and in Sharjah, Ajman, Umm Al Quwain, and Fujairah. Principal foreign investors are the United Kingdom, the United States, France, India, Japan, and Germany. Though reliable statistics are not available for the UAE, some reports suggest that US investment in 1999 was about \$500 million. Multinational companies operating in the Jebel Ali industrial zone include the following: Samsung (ROK); Pioneer (Japan); General Motors, IBM, Mobil, and Toys "R" Us (US); and Ericsson (Sweden).

In 1996, UAE created the Abu Dhabi Free Zone Authority to regulate the development of Saadiyat Island, where there will be few restrictions on foreign companies. Companies opening offices there will be exempt from taxes, will be allowed to repatriate all profits and capital, to import labor; in addition, there will be no requirements to establish UAE partners. In 1999, the Emirates Global Capital Corporation was granted a 50-year contract to develop the 26 sq km (10 sq mi) zone, where a stock, commodities, and futures exchange was planned. However, in 2002 this project was on hold.

The UAE does not offer any statistical information on inward flows of capital, but UNCTAD estimates show that FDI totaled \$480 million in 2003, down from \$834 million in 2002. Despite the relative low levels of capital inflows, analysts think that FDI will play an increasingly important role in the future. Current leading sectors for investment in the UAE are oil and gas-field machinery and services, power and water, computer/peripherals, medical equipment and supplies, airport development and ground equipment, telecommunications, and franchising.

### **39 ECONOMIC DEVELOPMENT**

The discovery of oil opened the way for the UAE into the industrial age. The federation, formed in 1971, used its vast oil wealth during the 1970s to transform the national economy through expansion of roads, ports, airports, communications facilities, electric power plants, and water desalination facilities, as well as construction of huge oil-processing complexes. With the completion of major infrastructural projects by the early 1980s, the focus of development shifted to diversifying the economy by establishing capital-intensive industries based on oil and gas resources.

The country's major industrial projects are the Jabal 'Ali industrial zone in Dubai and the refinery complex at Ar-Ruwais in Abu Dhabi. Jabal 'Ali includes the Dubai Aluminum Co. smelter, a natural gas liquefaction plant, a cable factory, and a desalination plant that is one of the world's largest, with an output of about 25 million gallons of water daily. In mid-1995, 822 companies were operating in the Jabal 'Ali Free Zone. By 2002, this number had risen to about 2000, representing investments from over 100 countries. The United Arab Emirates now hosts 11 free trade zones. The Dubai Internet City, launched in 2000, was the world's first e-commerce free trade zone. Dubai Multi-Media City was established in 2001. In 2002 three new specialized free zones were founded: the Dubai International Financial Centre, the Dubai Metals and

Commodities Centre, and the Mohammed bin Rashid Technology Park.

In 1997 the Industrial Loan Fund was set up to provide finance through the Gulf Industrial Corporation (GIC) established in 1979 in Abu Dhabi. The GIC now owns a large number of industries which produce a wide variety products, including cement blocks, fodder, flour, PVC pipes, mineral waters, and aluminum.

In relation to GNP, the UAE is one of the world's major aid donors; the principal vehicle for bilateral aid has been the Abu Dhabi Fund for Arab Economic Development. The UAE makes regular annual payments to Syria, Jordan, Lebanon, and the PLO. Responding to Iraq's invasion of Kuwait in 1990, the UAE made significant financial contributions to assist the frontline states and to share the cost of the foreign military forces.

In 2004, the UAE government has increased spending on job creation and infrastructure expansion, and is looking for ways to enhance the role of the private sector in the management of its utilities. Although oil will continue to be the backbone of the economy for years to come, the country's leaders recognized that a diverse and dynamic economy will prove more sustainable in the long run. Some of the main areas of economic diversification include: security and safety equipment; IT equipment and services; medical equipment, services and supplies; architecture, construction, and engineering services; building products; air conditioning and refrigeration equipment; environmental and pollution control equipment; and sporting goods and equipment.

### **40 SOCIAL DEVELOPMENT**

There is no social security law in the UAE, but many welfare benefits are available to citizens, among them free hospital treatment and medical care and subsidies for education. Relief for any domestic catastrophe is provided from a disaster fund. If the father of a family is unable to work because of illness, disability, or old age, he receives help under the National Assistance Law; should he die or divorce his wife, the woman's future is secured. UAE nationals receive many government services, including health care, water, and electricity, free of charge.

Female employment is growing in government service and in occupations such as education and health.

Women continue to suffer from official discrimination, as dictated by Islamic law. Divorce is available but difficult for a woman to obtain. Men may have more than one wife, but not more than four at one time. Women who remarry may have to give up custody of children from a previous marriage. While abuse against women does exist, it does not seem to be a pervasive problem. Child abuse is not prevalent. Many domestic servants are foreigners who are sometimes subjected to mistreatment or abuse, and poor pay.

The government restricts democratic freedoms and also limits freedoms of speech, assembly, association, press, and the right to a speedy trial.

### **41 HEALTH**

Health facilities have been expanded rapidly since independence. Modern hospitals have been built in Abu Dhabi, Dubai, and other towns. As of 2004, there were an estimated 202 physicians, 418 nurses, and 33 dentists per 100,000 people. In the same year, total health care expenditure was estimated at 8.4 % of GDP. Approx-

mately 95% of the population had access to health care services, and more than 95% of the population had access to safe water and adequate sanitation.

Average life expectancy in 2005 was 75.24 years and the infant mortality rate was 14.51 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 18.3 and 3.9 per 1,000 people. Children up to one year old were immunized against tuberculosis, 98%; diphtheria, pertussis, and tetanus, 90%; polio, 90%; and measles, 90%. The rates for DPT and measles were, respectively, 94% and 95%.

Typhoid fever and tuberculosis are rare; malaria remains a problem. The goiter prevalence was 40.4 per 100 school children. The HIV/AIDS prevalence was 0.18 per 100 adults in 2003.

## 42 HOUSING

The federal government is attempting to make modern low-cost homes available to poorer families, supplying them with amenities such as piped water, sewerage systems, and electricity. The Ministry of Housing constructed about 4,000 houses for free distribution to poor families between 1978 and 1981. In 1993, government spending for housing was at about 30% of the total budget.

In 1980, 33% of all housing units were flats, 30% were traditional Arabic dwellings, 9% were low-cost housing, 8% were shacks, and the remainder were sheds, caravans, single rooms, tents, and other facilities. About 85% had water closets and 26% had electricity, piped-in water, and access to a sewage system.

At the 1995 census there were 413,178 housing units in the nation; 37% were located in Abu Dhabi and 27% were in Dubai. In 1995, the Abu Dhabi Department of Social Service and Commercial Buildings (est. 1976) began construction of 504 residential buildings and had 417 other projects in the planning stages. The department has built over 40,000 housing units since 1976.

## 43 EDUCATION

The educational system of the United Arab Emirates has burgeoned since 1971. Education in the six northern emirates, formerly financed and administered by Kuwait, has been managed by the UAE Ministry of Education since 1972. Education is compulsory for six years at the primary level, from age six, and is free to all UAE citizens, as are school uniforms, books, equipment, and transportation. Arabic is a compulsory subject and segregation of classes by sex is required. At the secondary level, children go through six years of education in two stages, three years of preparatory studies and three years of specialized studies in either sciences or the arts. Students may also choose to attend a six year technical, agricultural, or commercial school program at the secondary level. There are religious schools offering secondary studies as well. The academic year runs from September to June.

In 2001, about 70% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 83% of age-eligible students. The same year, secondary school enrollment was about 71% of age-eligible students. It is estimated that about 71.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 15:1 in 2003; the ratio for secondary school was about 14:1. In 2003, private schools accounted for about 53.8% of primary school enrollment and 38.1% of secondary enrollment.

The United Arab Emirates University is a major state-sponsored institute. Dubai University College, a private college, was founded in January 1997. In 2003, it was estimated that about 35% of the tertiary age population were enrolled in tertiary education programs; 21% for men and 53% for women. The adult literacy rate for 2004 was estimated at about 77.3%, with 75.6% for men and 80.7% for women.

As of 2003, public expenditure on education was estimated at 1.6% of GDP, or 22.5% of total government expenditures.

## 44 LIBRARIES AND MUSEUMS

The National Library in Dubai holds 800,000 volumes, including a collection known as the Gulf and Arabian Peninsula Library. The library of the Juma Al-Majid Heritage & Cultural Centre holds a collection of over 320,000 volumes. The Dubai Public Library system consists of one main and six branch locations. The Higher Colleges of Technology library (175,000 volumes) and the United Arab Emirates University library (300,000 volumes) are in Abu Dhabi.

The Dubai National Museum is housed in the Al Fahidi Fort. The Al 'Ayn Museum (1971) is an archeological institution. Sharjah is home to the Sharjah Archeology Museum, the Sharjah Heritage Museum, the Sharjah Natural History Museum, the Sharjah Science Museum, and a children's museum called the Discovery Center.

## 45 MEDIA

The communications system has been dramatically improved and expanded in recent years. Telecommunications operations in the emirates are all handled by ETISALAT. The Jabal 'Ali earth satellite station in Dubai maintains telephone and telegraph traffic, telex data transmission, and color television broadcasting; computer-controlled automatic telex systems have been installed in both Dubai and Abu Dhabi. In 2003, there were an estimated 281 main-line telephones for every 1,000 people. The same year, there were approximately 736 mobile phones in use for every 1,000 people.

Nearly all of the television and radio broadcasting stations are owned and operated by the government through Abu Dhabi Radio and TV or Emirates TV. There is a Media Free Zone in Dubai where private stations are located, including those broadcasting in English and Arabic. In 2004, there were about 13 AM and 8 FM radio stations. The same year, there were 15 television stations. In 2003, there were an estimated 309 radios and 252 television sets for every 1,000 people. The same year, there were 129 personal computers for every 1,000 people and 275 of every 1,000 people had access to the Internet. There were 173 secure Internet servers in the country in 2004.

Arabic-language dailies published in the UAE in 2002 included: *Al-Khalij* (2002 circulation, 85,000), *Al-Ittihad (Unity)*, 58,000), *Al-Fajr (The Dawn)*, 50,000), *Al-Wahdah* (30,000), and *Al-Bayan* (32,650). There were three English-language dailies: the *Gulf News* (91,530) and *Khaleej Times* (72,000), published in Dubai, and the *Emirates News* (21,150), published in Abu Dhabi.

The provisional constitution provides for free expression; however, the government restricts expression in practice. All published materials must be licensed by the Ministry of Education, which governs content and allowable subjects. The media practice

self-censorship on the subjects of government policy, the ruling families, national security, religion, and international relations.

#### **46 ORGANIZATIONS**

There are national chambers of commerce in the larger states. There are also several associations representing foreign businesses. The Federation of United Arab Emirates Chambers of Commerce and Industry is located in Abu Dhabi. There are active professional associations in several different fields, such as journalism and medicine. Various social and sporting clubs provide outlets for philanthropic work and recreation. National youth organizations include the National Union of Students of the Emirates and the Emirates Scout Association. There is a national chapter of the Red Crescent Society.

#### **47 TOURISM, TRAVEL, AND RECREATION**

Except for Gulf nationals and citizens of the United Kingdom, most visitors must secure a visa in advance. Tourism is encouraged by all the emirates, whose varied scenery includes mountains, beaches, deserts, and oases. Activities include visits to Bedouin markets, museums, zoos, and aquariums. Many large world-class hotels have opened in recent years. The emirates attract tourists from Western Europe during the winter, when the main attractions are the beaches and sunny climate. Tourists numbered 5,871,023 in 2003.

The daily cost of staying in Dubai, according to 2005 US Department of State estimates, was \$376 from June through August, and \$219 the rest of the year. Estimated daily expenses for travel in Abu Dhabi were \$219 that year.

#### **48 FAMOUS EMIRIANS**

Sheikh Zayid bin Sultan Al Nahyan (1918–2004) was ruler of Abu Dhabi after 1966 and president of the UAE from 1971 until his death in 2004. His son, Sheikh Khalifa bin Zayid Al Nahyan (b.1948) became president of the UAE upon his father's death.

#### **49 DEPENDENCIES**

The UAE has no territories or colonies.

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# UNITED STATES PACIFIC DEPENDENCIES

## AMERICAN SAMOA

American Samoa, an unincorporated and unorganized insular US territory in the South Pacific Ocean, comprises that portion of the Samoan archipelago lying E of longitude 171°W. (The rest of the Samoan islands comprise the independent state of Western Samoa.) While the Samoan group as a whole has an area of 3,121 sq km (1,205 sq mi), American Samoa consists of only seven small islands (between 14° and 15°S and 168° and 171°W) with a total area (land and water) of 197 sq km (76 sq mi). Five of the islands are volcanic, with rugged peaks rising sharply, and two are coral atolls.

The climate is hot and rainy; normal temperatures range from 24°C (75°F) in August to 32°C (90°F) during December–February; mean annual rainfall is 330 cm (130 in), the rainy season lasting from December through March. Hurricanes are common. The native flora includes flourishing tree ferns, coconut, hardwoods, and rubber trees. There are few wild animals.

As of mid-2005, the estimated population was 57,881, an increase over the 1986 population estimate of 37,500. However, the total population has remained relatively constant for many years because of the substantial number of Samoans who migrate to the United States. The inhabitants, who are concentrated on the island of Tutuila, are almost pure Polynesian. Most people are bilingual: English and Samoan are the official languages. Most Samoans are Christians.

The capital of the territory, Pago Pago, on Tutuila, has one of the finest natural harbors in the South Pacific and is a duty-free port. Passenger liners call there on South Pacific tours, and passenger and cargo ships arrive regularly from Japan, New Zealand, Australia, and the US west coast. There are regular air and sea services between American Samoa and Western Samoa, and scheduled flights between Pago Pago and Honolulu.

American Samoa was settled by Melanesian migrants in the 1st millennium BC. The Samoan islands were visited in 1768 by the French explorer Louis-Antoine de Bougainville, who named them the Îles des Navigateurs as a tribute to the skill of their native boatmen. In 1889, the United States, the United Kingdom, and Germany agreed to share control of the islands. The United Kingdom later withdrew its claim, and under the 1899 Treaty of Berlin, the United States was internationally acknowledged to have rights extending over all the islands of the Samoan group lying east of 171°W, while Germany was acknowledged to have similar rights to the islands west of that meridian. The islands of American Samoa were officially ceded to the United States by the various ruling chiefs in 1900 and 1904, and on 20 February 1929 the US Congress formally accepted sovereignty over the entire group. From 1900 to 1951, the territory was administered by the US Department of the Navy, and thereafter by the Department of the Interior. The basic law is the Constitution of 1966.

The executive branch of the government is headed by a governor who, along with the lieutenant governor, is elected by popular vote; before 1977, the two posts were appointed by the US government. Village, county, and district councils have full authority to regulate local affairs.

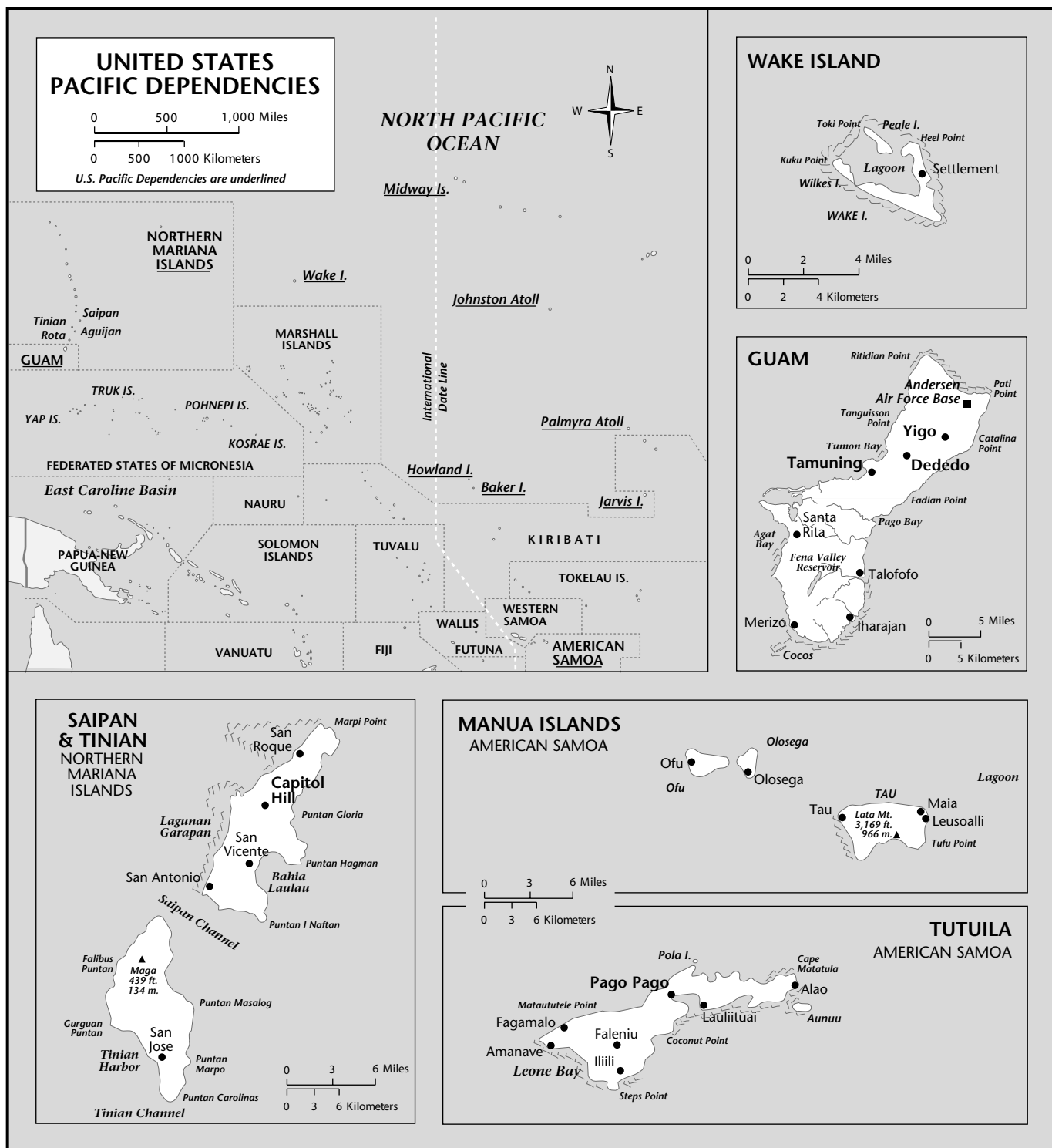
The legislature (Fono) is composed of the House of Representatives and the Senate. The 15 counties elect 18 *matai* (chiefs) to four-year terms in the senate, while the 20 house members are elected for two-year terms by popular vote within the counties. (There is one appointed member from Swains Island.) The secretary for Samoan affairs, who heads the Department of Local Government, is appointed by the governor. Under his administration are three district governors, the county chiefs, village mayors, and police officials. The judiciary, an independent branch of the government, functions through the high court and five district courts. Samoans living in the islands as of 17 April 1900 or born there since that date are nationals of the United States. The territory sends one delegate to the US House of Representatives.

The economy is primarily agricultural. Small plantations occupy about one-third of the land area; 90% of the land is communally owned. The principal crops are bananas, breadfruit, taro, papayas, pineapples, sweet potatoes, tapioca, coffee, cocoa, and yams. Hogs and poultry are the principal livestock raised; dairy cattle are few. The principal cash crop is copra. A third of the total labor force is employed by the federal and territorial government. The largest employers in the private sector, with more than 15% of the labor force, are two modern tuna canneries supplied with fish caught by Japanese, US, and Taiwanese fishing fleets. Canned tuna is the primary export. Most foreign trade is conducted with the United States.

Samoans are entitled to free medical treatment, including hospital care. Besides district dispensaries, the government maintains a central hospital, a tuberculosis unit, and a leprosarium. US-trained staff physicians work with Samoan medical practitioners and nurses. The LBJ Tropical Medical Center opened in 1986.

Education is a joint undertaking between the territorial government and the villages. School attendance is compulsory for all children from 6 through 18. The villages furnish the elementary-school buildings and living quarters for the teachers; the territorial government pays teachers' salaries and provides buildings and supplies for all but primary schools. Since 1964, educational television has served as a basic teaching tool in the school system. About 97% of the population is literate. In 1997, total enrollment in American Samoa's 29 public elementary and secondary schools was over 19,000. American Samoa Community College enrolled 1,178 in the fall of 2001.

Radiotelegraph circuits connect the territory with Hawaii, Fiji, and Western Samoa. Every village in American Samoa has telephone service.



## GUAM

The largest and most populous of the Mariana Islands in the Western Pacific, Guam (13° 28' N and 144° 44' E) has an area, including land and water, of 540 sq km (208 sq mi) and is about 48 km (30 mi) long and from 6–12 km (4–7 mi) wide. The island is of volcanic origin; in the south, the terrain is mountainous, while the northern part is a plateau with shallow fertile soil. The central

part of the island (where the capital, Agana, is located) is undulating country.

Guam lies in the typhoon belt of the Western Pacific and is occasionally subject to widespread storm damage. In May 1976, a typhoon with winds of 306 km/hr (190 mph) struck Guam, causing an estimated \$300 million in damage and leaving 80% of the island's buildings in ruins. Guam has a tropical climate with little seasonal variation. Average temperature is 26°C (79°F); rainfall is

substantial, reaching an annual average of more than 200 cm (80 in). Endangered species include the giant Micronesian kingfisher and Marianas crow.

The mid-2005 population, excluding transient US military and civilian personnel and their families, was estimated at 168,564, an increase over the 1986 estimate of 117,500. The increase was attributed largely to the higher birthrate and low mortality rate. The present-day Chamorro, who comprise about 37% of the permanent resident population, descend from the intermingling of the few surviving original Chamorro with the Spanish, Filipino, and Mexican settlers, plus later arrivals from the United States, United Kingdom, Korea, China, and Japan. Filipinos (26%) are the largest ethnic minority. English and Chamorro are official languages. The predominant religion is Roman Catholicism.

The earliest known settlers on Guam were the original Chamorro, who migrated from the Malay Peninsula to the Pacific around 1500 BC. When Ferdinand Magellan landed on Guam in 1521, it is believed that as many as 100,000 Chamorro lived on the island; by 1741, their numbers had been reduced to 5,000—most of the population either had fled the island or been killed through disease or war with the Spanish. A Spanish fort was established in 1565, and from 1696 until 1898, Guam was under Spanish rule.

Under the Treaty of Paris that ended the Spanish-American War in 1898, the island was ceded to the United States and placed under the jurisdiction of the Department of the Navy. During World War II, Guam was occupied by Japanese forces; the United States recaptured the island in 1944 after 54 days of fighting. In 1950, the island's administration was transferred from the Navy to the US Department of the Interior. Under the 1950 Organic Act of Guam, passed by the US Congress, the island was established as an unincorporated territory of the United States; Guamanians were granted US citizenship, and internal self-government was introduced.

The governor and lieutenant governor have been elected directly since 1970. A 15-member unicameral legislature elected for two years by adult suffrage is empowered to legislate on all local matters, including taxation and appropriations. The US Congress reserves the right to annul any law passed by the Guam legislature, but must do so within a year of the date it receives the text of any such law.

Judicial authority is vested in the district court of Guam, and appeals may be taken to the regular US courts of appeal and ultimately to the US Supreme Court. An island superior court and other specialized courts have jurisdiction over certain cases arising under the laws of Guam. The judge of the district court is appointed by the US president; the judges of the other courts are appointed by the governor. Guam's laws were codified in 1953.

Guam is one of the most important US military bases in the Pacific, and the island's economy has been profoundly affected by the large sums of money spent by the US defense establishment. During the late 1960s and early 1970s, when the United States took the role of a major combatant in the Vietnam conflict, Guam served as a base for long-range US bombers on sorties over Indochina. In 2005, there were 3,384 active-duty US military personnel stationed on the island.

Prior to World War II, agriculture and animal husbandry were the primary activities. By 1947, most adults were wage earners employed by the US armed forces, although many continued to cultivate small plots to supplement their earnings. In 2002, agri-

culture accounted for 7% of GDP; a considerable amount of arable land is taken up by military installations. Fruits and vegetables are grown and pigs and poultry are raised for local consumption, but most food is imported. Current fish catches are insufficient to meet local demand.

Tourism became a major industry and sparked a boom in the construction industry in the mid-1980s. The number of visitors grew rapidly from 6,600 in 1967 to around one million per year in the mid-2000s, 90% of whom come from Japan. The stagnation in the Japanese economy since the early 1990s slowed the growth of Guam's tourism sector.

The Guam Rehabilitation Act of 1963 has funded the territory's capital improvement program. Further allocations in 1969 and 1977 provided over \$120 million for additional capital improvements and development of the island's power installations. More than \$200 million of federal funds were authorized for typhoon relief in 1977–78. Total expenditures by the government of Guam were \$445 million in 2000; revenues were \$340 million.

Guam's foreign trade usually shows large deficits. The bulk of Guam's trade is with the United States, Japan, Singapore, and South Korea.

US income tax laws are applicable in Guam; all internal revenue taxes derived by the United States from Guam are paid into the territory's treasury. US customs duties, however, are not levied. Guam is a duty-free port. In its trade with the US mainland, Guam is required to use US shipping.

Typical tropical diseases are practically unknown today in Guam. Tuberculosis, long the principal killer, was brought under control by the mid-1950s. The Guam Memorial Hospital has a capacity of 208 beds. Village dispensaries serve both as public health units and first-aid stations. In addition, there are a number of physicians in private practice. Specialists from the US Naval Hospital in Guam, assisting on a part-time basis, have made possible a complete program of curative medicine.

School attendance is compulsory from the age of 6 through 16. Twenty-five elementary schools, seven middle schools, four high schools and an alternative school serve over 30,000 students.

## HOWLAND, BAKER, AND JARVIS ISLANDS

Howland Island (0° 48' N and 176° 38' W), Baker Island (0° 14' N and 176° 28' W), and Jarvis Island (0° 23' S and 160° 1' W) are three small coral islands, each about 2.6 sq km (1 sq mi) in area, belonging to the Line Islands group of the Central Pacific Ocean. All are administered directly from Washington as US unincorporated territories. Public entry is by special permit and generally restricted to scientists and educators. Howland was discovered in 1842 by US sailors, claimed by the United States in 1857, and formally proclaimed a US territory in 1935–36. It was worked for guano by US and British companies until about 1890.

Baker, 64 km (40 mi) S of Howland, and Jarvis, 1,770 km (1,100 mi) E of Howland, also were claimed by the United States in 1857, and their guano deposits were similarly worked by US and British enterprises. The United Kingdom annexed Jarvis in 1889. In 1935, the United States sent colonists from Hawaii to all three islands, which were placed under the US Department of the Interior in 1936 and are administered as part of the National Wildlife Refuge system. Baker was captured by the Japanese in 1942 and recaptured by the United States in 1944. The three islands lack fresh wa-

ter and have no permanent inhabitants. They are visited annually by the US Coast Guard. A lighthouse on Howland Island is named in honor of the US aviatrix Amelia Earhart, who vanished en route to the island on a round-the-world flight in 1937.

## JOHNSTON ATOLL

Johnston Atoll, located in the North Pacific 1,151 km (715 mi) sw of Honolulu, consists of two islands, Johnston (16° 44' N and 169° 31' W) and Sand (16° 45' N and 169° 30' W), with a total land and water area of about 2.6 sq km (1 sq mi). The islands are enclosed by a semicircular reef. It was discovered by English sailors in 1807 and claimed by the United States in 1858. For many years, it was worked for guano and was a bird reservation. Commissioned as a naval station in 1941, it remains an unincorporated US territory under the control of the US Department of the Air Force. In the 1950s and 1960s, it was used primarily for the testing of nuclear weapons. Until late in 2000, it was maintained as a storage and disposal site for chemical weapons. Munitions destruction is now complete, and cleanup and closure of the facility was completed by May 2005.

The population usually stood at 1,100 government personnel and contractors, but decreased significantly after the September 2001 departure of the US Army Chemical Activity Pacific (USACAP). As of May 2005, all US government personnel had left the island. The atoll is equipped with an excellent satellite and radio telecommunications system.

## MIDWAY

The Midway Islands (28° 12'–17' N and 177° 19'–26' W) consist of an atoll and two small islets, Eastern Island (177° 20' W) and Sand Island (177° 22'–24' W), 2,100 km (1,300 mi) WNW of Honolulu. Total land and water area is 5 sq km (2 sq mi). As of 2005, 40 people made up the staff of the US Fish and Wildlife service on the atoll.

Discovered and claimed by the United States in 1859 and formally annexed in 1867, Midway became a submarine cable station early in the 20th century and an airlines station in 1935. Made a US naval base in 1941, Midway was attacked by the Japanese in December 1941 and January 1942. In one of the great battles of World War II, a Japanese naval attack on 3–6 June 1942 was repelled by US warplanes. Midway is a US unincorporated territory; there is a closed naval station, and the islands are important nesting places for seabirds. In 1993, administrative control of Midway was transferred from the US Department of the Navy to the US Department of the Interior's Fish and Wildlife Service.

## NORTHERN MARIANAS

The Northern Marianas, a US commonwealth in the Western Pacific Ocean, is comprised of the Mariana Islands excluding Guam (a separate political entity). Located between 12° and 21°N and 144° and 146° E, it consists of 16 volcanic islands with a total land area of about 475 sq km (183.5 sq mi). Only six of the islands are inhabited, and most of the people live on the three largest islands—Rota, 85 sq km (33 sq mi); Saipan, 122 sq km (47 sq mi); and Tinian, 101 sq km (39 sq mi).

The climate is tropical, with relatively little seasonal change; temperatures average 21–29°C (70–85°F), and relative humidity is generally high. Rainfall averages 216 cm (85 in) per year. The

southern islands, which include Rota, Saipan, and Tinian, are generally lower and covered with moderately heavy tropical vegetation. The northern islands are more rugged, reaching a high point of 959 m (3,146 ft) on Agrihan, and are generally barren due to erosion and insufficient rainfall. Pagan and Agrihan have active volcanoes, and typhoons are common from August to November. Insects are numerous and ocean birds and fauna are abundant. The Marianas mallard is a local endangered species.

The Northern Marianas had an estimated population of 80,362 in mid-2005. Three-fourths of the population is descended from the original Micronesian inhabitants, known as Chamorros. There are also many descendants of migrants from the Caroline Islands and smaller numbers of Filipino and Korean laborers and settlers from the US mainland. English, Chamorro, and Carolinian are official languages. However, only 10.8% of the population speaks English in the home. About 90% of the people are Roman Catholic.

It is believed that the Marianas were settled by migrants from the Philippines and Indonesia. Excavations on Saipan have yielded evidence of settlement around 1500 BC. The first European to reach the Marianas, in 1521, was Ferdinand Magellan. The islands were ruled by Spain until the Spanish defeat by the United States in the Spanish-American War (1898). Guam was then ceded to the United States and the rest of the Marianas were sold to Germany. When World War I broke out, Japan took over the Northern Marianas and other German-held islands in the Western Pacific. These islands (the Northern Marianas, Carolines, and Marshalls) were placed under Japanese administration as a League of Nations mandate on 17 December 1920. Upon its withdrawal from the League in 1935, Japan began to fortify the islands, and in World War II they served as important military bases. Several of the islands were the scene of heavy fighting during the war. In the battle for control of Saipan in June 1944, some 23,000 Japanese and 3,500 US troops lost their lives in one day's fighting. As each island was occupied by US troops, it became subject to US authority in accordance with the international law of belligerent occupation. The US planes that dropped atomic bombs on Hiroshima and Nagasaki, bringing an end to the war, took off from Tinian.

On 18 July 1947, the Northern Mariana, Caroline, and Marshall islands formally became a UN trust territory under US administration. This Trust Territory of the Pacific Islands was administered by the US Department of the Navy until 1 July 1951, when administration was transferred to the Department of the Interior. From 1953 to 1962, the Northern Marianas, with the exception of Rota, were administered by the Department of the Navy.

The people of the Northern Marianas voted to become a US commonwealth by a majority of 78.8% in a plebiscite held on 17 June 1975. A covenant approved by the US Congress in March 1976 provided for the separation of the Northern Marianas from the Caroline and Marshall island groups, and for the Marianas' transition to a commonwealth status similar to that of Puerto Rico. The islands became internally self-governing in January 1978. On 3 November 1986, US president Ronald Reagan proclaimed the Northern Marianas a self-governing commonwealth; its people became US citizens. The termination of the trusteeship was approved by the UN Trusteeship Council in May 1986 and received the required approval from the UN Security Council. On

3 November 1986, the Constitution of the Commonwealth of the Northern Marianas Islands came into force.

A governor and a lieutenant governor are popularly elected for four-year terms. The legislature consists of 9 senators elected for four-year terms and 18 representatives elected for two-year terms. A district court handles matters involving federal law and a commonwealth court has jurisdiction over local matters.

The traditional economic activities were subsistence agriculture, livestock raising, and fishing, but much agricultural land was destroyed or damaged during World War II and agriculture has never resumed its prewar importance. Garment production and tourism are the mainstays of the economy. Tourism employs about 50% of the work force. The construction industry is also expanding, and there is some small-scale industry, chiefly handicrafts and food processing.

The Northern Marianas is heavily dependent on federal funds. The United States also pays to lease property on Saipan, Tinian, and Farallon de Medinilla islands for defense purposes. The principal exports are garments, milk, and meat; imports include foods, petroleum, construction materials, and vehicles. US currency is the official medium of exchange.

Health care is primarily the responsibility of the commonwealth government and has improved substantially since 1978. Tuberculosis, once the major health problem, has been controlled. There is a hospital on Saipan and health centers on Tinian and Rota. The largest hospital in the commonwealth is a 76-bed, full service facility.

Education is free and compulsory for children between the ages of 8 and 14, and literacy is high. Northern Marianas College had an enrollment of 1,101 in 2006. There are 2 AM, 3 FM, and 1 television stations.

## PALMYRA ATOLL

Palmyra, an atoll in the Central Pacific Ocean, containing some 50 islets with a total area of some 10 sq km (4 sq mi), is situated

about 1,600 km (1,000 mi) ssw of Honolulu at 5° 52' N and 162° 5' W. It was discovered in 1802 by the USS *Palmyra* and formally annexed by the United States in 1912, and was under the jurisdiction of the city of Honolulu until 1959, when Hawaii became the 50th state of the United States. It is now the responsibility of the US Fish and Wildlife Service. The atoll is privately owned by the Nature Conservancy.

Kingman Reef, NW of Palmyra Atoll at 6° 25' N and 162° 23' N, was discovered by the United States in 1874, annexed by the United States in 1922, and became a naval reservation in 1934. Now abandoned, it is under the control of the US Department of the Navy. The reef only has an elevation of 1 m (3 ft) and is awash most of the time, making it hazardous for ships.

## WAKE ISLAND

Wake Island, actually a coral atoll and three islets (Wake, Peale, and Wilkes) about 8 km (5 mi) long by 3.6 km (2.25 mi) wide, lies in the North Pacific 3,380 km (2,100 mi) W of Honolulu at 19° 17' N and 166° 35' E. The total land and water area is about 8 sq km (3 sq mi). Discovered by the British in 1796, Wake was long uninhabited.

In 1898, a US expeditionary force en route to Manila landed on the island. The United States formally claimed Wake in 1899. It was made a US naval reservation in 1934, and became a civil aviation station in 1935. Captured by the Japanese on 23 December 1941, Wake was subsequently the target of several US air raids. It was surrendered by the Japanese in September 1945 and has thereafter remained a US unincorporated territory under the jurisdiction, since 1972, of the Department of the Air Force.

As of 2001, only around 200 contractor personnel inhabited Wake Island. The island was no longer being used for missile launches by the US Army's Space and Strategic Defense Command. It is a stopover and fueling station for civilian and military aircraft flying between Honolulu, Guam, and Japan.



# UZBEKISTAN

Republic of Uzbekistan

*Uzbekiston Respublikasi*

**CAPITAL:** Tashkent (Toshkent)

**FLAG:** Horizontal bands of blue (top), white, and green separated by narrow red bands; white crescent moon and twelve stars on the blue band.

**ANTHEM:** n/a

**MONETARY UNIT:** The som (som) is the official currency, introduced when Uzbekistan left the ruble zone in November 1993. som1 = \$0.00090 (or \$1 = som1,114.17) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** Independence Day, 1 September.

**TIME:** 5 PM = noon GMT.

## <sup>1</sup> LOCATION, SIZE, AND EXTENT

Uzbekistan is located in central Asia bordering the Aral Sea, between Kazakhstan and Turkmenistan. Comparatively, it is slightly larger than the state of California, with a total area of 447,400 sq km (172,742 sq mi). Uzbekistan shares boundaries with Kazakhstan on the n, Kyrgyzstan and Tajikistan on the e, Afghanistan on the s, and Turkmenistan on the sw. Uzbekistan's boundary length totals 6,221 km (3,866 mi). Its capital city, Tashkent, is located in the eastern part of the country.

## <sup>2</sup> TOPOGRAPHY

Uzbekistan consists of mostly flat to rolling sandy desert with dunes. The Fergana Valley lies in the east surrounded by the Tian Shan mountains of Tajikistan and Kyrgyzstan. The Alai mountains lie to the extreme southeast. The highest point in the country is Adelunga Toghi, at an elevation of 4,301 meters (14,111 feet). The lowest point is Sariqarnish Kuli, which dips to 12 meters (39 feet) below sea level. The country is located in a seismically active region along the Eurasian Tectonic Plate, resulting in frequent earthquakes.

The Kyzyl Kum desert covers most of the interior of the country. With an area of about 297,850 square kilometers (115,000 square miles), it is the largest desert region in Central Asia and the ninth-largest in the world. In the northwest, the Aral Sea is shared with Kazakhstan. Covering area of about 64,500 square kilometers (24,900 square miles), it is the largest lake in the country and the fourth-largest lake in the world. The longest river in the country is the Amu Dar'ya, which has a total length of 2,540 kilometers (1,580 miles), only a portion of which runs through Uzbekistan.

## <sup>3</sup> CLIMATE

The climate is mid-latitude climatic desert. Temperatures range from 26° to 32°C (79° to 90°F) in the summer, with much higher figures in the desert. Average winter temperatures are between -6° and 2°C (21° to 36°F). There is very little rainfall in the country. The best watered areas only receive about 30 cm (12 in) annually.

## <sup>4</sup> FLORA AND FAUNA

Ecological damage has left much of the country devoid of animal life. Bird species include a variety of warblers, eagles, owls, buzzards, heron, ducks, and larks. Mammals include wolves, elk, hedgehogs, squirrels, and weasels. Leopards and wildcats can be found in some forested areas. As of 2002, there were at least 97 species of mammals, 203 species of birds, and over 4,800 species of plants throughout the country.

## <sup>5</sup> ENVIRONMENT

Uzbekistan's main environmental problems are soil salinity, land pollution, and water pollution. In 1992, Uzbekistan had the world's 27th highest level of carbon dioxide emissions, which totaled 123.5 million metric tons, a per capita level of 5.75 metric tons. In 2000, the total of carbon dioxide emissions was at 118.6 million metric tons. Chemicals used in farming, such as DDT, contribute to the pollution of the soil. Desertification is a continuing concern.

The nation's forestlands has also been threatened. Between 1990–1995, deforestation occurred at an annual average rate of 2.65%. However, reforestation efforts have begun as of the late 1990s.

The country's water supply also suffers from toxic chemical pollutants from industrial activity as well as fertilizers and pesticides. Uzbekistan has 16 cu km of renewable water resources, with 94%

of annual withdrawals used for farming and 2% used for industrial purposes. The nation's cities produce an average of 45.8 million tons of solid waste per year.

The draining and evaporation of the Aral Sea has been considered one of the worst ecological disasters in the world. Irrigation withdrawals from the Amu Darya and Syr Darya rivers have been a major cause of lake shrinkage. As a result, pesticides and natural salts in its water have become increasingly concentrated so that plant and wildlife habitats have been destroyed. As of 2002, the area of the Aral Sa was reported to cover less than half the size of the original basin.

As of 2003, only 2% of Uzbekistan's total land area is protected. According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 7 types of mammals, 16 species of birds, 2 types of reptiles, 4 species of fish, 1 species of invertebrate, and 1 species of plant. Threatened or rare species include the markhor, Central Asia cobra, Aral salmon, slender-billed curlew, and Asiatic wild dog. The Jeseter hladky has become extinct.

## 6 POPULATION

The population of Uzbekistan in 2005 was estimated by the United Nations (UN) at 26,444,000, which placed it at number 43 in population among the 193 nations of the world. In 2005, approximately 5% of the population was over 65 years of age, with another 35% of the population under 15 years of age. There were 99 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.6%, a rate the government viewed as satisfactory. The projected population for the year 2025 was 33,851,000. The overall population density was 59 per sq km (153 per sq mi), with the population being most dense in the Fergana Valley.

The UN estimated that 37% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 1.38%. The capital city, Tashkent (Toshkent), had a population of 2,155,000 in that year. Samarqand (Samarkand) had a population of about 374,900.

## 7 MIGRATION

Emigration to other former USSR republics exceeded immigration by 328,200 during 1979–90. In 1991, an estimated 400,000 Russians departed from Uzbekistan. As of 1996, 250,000 Crimean Tatars had left Central Asia for the Ukraine; most of these Tatars were from Uzbekistan. In 1999, there were an estimated 30,000 Tajik refugees and 8,000 Afghan refugees living in Uzbekistan; however, only 1,135 refugees and asylum seekers were registered with the United Nations High Commissioner for Refugees (UNHCR). Until 1999, refugees and asylum seekers were assigned no special status and were considered ordinary foreigners. However, in 1999 the government completed a draft of the Migration Law, which passed the Cabinet of Ministers. In 2000 there were 1,367,000 migrants living in Uzbekistan, including the remaining refugees. In 2004 there were 44,455 refugees, mainly from Tajikistan and Afghanistan, and 477 asylum seekers. In that same year, some 450 Uzbekistani sought asylum in Sweden and the United States. In 2005, the net migration rate was estimated as -1.16 migrants per

1,000 population. The government views the emigration level as too high, but the immigration level as satisfactory.

## 8 ETHNIC GROUPS

According to the last official estimates (1996), about 80% of the population was Uzbek. Russians constituted 5.5%, Tajiks made up 5%, Kazakhs accounted for 3%, Karakalpaks for 2.5%, Tatars 1.5%, and others 2.5%. There are also small numbers of ethnic Koreans, Meskhetian Turks, Germans, and Greeks.

## 9 LANGUAGES

Uzbek, the state language, was the most widely spoken non-Slavic tongue in the USSR. It is a Turkic language with six vowels—virtually identical to those of Tajik, which has surely influenced it—rather than the original eight or nine. In 1993, it was decided that the language would be written in the Roman (Latin) alphabet rather than in the Cyrillic alphabet. Uzbek is spoken by about 74.3% of the population in Uzbekistan; Russian is spoken by 14.2%, Tajik by 4.4%, and other various languages by 7.1%.

## 10 RELIGIONS

Ethnic Uzbeks are primarily adherents of the Hanafi sect of Sunni Islam, but the Wahhabi sect has flourished as well in recent years. Muslims account for about 88% of the population; Eastern Orthodox Christians account for about 9%; and others for 3%. In 2002 Uzbekistan had a significant Jewish population of about 20,000 Ashkenazi and Bukharan Jews, primarily in the cities of Tashkent, Bukhoro (Bukhara), and Samarqand (Samarkand). Almost 80,000 Jews have emigrated to Israel or the United States since independence. Minority religions listed as "other" include small communities of Korean Christians, Baptists, Roman Catholics, Lutherans, Seventh-Day Adventists, Evangelical and Pentecostal Christians, Buddhists, Baha'is, and Hare Krishnas.

Freedom of religion is guaranteed under the constitution of 1992 and there is a specific provision prohibiting the establishment of any state religion. However, the government has placed some restrictions on religious freedom. Proselytizing is prohibited by law. All religious groups must register with the government, but the government has placed strict criteria on the registration process and rejects applications on minor technicalities. For instance, a group must have a valid legal address in order to register, yet many smaller groups do not have such an office. Religious services conducted by unregistered groups are considered to be illegal. All religious literature is subject to censor by the government.

## 11 TRANSPORTATION

As of 2004, Uzbekistan had some 3,950 km (2,453 mi) of railroad track in common carrier service (not including industrial lines), all of it broad gauge. Separate lines serve eastern and western regions. In 2002, there were also 81,600 km (50,706 mi) of highways, of which 71,237 km (44,227 mi) are hard-surfaced. As a doubly landlocked nation, there is no direct connection to the open sea. The closest route to the sea is to the south through Termiz on the Afghanistan border. Conflict in Afghanistan blocks this route. The Zeravshan River is the largest inland waterway. In 2004, the country had 1,100 km (684 mi) of navigable inland waterways. Uzbekistan had an estimated 226 airports in 2004, of which 33 had paved runways as of 2005. In 2003, a total of 1.466 million



LOCATION: 41°0' N; 64°0' E. BOUNDARY LENGTHS: Afghanistan, 137 kilometers (85 miles); Kazakhstan, 2,203 kilometers (1,369 miles); Kyrgyzstan, 1,099 kilometers (683 miles); Tajikistan, 1,161 kilometers (722 miles); Turkmenistan, 1,621 kilometers (1,007 miles).

passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Some parts of present-day Uzbekistan have been inhabited since the Paleolithic era. The first states in the region were Khwarazm, Bactria, Sogdiana, and the Parthian Empire, in the first millennium BC. The territory was consolidated under the Achaemenids in the 6th century BC, until it was conquered by Alexander the Great, 329–327 BC. The Greeks were displaced by the Tochari in the 3rd century BC. From the 1st century BC to the 4th century AD Uzbekistan was part of the Kushana Kingdom. This in turn was replaced by the Ephthalite state.

In the 6th century the area was part of the West Turkic Kaganate, a loose confederation of largely nomadic tribes. By the 8th century the region was conquered by the Arabs, who introduced Islam. The Umayyid dynasty was displaced by the Abbasids in 747–750. In the 9th century the Samanids took control of most of Central Asia, including Uzbekistan. Turkic tribes again began to push into the area from the east in the 10th century, eventu-

ally forming the Karakhanid state. A lesser part of that state, Khwarazm, grew more powerful in the 12th century and came to dominate most of Central Asia.

Genghiz Khan's Mongols invaded in 1219, conquering all of Central Asia by 1221. In 1224 Genghiz Khan's son Chagatai was made ruler of this area. As Chingisid influence waned, Timur (Tamerlane, 1336–1405) established an empire in Samarqand (Samarkand). Upon his death it split into Khorasan, ruled by his son Shah Rukh, and Maweranahr, ruled by his grandson, Ulgh Beg. Although Timur is now claimed as the father of the modern Uzbeks, more likely candidates are the Sheibanid, nomadic Uzbeks who fought to take the area in the early 16th century. They settled among the other populations and became farmers, making Bukhoro (Bukhara) their capital.

In the 16th century Khwarazm, Balkh, and Khiva separated from Bukhara, becoming separate principalities. Bukhara was conquered by Persia in 1740, but sovereignty was retaken soon after by the Mangyt dynasty, which ruled until 1920. In the early 19th century the Kokand Khanate grew powerful in the eastern part of present-day Uzbekistan.

Russia had begun trading with Bukhara, Khiva, and Kokand in the 18th century. Concern about British expansion in India and Afghanistan led eventually to Russian conquest, which began in the 1860s and ended in the 1880s, when Uzbekistan became part of *Turkestan guberniia*, with Bukhara and Khiva administered as separate emirates under Russian protection.

In 1916 Tsar Nicholas II issued a call for Central Asian males to be drafted into labor battalions. This sparked resistance throughout the region, including in Uzbekistan, which was violently repressed. During the conflict from 1917–20, Uzbekistan was the site of competing attempts to create governments; the Bolsheviks announced a short-lived *Turkestan Autonomous Republic*, while a Muslim Congress also attempted an *Autonomous Government of Turkestan*. Red Army forces intervened savagely, but armed resistance continued as late as 1924, in the so-called *Basmachi Rebellion*.

The Uzbek Soviet Socialist Republic was created in 1925. In 1929, Tajikistan, which had been an administrative sub-unit, was elevated to full republic status, changing the boundaries. They were changed once again in 1936.

Under the leadership of long-time leader S. Rashidov, Uzbekistan was politically conservative during the 1970s and early 1980s. The republic was targeted for anticorruption purges in the mid-1980s, when considerable fraud in the cotton industry was discovered. The leader as of 2003, Islam Karimov, was appointed by Moscow in 1989.

In March 1990, Karimov was elected to the newly created post of president by the Uzbek Supreme Soviet. Uzbekistan declared independence on 1 September 1991, in the aftermath of the abortive Moscow coup of 19–21 August. Karimov's presidency was reaffirmed in an election in December 1991. Since then, however, Karimov has been increasingly hostile to even the most basic tenets of democracy. True opposition parties were banned in 1992 and political reformers have been jailed or have fled the country. Parliamentary elections to the 250-seat *Majlis* were held on 24 December 1994 and 15 January 1995, with 231 seats going to Karimov's People's Democratic Party—the former Uzbek Communist Party. Following the elections, President Karimov held a referendum that extended his presidency until 2000 which was allegedly approved by 99% of voters.

Despite his antidemocratic leanings, Karimov received little criticism from the West or from Russia (which, in fact, supplies him with ample military backing) since he had been seen as a buffer against the fundamentalist Muslim political and revolutionary movements in Central Asia—notably those in Afghanistan and in neighboring Tajikistan. In fact, Uzbekistan had supplied arms to the secular factions in both countries' civil wars.

The Islamic Movement of Uzbekistan (IMU), a radical Islamic organization seeking to establish an Islamic state in Central Asia, has long been operational in Uzbekistan. In February 1999, five car bombs in Tashkent were attributed to the IMU by Karimov, who accused the group of attempting to assassinate him and destabilize the country. The IMU broadcast a declaration of jihad from a radio station in Iran, and demanded the resignation of the Uzbek leadership. That year, IMU fighters operating from mountain hideouts launched a several-year series of engagements with government forces. Militants also took foreigners hostage in 1999 and 2000, including four US citizens who were mountain climbing in

August 2000, and four Japanese geologists and eight Kyrgyzstani soldiers in August 1999. IMU military leader Juma Namangani apparently was killed during a US-led air strike in Afghanistan in November 2001. In addition to the IMU, the *Hizb-ut-Tahrir* ("Freedom Party"), another radical Islamic organization, operates in the country, although, unlike the IMU, it does not use violent tactics to pursue its goals. Following the 11 September 2001 terrorist attacks on the United States, and its subsequent military campaign in Afghanistan to oust the Taliban regime and al-Qaeda forces, all radical Islamic groups in the Central Asian nations were linked by most governments to terrorism.

Uzbekistan offered its airbases to the US-led coalition for its campaign in Afghanistan beginning in October 2001. In response, the United States provided the country with \$60 million for 2002, in addition to a one-time contribution of \$100 million. In March 2002, the United States and Uzbekistan signed a Declaration on Strategic Partnership and Cooperation Framework, in which both countries agreed to cooperate on economic, legal, humanitarian, and nuclear proliferation matters. In April 2004, the European Bank for Reconstruction and Development announced its decision to limit investment in Uzbekistan, citing the government's lack of progress on democratic and economic reform benchmarks established one year earlier. Similarly, in July, the United States suspended \$18 million of the \$55 million originally earmarked for Uzbekistan in 2004. The decision was based on the 2002 Strategic Partnership and Cooperation Framework, which makes US assistance to the Uzbek government conditional on Tashkent's introduction of meaningful political reforms and curbs in human rights abuses.

On 27 January 2002, Karimov held another referendum to prolong his presidential term from 5 to 7 years, effectively keeping himself in power until 2007. The US Department of State refused to send election observers, arguing there had to be a "free and fair" presidential election before a referendum was valid.

In April 2003, parliament adopted legislation providing former presidents immunity from prosecution and lifelong state-funded security for them and their immediate family. Parliamentary elections in 2004, consisting of only parties which support the Karimov, resulted in the Liberal Democratic Party of Uzbekistan taking 41 seats, the People's Democratic Party with 32 seats, the *Fidokorlar* National Democratic Party with 17 seats, Democratic National Rebirth Party with 11 seats, the *Adolat* Social Democratic Party with 9 seats and 10 seats given to independents. The next parliamentary elections were scheduled for December 2009.

On 13 May 2005, unrest in Uzbekistan resulted in Uzbek troops firing on a crowd of protestors in the city of Anjian, killing between 500 to 1000 people. Although protests had been growing in size throughout 2004–05, never before had so many been killed. This incident has become known as the Anjian Massacre. The government, including president Karimov, stated it had acted in defense of its citizens as the protestors had stormed a military garrison and prison in the city seizing weapons and releasing around 4,000 prisoners on 12 May.

### <sup>13</sup> GOVERNMENT

The state constitution adopted on 8 December 1992 mandates a civil democratic society. The executive branch consists of the president and his appointed prime minister and Cabinet of Ministers.

During the Soviet years, the legislative branch consisted of a unicameral Supreme Soviet of 150 seats. The judicial branch is appointed by the president, subject to legislative confirmation, for 5- and 10-year terms. The Supreme Assembly is now bicameral. It consists of an Upper House or Senate with 100 seats and a Lower House or Legislative Chamber with 120 seats. The last elections were held on 26 December 2004 and 9 January 2005 with the next elections scheduled for 2009. Not all of the seats in the Supreme Assembly election were contested, and all parties in the Assembly support President Islam Karimov. In 1992, President Karimov banned opposition parties. The president is the head of state and has responsibility for the functioning of the other branches of government as well as for making sure the constitution is observed. He essentially rules by decree. Karimov held referendums extending his presidency in 1995 and 2002, taking 92% of the vote in 2002. The president is elected for a seven-year term. The next presidential election was to be held in 2007.

#### **14 POLITICAL PARTIES**

In the Soviet period, the only legal political party was the Communist Party. As Soviet control began to disintegrate in 1989–90, a number of mass-based “informal organizations” appeared which grew to be the equivalents of parties, although not all were legally registered. The largest, claiming as many as 100,000 members, was Birlik (Unity), founded by Abdurakhim Pulatov in 1989. Erk (Freedom) was founded in 1990 by Muhammad Solih, who split away from Birlik; in 1991, Solih was a candidate for president, drawing approximately 12% of the vote. Another group, never legally registered, was the Islamic Renaissance Party.

After independence President Islam Karimov began to establish strong authoritarian control. Political opposition was forbidden. Opposition leaders have been beaten, jailed, and exiled. There were five registered parties as of 2003, but their platforms are essentially identical, and all parties with seats in parliament support the president. The People’s Democratic Party (CDP) is the renamed Communist Party. Also registered were the Fatherland Progress Party (VTP); the Adolat (Justice) Social Democratic Party; the Democratic National Rebirth Party; and the Self-Sacrificers Party (the Fatherland Progress Party merged with Self-Sacrificers Party).

A political pressure group, the Erk (Freedom) Democratic Party, was reformed as a pro-Karimov party after repudiating its founder, Muhammad Solih, who was forced into political exile. Another pressure group, the Birlik (Unity) Movement was officially banned in mid-1993, but continued to exist.

#### **15 LOCAL GOVERNMENT**

The republic is divided into 12 oblasts, or provinces. There is also the autonomous Republic of Karakalpakstan, which has the right of legal secession, though is unlikely to exercise it. Administration is performed by locally elected councils, overseen by presidential appointees.

An April 1999 decree by Karimov granted *mahallas*, the smallest communal or neighborhood units in Uzbekistan, a greater level of autonomy than they previously had. The mahallas are traditional institutions charged by law with regulating communal life, and carrying out many state functions, such as community policing, political surveillance, and distributing social welfare pay-

ments. This increase in decentralization for the mahallas has been welcomed by nongovernmental organizations (NGOs) attempting to provide assistance to the mahallas and to strengthen the participation of communities in political, economic, and social matters.

#### **16 JUDICIAL SYSTEM**

The Soviet judiciary system, featuring trials by panels of three judges, still prevails. There are three levels of courts: district courts (people’s courts) at the lowest level, regional courts, and the Supreme Court. District court decisions may be appealed through the higher levels. Under the constitution, the president appoints judges for five-year terms. There are also town, city, Tashkent city courts and arbitration courts appointed for five-year terms.

The judicial system also consists of a constitutional court, higher economic court, and economic court of the republic. The constitutional court judges the constitutionality of laws and acts passed by the Supreme Assembly, the decrees issued by the president, government enactments and ordinances of local authorities. It is also responsible for interpreting the constitution.

The Supreme Court’s rulings are final and binding. It is the highest judicial body of civil, criminal, and administrative law. Defendants have the right to an attorney and most trials are open to the public. In political cases, the judiciary may experience pressure from the government. Prisons suffer from severe overcrowding and shortages of food and medicine. An estimated 5,000 to 6,000 political prisoners are being held in Uzbekistan’s penal institutions.

The government officially abolished censorship in 2002, although the government controls major media outlets and newspaper printing and distribution facilities. Internet access is available but the government has blocked a number of non-Uzbek news Web sites. Homosexuality is a criminal offense in Uzbekistan and prominent human rights activist Ruslan Sharipov, was sentenced in 2005 to five and one-half years for the charge. In March 2004 he was transferred from prison to house arrest.

The 1998 Law on Freedom of Conscience and Religious Organizations prohibits activities including proselytizing and private religious instruction, requires groups to register and provides strict criteria for their registration. There are restrictions on foreign travel, including the use of a system of exit visas; under Uzbek law, a citizen must obtain a five-year exit visa to travel to countries with which Uzbekistan operates a visa regime. The ability to move to a new city is limited as permission is required from local authorities, and the authorities rarely grant permission to those wishing to move to Tashkent.

Crimes perpetrated against women, such as domestic violence or rape are rarely prosecuted as women are discouraged from pressing charges. Trafficking of women and children remains a serious problem. Human Rights Watch reports that local authorities frequently use children as free or cheap labor for agricultural harvests, particularly cotton which the primary export of Uzbekistan.

Uzbekistan is a member of many international organizations including the United Nations and is an observer at the World Trade Organization.

## 17 ARMED FORCES

As of 2005, Uzbekistan's armed forces numbered 55,000 active personnel. The Army numbered 40,000 active members and were armed with 340 main battle tanks, 13 reconnaissance vehicles, 405 armored infantry fighting vehicles, 309 armored personnel carriers, and over 487 artillery pieces. The Air Force had between 10,000 and 15,000 personnel and operated 136 combat capable aircraft, including 75 fighters and 50 fighter ground attack aircraft. The service also had 29 attack helicopters. In addition, there were up to 20,000 paramilitary personnel, under the Ministry of Interior, of which up to 19,000 were internal security troops, and another 1,000 comprised the National Guard. The defense budget for 2005 was \$60 million.

## 18 INTERNATIONAL COOPERATION

Uzbekistan was admitted to the United Nations on 2 March 1992; it participates in ESCAP and several nonregional specialized agencies, such as the IAEA, FAO, the World Bank, UNCTAD, UNESCO, and the WHO. It is also a member of the Asian Development Bank, OSCE, the Commonwealth of Independent States, the Euro-Atlantic Partnership Council, the European Bank for Reconstruction and Development, the Islamic Development Bank, OSCE, and the Organization of the Islamic Conference (OIC).

In June 2001, leaders of Uzbekistan, China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan met in China to launch the Shanghai Cooperation Organization (SCO) and sign an agreement to fight ethnic and religious militancy while promoting trade. Also in 2001, Georgia, Uzbekistan, Ukraine, Azerbaijan, and Moldova formed a social and economic development union known as GUAAM; however, Uzbekistan withdrew from the partnership in 2005. Uzbekistan is also a partner in the Central Asian Cooperation Organization (CACO) and the Central Asian Union, both of which consist of Uzbekistan, Tajikistan, Kazakhstan, and Kyrgyzstan. Uzbekistan is part of the Nonaligned Movement and the NATO Partnership for Peace.

In environmental cooperation, Uzbekistan is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on Climate Change and Desertification.

## 19 ECONOMY

Although characterized by one of the lowest per capita incomes in the Central Asian and other post-Soviet republics, Uzbekistan's rich reserves of gold, oil, natural gas, coal, silver, and copper provide a promising endowment for future development. As a major source of cotton for the textile industry in the former USSR, and, as of 2006, the world's fifth-largest cotton producer and second-largest cotton exporter, Uzbekistan has a predominantly agricultural economy. In addition, much of the industrial production is linked to agriculture, including cotton harvesting equipment, textiles, and chemical fertilizers and pesticides. Only 12% of Uzbekistan's total cotton production and 60% of its silk cocoons were processed locally in the early 1990s, reflecting the country's principal role as supplier of raw material goods for downstream manufacturing elsewhere in the former USSR. In 2003, agricul-

ture accounted for 38% of GDP, followed by services at 35.7% and industry at 26.3%.

Uzbekistan has a centrally planned economic structure in which most production and employment remains in the state sector, and all health, education, social security, and welfare services are provided by the government. Measures taken toward establishing a greater market orientation within the economy have been more cautious than in many other post-Soviet countries. A differentiated process of price control liberalization was applied to the wholesale and retail sectors in 1991 in an attempt to avoid socially destabilizing surges in consumer prices. Nevertheless, inflation ran 790% in retail prices and 2,700% in wholesale prices in 1992; by the end of the year, real wage earnings had declined by 56%. The disruption of trading arrangements with former Soviet republics and the cessation of transfers from the Union's central government is evident in the erosion of other major economic indicators in the 1990s. In addition to a seriously deteriorating fiscal balance, estimated GDP shrank by 17% between 1991 and 1994. Following a breakdown in agreements over the conditions of a new ruble zone with Russia and other CIS countries, Uzbekistan adopted its own currency, the som, in late 1993.

When it became apparent that the slow pace of economic reform was not working, the government increased efforts to move from a command-driven to a market-oriented economy. Reforms included tighter monetary policies, cooperation with international financial institutions, increased privatization of state-owned enterprises, and an improved environment for foreign investors. In response, the economy slowed its decline to 1% in 1996 and the inflation rate dropped to 35%, down from 1,300% in 1994. Additional reforms announced in 1996 aimed at increasing the private sector's share of GDP to 60%.

By 1999, the state continued to dominate the economy, however. GDP grew by 2.5% in 1997, and 4.4% in 1998, despite the Russian and Asian financial crises. Inflation was at 71% in 1997, but fell to 29% in 1998. In 1999 growth was 4.1% and in 2000, 4%, while inflation persisted at annual rates of 29% and 26% respectively. Continued inflation and a growing debt burden combined with the global economic slowdown in 2001 to reduce real growth to 3%. By 2005, the GDP growth rate had reached an estimated 5.4%, and the inflation rate had been tamed, to an estimated 7.1%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Uzbekistan's gross domestic product (GDP) was estimated at \$52.2 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$1,900. The annual growth rate of GDP was estimated at 5.4%. The average inflation rate in 2005 was 7.1%. It was estimated that agriculture accounted for 38% of GDP, industry 26.3%, and services 35.7%.

Foreign aid receipts amounted to \$194 million or about \$8 per capita and accounted for approximately 2.0% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Uzbekistan totaled \$5.45 billion or about \$213 per capita based on a GDP of \$10.1 billion, measured in current dollars rather than

PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

Approximately 34% of household consumption was spent on food, 13% on fuel, 4% on health care, and 7% on education. It was estimated that in 2004 about 28% of the population had incomes below the poverty line.

## 21 LABOR

Uzbekistan's labor force was estimated at 14.26 million in 2005. As of 2000 (the latest year for which data was available), occupational breakdown data for the country's workforce was incomplete. Agriculture that year, accounted for 34.4% of the labor force, with industry at 20.3%. However data on the services sector was unavailable. The undefined occupation category was put at 32.7% for that year. Although unemployment in 2005 was officially put at 0.7%, another 20% of the workforce was estimated to be underemployed.

The labor code adopted in 1992 recognizes the right for all workers to voluntarily create and join unions, which may in turn associate with international affiliations. Unions also were granted independence from government administrative and economic bodies (except where provided by law), and were encouraged to develop their own charters, structure, and executive bodies. However, as of 2002, the union structure remained the same as under Soviet rule. There were no independent unions.

The standard workweek is 41 hours, and minimum wages are set by the Ministry of Finance. As of 2002, the minimum wage was about \$3.00 per month. Some factories have reduced work hours to avoid layoffs, and overtime pay is rarely given. The minimum working age is 16, although 15-year-olds may work a shorter workday. The Labor Ministry has an inspection service to enforce compliance with this requirement. The Labor Ministry also inconsistently enforces occupational health and safety regulations, many industrial plants continue to be hazardous, and most workers lack protective clothing and equipment.

## 22 AGRICULTURE

Uzbekistan was the former Soviet Union's largest producer of fruits and vegetables. About 12% of the total area is crop land. In 2004, about 35% of GDP and 17% of exports came from agriculture.

During the Soviet era, cotton was grown on almost half of all sown land. Cotton is grown in the crescent beginning in the Fergana Valley and extending south along the Tien Shan Mountains to Samarqand (Samarkand) and Bukhoro (Bukhara), and then west along the Amu Darya River. All cotton is flood irrigated. Plantings are generally in April, with the harvest coming in late August or early September. Fields are usually planted with alfalfa or corn every four or five years, but many fields are planted without rotation, leading to declining yields. Since independence, Uzbekistan has embarked on a policy to diversify agriculture; annual cotton lint production was over 1.1 million tons in 2004/05. Almost 40% of the gross value of agricultural production is derived from cotton; Uzbekistan was the world's fifth-largest producer of cotton lint in 2004/05 (after China, the United States, India, and Pakistan), accounting for 4% of world supply. In 2004, Uzbekistan's agricultural trade surplus was \$668.3 million.

Rice, wheat, barley, and corn are important grain crops. Rice is produced on 48 specialized state farms, and about 85% of the rice crop comes from the southwestern part of Karakalpakistan and the Khorezm region. In 2004, over five million tons of cereals were produced. Sesame, tobacco, onions, flax, and various fruits are also grown.

## 23 ANIMAL HUSBANDRY

Sheep are the main livestock product, with Karakyl sheep (noted for their black wool) raised in the Bukhara region. The livestock population in 2005 included 9.5 million sheep, 5.4 million head of cattle, 1,000,000 goats, 90,000 pigs, 150,000 donkeys, 145,000 horses, 25,000 camels, and about 14.5 million chickens. Meat production that year totaled 551,000 tons, of which 82% was beef, 13% was mutton, 2% was pork, and 3% was poultry. Wool (greasy) production in 2005 was estimated at 16,000 tons. Mulberry trees have been grown for silkworm breeding since the 4th century; some 1,200 tons of silk were produced in 2005.

## 24 FISHING

Fishing occurs mainly in the Fergana Valley. The Aral Sea in the north (the world's fourth-largest lake) is too saline and becoming more so, especially since its water surface area has decreased by 33% since 1960. The total catch in 2003 was 7,112 tons, primarily carp.

## 25 FORESTRY

Forests make up 4.8% of the total land area, mostly in the Fergana Valley and Zeravshan regions. Commercial forestry is not a significant part of the economy. Uzbekistan imported \$37.2 million in forestry products during 2004.

## 26 MINING

The mineral sector remained one of the chief contributors to the country's economic development. Along with natural gas and uranium, in which Uzbekistan was a world leader, and crude oil, in which it was self-sufficient, the country was significant to world mineral markets as a gold producer—it has, at times, been a world leader. Gold was the second-leading export commodity in 2002, providing 22% of export earnings. Production of fertilizers was an important part of the domestic chemical industry, as fertilizers were used for the production of cotton. In 2002, cotton was the leading export, accounting for 45% of Uzbekistan's exports.

Uzbekistan produced an estimated 80,000 kg of gold in 2002. Uzbekistan also mined copper (65,000 metric tons in 2002), molybdenum, silver, and tungsten. Copper, molybdenum, and lead-zinc were mined at the Almalyk mining and metallurgical complex, Uzbekistan's major nonferrous-metals-producing enterprise, northeast of Tashkent. No bismuth, cadmium, lead, palladium, tin, or zinc has been mined from 1997 through 2002. It appears that mining operations have been curtailed sharply or have ceased. Control of one of the main lead-mining deposits, Altyn-Topkan, in the Kurama mountain range, was transferred to Tajikistan in 1999. Uzbekistan also produced cement, kaolin clays (an estimated 5.5 million metric tons in 2002), feldspar, graphite, iodine, mineral fertilizer, nitrogen, phosphate rock, and sulfur. No fluorspar output has been reported from 1999 through 2002. Uz-

bekistan also manufactured copper, gold, lead, molybdenum, silver, steel, tungsten, and zinc metals.

Uzbekistan's explored resources of gold were 5,300 tons. The main reserves, amounting to 3,200 tons, were in the central Kyzylkum region, containing the Muruntau deposit (2,230 tons), the largest gold deposit in Eurasia and among the largest in the world; Muruntau's milling operation, near Zarafshan, processed more than 22 million tons per year of ore. Zeravshan—a 50–50 joint venture of an Uzbek government conglomerate and Newmont Corp., of the United States, the leading foreign investor in Uzbekistan's gold industry—produced 15.4 tons in 2000, from gold-bearing tailings from the Muruntau operation, down from 16.7 in 1999. The drop was a result of lower gold content in the material received by the plant.

## 27 ENERGY AND POWER

Uzbekistan is one of the 10 largest producers of natural gas in the world. According to an analysis by the Energy Information Administration (EIA), updated as of September 2005, Uzbekistan had natural gas reserves estimated at 66.2 trillion cu ft. In 2003, according to the EIA, natural gas production totaled 2.03 trillion cu ft, and according to preliminary data for 2004, natural gas output totaled 2.07 trillion cu ft. Dry natural gas consumption in 2002 totaled 1.6 trillion cu ft. Exports that year totaled 395.53 billion cu ft.

According to the EIA analysis, the Oil and Gas Journal estimates that Uzbekistan's proven reserves of oil total 594 million barrels. Uzbekistan's output of all petroleum liquids in 2003 totaled 155,000 barrels per day. In 2004, production was estimated at 150,000 barrels per day.

In 2002, Uzbekistan's electric power generating capacity totaled 11.631 million kW, of which conventional fossil fuel generating plants accounted for 9.921 million kW of capacity, with hydroelectric plants at 1.710 million kW. Electricity output in 2002 came to 46.942 billion kWh of which 86.5% was from fossil fuels and 13.5% from hydropower. Consumption of electricity in 2002 was 44.983 billion kWh.

## 28 INDUSTRY

Growth of Uzbekistan's industrial production averaged 3.2% in the 1980s, although on a per capita basis, the republic's industrial output remained less than half that of the USSR average by the end of the decade. Most industry was based on the processing of local agricultural products. Soft goods (mainly cotton, wool, and silk fiber) and processed foods (including cottonseed oil, meat, dried fruit, wines, and tobacco) accounted for about 39% and 13% of industrial production respectively in 1990; their manufacture was concentrated in Tashkent and the Fergana Valley.

Uzbeklegprom, the state association for the production of light industry goods, produces about 90% of Uzbekistan's textiles. In the late 1990s, Uzbeklegprom sought to boost capacity with the assistance of several joint venture partners. Investment projects such as the \$194 million investment Korean Kabul Textiles and those by Turkish firms Astop and Tekfen began to modernize cotton processing, although most textile mills continue to use outdated machinery with technology from the 1970s. The investment cost of updating the entire industry was estimated at between \$500 million and \$1 billion.

Food processing is Uzbekistan's second-largest industry, based on the country's abundant production of fruits and vegetables. The sector is also in need of investment to modernize its processing and packaging equipment.

Uzbekistan's machinery industry is the primary producer of machines and heavy equipment in Central Asia. Uzavtosanoat is the cornerstone of the country's automotive industry; it has developed joint ventures with Daimler-Benz (Germany) and Daewoo (ROK). The UzDaewoo-Avto plant in Andizhan began production in 1996 and produced about 200,000 units annually. Two models of cars, the Nexia and the Tico, and a microbus, the Damas, are the main models produced.

The aerospace industry centers around the Chkalov Tashkent Aircraft Production Co., a government-controlled enterprise that is one of the largest and most significant aircraft assembly plants in Central Asia. Equipment used on the *Salyut* and *Mir* space stations were among its products. Of more practical use have been developments in satellite imaging and communications.

Metal processing industries are clustered in the Olmaliq-Ohangaran (Almalyk-Akhangaran) complex, southeast of Tashkent. Metal alloys, wire, rods and sheet and gas-based nitrogen are manufactured in Chirchiq, close to the Kazakhstan border in the northeast. Chemical fertilizers used mainly in cotton production are also produced in the Chirchiq.

Uzbekistan has three oil refineries, at Fergana, Alty-Arik, and Bukhoro (Bukhara), with a total capacity of 220,000 barrels per day. The 50,000-barrels-per-day-capacity facility at Bukhoro (Bukhara) was built after the breakup of the Soviet Union at a cost in excess of \$400 million; it was expected to be expanded to a capacity of 100,000 barrels per day with the ability to handle both crude oil and gas condensate. In 2006, however, the refineries were operating well below capacity because of the decline in the Uzbekistan's oil production.

With estimated natural gas reserves of 66.2 trillion cu ft (Tcf), Uzbekistan is the second-largest producer of natural gas in the Commonwealth of Independent States (after Russia), and one of the top 10 natural gas-producing states in the world. Since becoming independent, Uzbekistan increased its natural gas production by over 30%, from 1.51 Tcf in 1992 to an estimated 2.07 Tcf in 2004.

In 2004, the industrial production growth rate was estimated at 9.4%.

## 29 SCIENCE AND TECHNOLOGY

The Uzbek Academy of Sciences, headquartered in Tashkent, has departments of physical-mathematical sciences; mechanics; control processes; informatics; chemical-technological and earth sciences; and biological sciences. Uzbekistan has 45 research institutes conducting research in agriculture and veterinary sciences, technology, natural sciences, and medicine. Twenty-three colleges and universities offer scientific and technical training. In the period 1990–2001, there were 1,754 scientists and engineers, and 312 technicians engaged in research and development per million people.

## 30 DOMESTIC TRADE

Although dominated by state-owned stores and distribution channels under the Soviet economy, retailing has seen a marked shift

toward private business. Since 1992, thousands of small businesses have been privatized or leased to worker collectives, with the most progress in retail trade, consumer services, public catering, and local industry. However, the shift from state control to a free-market economy continued to move at a very slow pace. Urban markets provide an important outlet for the sale of vegetables and other foodstuffs. Government restrictions on trade and foreign investment have hindered the economy. Black market trade was still available as of early 2006.

Business hours are 9 AM to 6 PM, Monday to Friday, and banks are open from 9 AM to 4 PM. Department stores are open from 10 AM to 6 PM, Monday through Saturday.

Advertising by print and television is popular. Other forms of advertising include billboards, radio, and transportation (buses, trams) advertisements. Many affluent Uzbeks subscribe to Kamalak wireless cable television service.

### **31 FOREIGN TRADE**

While supplying the former USSR with light industry goods (mainly cotton fiber) and basic equipment related to agriculture and agricultural processing, Uzbekistan has been highly dependent on the other former Soviet republics for critically needed grain, food, machinery, and other industrial inputs. Uzbekistan is a net exporter of natural gas, but had begun importing oil in the early 2000s.

In 2006, exports included cotton, gold, natural gas, fertilizers, ferrous metals, textiles, food products, and automobiles. Imports included grain, machinery and parts, consumer durables, and foods.

### **32 BALANCE OF PAYMENTS**

Uzbekistan was extremely reliant on cotton exports as a means of trade throughout its association with the former USSR, but earnings fluctuated widely from year to year depending on the performance of the agricultural sector. Exports of natural gas and petroleum generated much needed hard currency reserves within the next several years. Uzbekistan received substantial financial support from the World Bank, IMF, and other multilateral lending institutions. Proceeds were used to finance the cotton industry and oil and gas development, to provide a social safety net, to maintain the water supply, and to further privatization efforts.

The country lost almost half of its foreign exchange reserves in 1996, after the government imposed strict currency controls. As of the early 2000s, Uzbekistan was able to maintain reserve levels at or close to \$1.2 billion, in large measure by restricting imports. Exports dropped as well, and as a result of this decline in trade, Uzbekistan managed to achieve a modest balance of payments surplus of \$359 million in 1999. The country's external debt stood at \$5.1 billion in 2001. Many creditors reassessed their lending to Uzbekistan due to this high debt burden, and foreign investment declined.

The estimated current account balance in 2003 was \$270 million. By the end of that year, the country's total debt stock amounted to \$4.6 billion. Trade volumes have fallen sharply since 1997, due in part to Uzbekistan's currency convertibility restrictions, which still continue for consumer goods, significant administration barriers for licensing and certification, and very high customs duties. However, high prices for gold and cotton, two of Uzbeki-

stan's primary export commodities, resulted in a slight increase in trade revenues in the mid-2000s.

### **33 BANKING AND SECURITIES**

After 1993, the banking system was headed by the now-defunct National Bank of Uzbekistan, the former local branch of the Soviet Gosbank. The NBU attempted to increase its supervision over Uzbekistan's banks, the most important of which are state-owned. In 2002, the Central Bank of Uzbekistan (CBU) was in charge of the country's two-tier banking system, and had the responsibility of issuing soms, the country's currency unit, and regulating the commercial banks by setting reserve requirements and the discount rate. The other important state bank was the Uzbek National Bank of Foreign Economic Activities (NBU), which dealt exclusively with the foreign exchange rate.

There were increasing hints from the government that the banking sector is in trouble. The first indicator of a banking crisis came with the sudden and unpublicized sacking in January 1997 of Ahmat Ibotov, the head of Promstro Bank, the second-largest bank in Uzbekistan after the NBU. Then, on 26 February 1997, President Karimov launched a scathing attack on the country's banks, accusing them of being corrupt and bureaucratic. The president also blamed the banks for maintaining excessively high interest rates. The CBU has also criticized the banks for poor credit risk evaluation and poor procedures over the issuing of bank guarantees. Commercial banks in the country include the Uzbek Commercial Bank and the Uzbek Joint-Stock Innovation Bank. The country does not have a security market, but the trading of commodities is widely practiced in the country.

In 1996, the authorities closed three banks, all supposedly for breaching lending limits set by the CBU. One of the main problems in the banking sector is over-concentration. The three largest banks, all of which are state-owned, control 86% of commercial banks' assets. The main culprit is the NBU, which accounts for 45% of assets.

### **34 INSURANCE**

Among the insurance companies doing business in Uzbekistan in 1997 were: GOSSTRAKH State Insurance Company of the Republic of Uzbekistan; JV, UMID Joint-Stock Insurance Co.; MADAD Joint-Stock Insurance Agency; and Uzbekinvest National Insurance Co. of the Republic of Uzbekistan, which is government-owned.

### **35 PUBLIC FINANCE**

Uzbekistan's spiraling inflation as a member of the ruble zone necessitated the introduction of a transition currency after it left the ruble zone in November 1993. In 1994, the government undertook economic reforms, but privatization efforts have fallen short of expectations. Subsidies for basic consumer goods (except some food staples and energy products) and subsidized credit to industrial enterprises were substantially reduced during 1994 and 1995. The external debt, \$1.5 billion at the end of 1994, more than doubled to \$3.3 billion by 1997. By 2005, it had exceeded \$5 billion. An enterprise profit tax, a value-added tax, and an excise tax on cotton supply the bulk of government revenues. The government is officially committed to a gradual transition to a free-market economy, but is cautious in the actions it takes toward that goal. The restric-

tive trade regime has crippled the economy and currency convertibility is essentially unheard of.

The US Central Intelligence Agency (CIA) estimated that in 2005 Uzbekistan's central government took in revenues of approximately \$2.8 billion and had expenditures of \$2.9 billion. Revenues minus expenditures totaled approximately -\$102 million. Public debt in 2005 amounted to 39% of GDP. Total external debt was \$5.184 billion.

### **36 TAXATION**

As of 2005, Uzbekistan had a standard corporate tax rate of 18%. Capital gains are treated as taxable profits and are taxed at the corporate rate. Dividends and interest paid to resident companies and individuals, and to nonresident foreign companies without a permanent presence in the country, are subject to a 15% withholding tax. Royalties are subject to a 20% withholding tax, if paid to nonresident firms without a permanent presence in Uzbekistan.

Uzbekistan has a maximum personal income tax rate of 33%. The official minimum monthly wage rate in Uzbekistan is 3,430 soms, which is worth about \$2 in the black market. People who earn less than 15,720 soms (about \$9) a month pay 13%. On the increment between 15,720 soms and 31,140 soms (\$18) per month the rate is 23%, and on income above 31,140, the new maximum rate is 33%. At the same time the government introduced a 20-som tax on each liter of gas.

Also levied is a 20% value-added tax (VAT) on all goods and services, although some are zero-rated or exempt. Other taxes include excise taxes, property taxes, an ecology tax, a subsurface use tax (imposed on natural resource extraction, road use taxes and social and pension fund contributions).

### **37 CUSTOMS AND DUTIES**

Uzbekistan is a member of the Economic Cooperation Organization, together with Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Iran, Pakistan, and Turkey. Uzbekistan has also formed an economic union with Kazakhstan and Kyrgyzstan. Imports are subject to customs duties at rates ranging from 1–4%. However, excise taxes have been much higher, as much as 90% for imported liquor.

### **38 FOREIGN INVESTMENT**

While Uzbekistan's store of valuable natural resources is likely to provide a strong basis for covering the costs of long-term economic development, significant amounts of external funding will be needed to support its short-term development plans over the next decade. To stimulate foreign direct investment, legislation adopted in mid-1991 provides tax incentives and guarantees against expropriation, though falling short of securing the right to repatriate profits and third-party dispute arbitration. By the end of 1992, 450 joint ventures were registered in the country but only 135 were actually operating. The largest of these is with the US-based Newmont Mining Corp. Negotiations over further Western participation in the exploitation of a major oil field discovered in the Fergana Valley in early 1992 followed. Fourteen bilateral agreements with China were signed in 1992.

In 1994, British-American Tobacco, one of the world's largest cigarette manufacturers, announced a \$200 million deal to acquire 51% of state-owned Uztobacco. That same year, a Coca-Cola joint

venture began operations in Uzbekistan. In August 1996, South Korea's Daewoo Group announced the planned investment of \$2.5 billion in Uzbekistan to build telecommunications networks. Daewoo has invested \$658 million to produce cars in Uzbekistan. In 2000 Uzbekistan and Israel announced plans to cooperate on the development of solar power technology.

The Uzbek government reported foreign direct investment (FDI) of \$298 million in 1998 and \$188 million in 1999. In 2003, FDI inflows were estimated at \$70 million by the Economist Intelligence Unit; government figures listed FDI inflows at \$167 million. Despite Uzbekistan's strategic location and considerable economic potential, the poor investment and business climate has caused the country to attract less FDI than any other CIS country. The largest percentage of FDI in 2003 originated from Russia (15.8%), South Korea (9.8%), and the United States (8.7%).

### **39 ECONOMIC DEVELOPMENT**

Under centralized Soviet economic planning, Uzbekistan's economic growth was fueled by expanded agricultural production, as extensive stretches of land were brought under irrigation particularly for cultivation of cotton. While highly critical of the former Soviet's government emphasis on promoting cotton monoculture in the republic, the country's new government has found that the country's economic fortunes are closely tied to cotton production, which has fallen steadily since the Soviet era.

Since independence the government has aimed at facilitating a greater market orientation in the economy, though the steps taken toward this goal have been smaller and slower-paced than in other parts of the former USSR. A series of basic laws and new policies have been adopted regarding property ownership, land, privatization, foreign investment, price controls, trade, taxes, and banking. In 1995 the government announced a mass privatization program with the objective of increasing the private sector's share of GDP from 40% to 60%. Although nearly 60,000 small businesses (96% of the total) and 14,000 farms (accounting for 11% of arable land) had been privatized by 1997, only 20% of Uzbekistan's medium and large-sized enterprises were in private hands.

Developing the country's oil and natural gas fields, bolstering cotton exports through productivity enhancement, and sustaining gold exports are likely to be key strategies for procuring some of the necessary financing to support economic development. In 1992, Uzbekistan signed an agreement with Russia, transferring its share of the former Soviet Union's debt to the latter in exchange for relinquishing all claims on Soviet assets. One area of serious concern for the government is the increasing threat to public health and economic productivity posed by the environmental damage resulting from past development strategies. Addressing growing water shortages, severe river and lake pollution caused by the heavy use of chemical inputs in agriculture, the desiccation of the Aral Sea due to massive irrigation, and high levels of both air and water pollution in the country's industrial centers are among the country's most pressing environmental management problems.

In 2002 the government and the Central Bank embarked on an IMF staff monitored program (SMP) primarily designed to convince the IMF to approve a financial program. The SMP was aimed at accelerating the transition to a market economy and achieving macroeconomic stability. The main policies pursued were reduc-

ing the role of the state through progressive lifting of restrictions on private activity, as well as accelerated privatization state enterprises, plus tight monetary and fiscal policies to bring down inflation and reduce debt. As of 2002, World Bank commitments to Uzbekistan amounted to \$463 million: a three-year Country Assistance Strategy (CAS) was aimed to prepare the country and its decision-makers for currency and trade liberalization. At the same time, it provided for investments in projects contributing to poverty reduction, public health, ecological disaster prevention, regional environmental degradation, and institution building.

The European Bank for Reconstruction and Development (EBRD) has traditionally been one of the largest investors in Uzbekistan's economy. From 1993–2003, the EBRD signed 25 projects in the country, and its total financial assistance amounted to \$727.9 million. These projects included the rehabilitation of the oil refineries and power plants, building of new production facilities, development of gold mines, assistance to small and medium enterprises (SMEs), and others.

Uzbekistan became a member of the Asian Development Bank (ADB) in 1995 and by 2003 had received 10 loans from it. ADB assistance was directed to transportation and communications, social infrastructure, agriculture and natural resources, and finance.

#### **40 SOCIAL DEVELOPMENT**

The social security system includes old age, disability and survivor's pensions, in addition to sickness, maternity, work injury, and unemployment benefits. Pensions are provided at age 60 for men and age 55 for women. The program is financed by a 33% contribution from employers and a 2.5% contribution by employees. Women are entitled to 126 days of maternity benefits plus three years unpaid maternity leave. Unemployment benefits are funded entirely by employers, with subsidies as needed from the government. All residents are have medical benefits, and maternity benefits amount to 100% of wages for up to 140 days. Mothers with children under two years of age are entitled to paid leave. Family allowances cover all needy residents.

Violence against women and spousal abuse continues to be a common problem with little or no governmental intervention. Although nominally equal under the law, women hold few high-level positions. Traditional customs decree that women generally marry young, bear many children, and confine their activities to the home. This is particularly evident in rural areas. There is a reported increase in the incidence of suicide by self-immolation by women. Sexual harassment is not proscribed by law, and societal norms and lack of recourse make it difficult to assess the scope of the problem.

Human rights violations are prevalent. Security forces arbitrarily arrest and detain individuals, torture and beat prisoners, and confine them to unsafe prisons and labor camps. Freedom of speech and press are tightly restricted. Religious groups are closely monitored. The activities of human rights organizations are restricted, and human rights activists are frequently harassed.

#### **41 HEALTH**

The system of health care in Uzbekistan is comprehensive and services are provided mainly free of charge. Yet the overall efficacy of the Uzbek system was still relatively low as of 2000. The public often used hospitals for primary care. Health care reform objec-

tives as of 2000 included improved quality of services overall and specifically in the areas of maternal and child health; promotion of privatization; and cost containment. Primary health care in rural areas is still provided by health posts staffed by physicians' assistants and midwives. Approximately 85% of the population had access to safe drinking water and 100% had adequate sanitation. As of 2004, there were an estimated 289 physicians, 997 nurses, 21 dentists, and 3 pharmacists per 100,000 people. Total health care expenditure was estimated at 4.1% of GDP.

The infant mortality rate was 71.10 per 1,000 live births in 2005. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 26.1 and 8 per 1,000 people. The average life expectancy was 64.19 years in 2005. It was estimated that 93% of children up to one year old were immunized against tuberculosis; 65% against diphtheria, pertussis, and tetanus; 79% against polio; and 71% against measles. The rates for DPT and measles were, respectively, 99% and 96%.

The heart disease rates were well above the countries classified as "medium human development" by the World Health Organization. The likelihood of dying after age 65 of heart disease was 508 for males and 538 for females per 1,000 adults.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 11,000 people living with HIV/AIDS in the country. There were an estimated 500 deaths from AIDS in 2003.

#### **42 HOUSING**

In 1989, 31.9% of all privately owned urban housing had running water, 11.3% had sewer lines, 21.1% had central heating, and 1.5% had hot water. In 1990, Uzbekistan had 12.1 sq m of housing space per capita and, as of 1 January 1991, 204,000 households (or 11.5%) were on waiting lists for urban housing. In 1996, it was estimated that about 90% of all households owned their own apartments or houses.

#### **43 EDUCATION**

For centuries, Uzbekistan was a noted Muslim educational center. Muslim schools in the cities of Bukhoro (Bukhara), Samarqand (Samarkand), Tashkent, and Khiva attracted students from other Muslim countries. In 1920, after the Soviet Union took control of the region, schools and mosques were closed down, and a secular state-funded educational system was established. In recent years, there has been an increased emphasis on Uzbek literature, culture, and history.

Nine years of schooling is compulsory. Primary school lasts for four years, followed by general secondary school of five years. Students then have several options for continuing their upper secondary education, including general studies, technical or vocational programs, and specialized academic programs. Upper secondary courses usually cover two years of study. The academic year runs from September to June.

In 2001, primary schools enrolled 2,559,000 students. In the same year, secondary schools had 4,237,000 students. It has been estimated that nearly all students complete their primary education.

There are three universities in Uzbekistan: Tashkent State University; Nukus State University; and Samarkand Alisher Navoi State University. There are several other institutions offering specialized

training. In 2003, it was estimated that about 16% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 99.3%.

#### 4<sup>4</sup> LIBRARIES AND MUSEUMS

The largest library in the country is the Alisher Navoi State Public Library of Uzbekistan in Tashkent, which serves as the national library and holds over 10 million items. The Central State Archive of Uzbekistan is also in Tashkent, as are the Republic Library for Science and Technology (two million volumes), the Foundation Library of the Uzbek Academy of Sciences (1.5 million), the Pedagogical Institute (808,000), Tashkent State University (2.46 million), and the Polytechnic Institute (808,000). Samarqand (Samarqand) State University's library holds 1.6 million volumes, and the Pedagogical Institute Ulugbek in Fergana holds 295,000 volumes.

The Museum of Fine Arts, the Museum of History, the National Nature Museum, and the Sergey Yesenin Literary Museum are in Tashkent, as are the Central Museum of the Armed Forces and the Museum of Olympic Glory. The Museum of Culture and Art History and the International Museum of Peace and Solidarity are in Samarqand (Samarkand). The Termez Archaeological Museum was established in 2001.

#### 4<sup>5</sup> MEDIA

Telephone links to other former Soviet Republics are provided by land link or microwave and to other countries through Moscow. In 2003, there were an estimated 67 mainline telephones for every 1,000 people; about 38,900 people were on a waiting list for telephone service installation. The same year, there were approximately 13 mobile phones in use for every 1,000 people.

Radio Tashkent, established in 1947, broadcasts in Uzbek, English, Urdu, Hindi, Farsi, Arabic, and Uighur. There is also a television station in Tashkent, and satellite earth stations receive Orbita and INTELSAT. In 2004, the government owned four television channels and two radio stations. There were about 30 to 40 privately owned local television stations and 7 privately owned radio stations. In 2003, there were an estimated 456 radios and 280 television sets for every 1,000 people. The same year, 19 of every 1,000 people had access to the Internet. There was one secure Internet server in the country in 2004.

Though there are privately-owned newspapers, the government owns the entire publishing house and must grant approval for all publications printed. The most widely read dailies include *Khalk Suzi* (2002 circulation 52,000), *Pravda Vostoka* (35,000), and *Sovet Uzbekistoni*. The weekly *Narodnoye Slovo* has a circulation of 21,000.

Though the constitution provides for freedom of expression, the government is said to restrict those rights severely, controlling all information flow. A 1991 law prohibits offending the president. Though a 2002 law allowing for prepublication censorship has been eliminated, many media sources continue to practice self-censorship.

#### 4<sup>6</sup> ORGANIZATIONS

The Uzbekistan Chamber of Commerce and Industry promotes the country's exports in world markets. An umbrella organization,

the Federation of Trade Unions of Uzbekistan, coordinates the activities of the country's trade unions.

The Academy of Sciences was established in 1943 to promote public interest in science while encouraging the work of scientific researchers and educators. The Physicians Association of Uzbekistan serves as a professional networking group and promotes research and education on public health issues.

National youth organizations include the Ulugbek Foundation for the Support of Talented Youth, the Youth of the Union of the Republic of Uzbekistan, and Soglom Ovlun Uchun, an organization focusing on health and development for children and youth. There are many active sports associations promoting amateur competition for athletes of all ages.

Women's organizations include the Center for Women Leaders (in Tashkent) and the Women's Committee of Uzbekistan. The Society for Human Rights is an important political association. Several social action groups formed in the 1990s, many, such as Real Action (1994), the ECO Initiative Group (1999) and Ecopolis Cultural and Ecological Movement (1995), are focused on environmental and developmental issues. The Red Crescent Society is also active.

#### 4<sup>7</sup> TOURISM, TRAVEL, AND RECREATION

Uzbekistan tourist attractions include the Islamic cities of Samarqand (Samarkand), Bukhoro (Bukhara), Khiva, and Kokand. Muslims from Pakistan, Iran, and the Middle East have been drawn to these sites with their palaces, mosques, *madrasses* (religious colleges), and pre-Islamic remains.

In an effort to increase tourism in recent years, several hotels have been built in Uzbekistan, and historical monuments were reconstructed. In 2003, there were 231,000 visitors who arrived in Uzbekistan. Hotel rooms numbered 7,332 with 15,670 beds and an occupancy rate of 31%. The average length of stay was three nights. That same year, tourism expenditure receipts totaled \$48 million.

According to 2004 US Department of State estimates, the cost of staying in Tashkent was \$178 per day.

#### 4<sup>8</sup> FAMOUS UZBEKISTANIS

Islam A. Karimov (b.1938) has been president of Uzbekistan since 1991. A famous 20th century writer is Abdullah Quaisi, who wrote the historical novels *Days Gone By* and the *Scorpion from the Pulpit*, published in the 1920s. Quaisi was killed in the 1930s during Stalin's purges. Ilyas Malayev (b.1936) is a popular poet and musician.

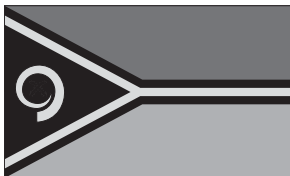
#### 4<sup>9</sup> DEPENDENCIES

Uzbekistan has no territories or colonies.

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# VANUATU

Republic of Vanuatu  
[French] *République de Vanuatu*  
[Bislama] *Ripablik blong Vanuatu*

**CAPITAL:** Port-Vila

**FLAG:** Red and green sections are divided horizontally by a gold stripe running within a black border and widening at the hoist into a black triangle on which is a pig's tusk enclosing two crossed yellow mele leaves.

**ANTHEM:** *Yumi, Yumi, Yumi (We, We, We).*

**MONETARY UNIT:** As of 1 January 1981, the vatu (VT) replaced at par value the New Hebridean franc as the national currency. There are coins of 100 vatu and notes of 100, 500, 1,000, and 5,000 vatu. VT1 = \$0.00895 (or \$1 = VT111.79) as of 2004.

**WEIGHTS AND MEASURES:** The metric standard is used.

**HOLIDAYS:** New Year's Day, 1 January; May Day, 1 May; Independence Day, 30 July; Assumption, 15 August; Constitution Day, 5 October; National Unity Day, 29 November; Christmas Day, 25 December; Family Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, and Ascension.

**TIME:** 11 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Vanuatu, formerly the Anglo-French condominium of the New Hebrides, is an irregular Y-shaped chain of some 80 islands, with a total land area of about 12,200 sq km (4,710 sq mi) and a total coastline of 2,528 km (1,571 mi). Comparatively, the area occupied by Vanuatu is slightly larger than the state of Connecticut. Of the 70 inhabited islands, the largest is Espiritu Santo; the island of Éfaté is the administrative center. The island chain is about 800 km (500 mi) long and lies about 1,000 km (600 mi) w of Fiji and 400 km (250 mi) NE of New Caledonia. Vanuatu and France both claim Matthew and Hunter islands, which lie between Vanuatu and New Caledonia; one of the islands has been occupied by French forces.

Vanuatu's capital city, Port-Vila, is located on the island of Éfaté.

## <sup>2</sup>TOPOGRAPHY

The islands are of coral and volcanic origin; there are active volcanoes on several islands, including Ambrym, Lopevi, and Tanna. Most of the islands are forested and mountainous, with narrow coastal strips. The highest peak, Tabwemasana, on Espiritu Santo, rises 1,878 m (6,161 ft) above sea level. The islands are generally well watered. Being formed in a geologically active area, the islands experience occasional earthquakes. Though these are generally minor, a 6.8 magnitude earthquake was recorded at 90 miles (140 km) north of Luganville, Espiritu Santo, on 5 February 2005.

## <sup>3</sup>CLIMATE

The tropical oceanic climate is moderated by southeastern trade winds, which blow between the months of May and October. Winds are variable during the remainder of the year, and cyclones may occur. Average midday temperatures in Port-Vila range from

25°C (77°F) in winter to 29°C (84°F) in summer. Humidity averages about 74%, and rainfall on Éfaté is about 230 cm (90 in) a year.

## <sup>4</sup>FLORA AND FAUNA

Despite its tropical forests, Vanuatu has a limited number of plant and animal species. There are no indigenous large mammals, poisonous snakes, or spiders. The 19 species of native reptiles include the flowerpot snake, found only on Éfaté. There are 11 species of bat (3 unique to Vanuatu) and 61 species of land and water birds. While the small Polynesian rat is thought to be indigenous, the large species arrived with Europeans, as did domesticated hogs, dogs, and cattle. The wild pig and fowl appear to be indigenous.

The region is rich in sea life, with more than 4,000 species of marine mollusks. Coneshell and stonefish carry poison fatal to humans. The giant East African snail arrived only in the 1970s but already has spread from the Port-Vila region to Luganville.

## <sup>5</sup>ENVIRONMENT

Vanuatu's population growth has caused concern for the environment in several areas. Water pollution in urban areas is a problem due to inadequate sanitation systems. A majority of the country's population does not have access to a reliable supply of safe drinking water. The nation's logging industry threatens the forests and contributes to the problem of soil erosion. The reefs on Vanuatu's coasts, which are the home of the country's marine life, are threatened by inappropriate fishing methods and siltation. In 1987, the government formed the National Advisory Committee on the Environment (NACE) to address the nation's developing environmental concerns.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 5 types of mammals, 7 species of birds, 2 types of reptiles, 5 species of fish, and 10 species of plants. The es-

tuarine crocodile, hawksbill turtle, Fiji banded iguana, and insular flying fox are threatened species.

## 6 POPULATION

The population of Vanuatu in 2005 was estimated by the United Nations (UN) at 218,000, which placed it at number 172 in population among the 193 nations of the world. In 2005, approximately 3% of the population was over 65 years of age, with another 42% of the population under 15 years of age. There were 104 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 2.6%, a rate the government viewed as too high. A high fertility rate, 4.3 births per woman, contributed to the high rate of population growth. The projected population for the year 2025 was 304,000.

The overall population density was 18 per sq km (46 per sq mi). The population is unevenly distributed, with the vast majority of Vanuatuans living in some 2,000 small villages. The most populous islands are Éfaté, Espiritu Santo, and Malekula.

The UN estimated that 21% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 4.09%. The capital city, Port-Vila, had a population of 34,000 in that year.

Luganville on Espiritu Santo, the only other large town, had a population of 10,738.

## 7 MIGRATION

Vanuatu's earliest known settlers probably migrated from the northwestern Pacific about 3,000 years ago. They were followed a thousand years later by migrants from the Solomon Islands. Tradition describes a series of subsequent incursions. In the 19th century, thousands of New Hebrides islanders were recruited as indentured laborers for plantation work in Australia, Fiji, New Caledonia, and Samoa. This migration gradually died down after the establishment of the Anglo-French Condominium, although voluntary emigration to New Caledonia continued until independence. In recent years, adverse economic conditions have encouraged emigration to Fiji, New Zealand, and the United States. The net migration rate in 2005 was estimated as zero migrants per 1,000 population. Worker remittances in 2002 amounted to \$31 million. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Approximately 98% of the total population are of Melanesian origin. French constitute about 4% of the population. The remaining 2% is made up of Vietnamese, Chinese, and other Pacific Islanders.

## 9 LANGUAGES

More than 100 languages and dialects are spoken in Vanuatu. Melanesian, the principal language, is related to Fijian and New Caledonian speech. Pidgin English, known as Bislama or Bichelama, is recognized by the constitution as the *lingua franca*, although English and French are also official languages. The national anthem is in Bislama, which is also used in parliamentary debate, with the proceedings reported in English and French as well. Children often speak as many as four languages and every aspect of public

life—including education, law, and the media—is complicated by language problems.

## 10 RELIGIONS

A majority of the population is considered to be Christian, though many include indigenous customs with their practice. The Anglican, Presbyterian, and Roman Catholic churches first began missionary work in the New Hebrides during the 19th century. More recently, the Seventh-Day Adventists and other nontraditional Protestant groups have been active in mission work. While most of the mission schools have been handed over to the government, missionaries have continued to make important contributions to education and health.

According to the latest estimates, about 48% of the population were Presbyterians, 15% were Roman Catholics, 12% were Anglican, 7.6% followed indigenous beliefs, 6.2% were Seventh-Day Adventist, 3.8% were members of the Church of Christ, and 15.7% were designated as other. Muslims are also active within the country. There are small groups of Jehovah's Witnesses and Mormons. Since 1940, the John Frum Movement (political party and indigenous religion based on a rejection of the white Christian's beliefs but not his goods) has flourished, mainly on Tanna and provides a remarkable example of religious development in a situation of cultural challenge and transition. Membership, however, is only about 5% of the population.

The constitution allows for religious freedom while making a commitment to traditional values of Christian principles. Some subsidies are offered to Christian churches and the government maintains good relations with the Vanuatu Christian Council through the Ministry of Home Affairs.

## 11 TRANSPORTATION

During World War II, Vanuatu became an important Allied base, and many roads and airstrips were built by the US forces. In 2002, there were 1,070 km (665 mi) of roads, of which 256 km (159 mi) were paved. In 2003, there were 8,350 passenger cars and 4,450 commercial vehicles registered for use.

There were 30 small usable airfields serving all the main islands in 2004, of which 3 had paved runways as of 2005. The chief airports are Bauerfield, on Éfaté, and Pekoa, on Espiritu Santo; both have been upgraded to handle jet aircraft. Air Vanuatu, the national airline operated by Ansett Airlines of Australia, maintains regular service to Australia; an internal airline, Air Melanesia, links 22 airfields on various islands. Other external service is provided by Air Pacific, UTA, Polynesian Airlines, Solair, and Air Nauru. Port-Vila and Luganville are the chief seaports. In 2001 (the latest year for which data was available), 97,500 passengers were carried on scheduled domestic and international flights. Small ships provide frequent interisland service. Vanuatu maintains a policy of open registry for merchant ships, allowing foreign ship-owners to avoid the higher costs and regulations of registration under their own flags. As of 2005, there were 52 ships in the Vanuatu merchant fleet of 1,000 GRT or more, with a total capacity of 1,192,474 GRT.

## 12 HISTORY

Although the Portuguese navigator Pedro Fernandes de Queir established a short-lived settlement on Espiritu Santo in 1606,

little more is known about the history of the New Hebrides until French and British explorers arrived in the late 18th century. Captain James Cook discovered, named, and charted most of the southern islands in 1774. The next century brought British and French missionaries, planters, and traders, and for many years the islanders suffered from the depredations of the recruiting ships and from other lawless acts by Europeans in the region.

By the Anglo-French Convention of 1887, a joint naval commission was established, with a resident commissioner to protect the lives and interests of the islanders. In 1906 following a London conference, the Anglo-French Condominium was established, largely to settle land claims and to end difficulties caused by lack of clear local jurisdiction. Indigenous political activity developed after World War II, with increasing native concern over land alienation and European dominance.

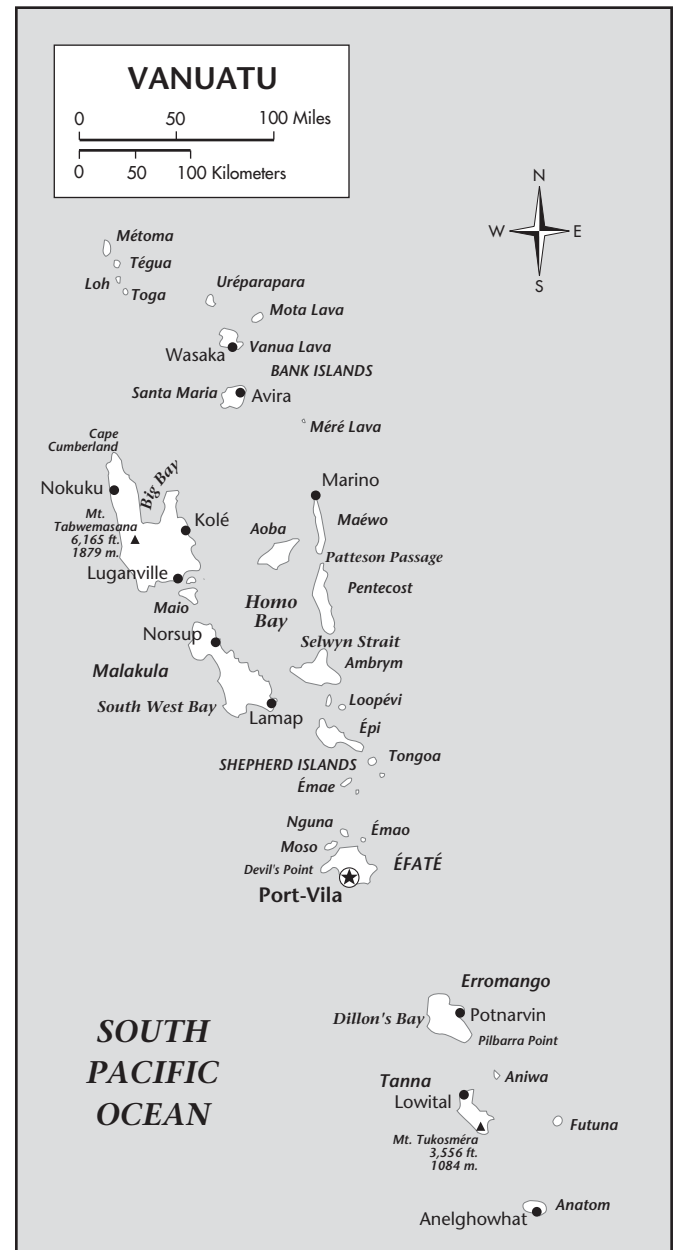
In 1975 a representative assembly replaced the nominated advisory council under which the New Hebrides had been governed; 29 assembly members were elected by universal suffrage, nine members represented economic interests, and four members represented the traditional chiefs. In 1977 the National Party (Vanuaku Pati), which held 21 of 42 assembly seats, demanded independence and staged a boycott of the legislature; in response, at a conference in Paris, self-government was agreed on for 1978, to be followed by a 1980 referendum on independence. After considerable difficulty, a constitutional conference in 1979 finally agreed on an independence constitution. In the November 1979 elections for a newly constituted, fully elective assembly, the National Party, led by Father Walter Lini, obtained 26 of the 39 seats.

In May 1980 however, a dissident francophone group, based on Espiritu Santo, attempted to break away and declared an independent government of Vemarana, under Jimmy Stevens and the Nagriamal Party. Attempts made during June to resolve the differences between the new central government and the rebels failed, and UK and French troops were sent to Luganville on 24 July. No shots were fired, but the soldiers remained until Vanuatu's formal declaration of independence on 30 July 1980. They were then replaced at the new government's request by forces from Papua New Guinea, who were assisted by the local police in putting down the rebellion.

Since independence, Vanuatu (Our Land Forever) has followed a nonaligned foreign policy. It became the first South Pacific nation to join the nonaligned movement, and in January 1987 it signed a controversial fishing agreement with the USSR. In May 1987 Vanuatu announced a ban on all military ships and aircraft in a dispute over a proposed Libyan diplomatic mission. The dispute ended with the expulsion of two Libyan diplomats. Relations with the French government remained strained throughout much of the Lini government's rule, though they improved at the end of 1989 with the signing of the Matignon Accord relating to New Caledonia.

In December 1988 President George Ati Sokomanu attempted to dismiss the Lini government by ordering the dissolution of the country's parliament. Sokomanu appointed Barak Sope as prime minister. Lini refused to surrender office and reconvened parliament. Sope and several supporters were arrested and charged with inciting mutiny. Sope was sentenced to six years' imprisonment.

Fr. Lini lost a parliamentary vote of confidence in September 1991 and he was replaced by Donald Kalpokas. In December 1991



LOCATION: 13° to 21°S; 166° to 171° E. TOTAL COASTLINE: 2,528 kilometers (1,571 miles). TERRITORIAL SEA LIMIT: 12 miles.

the francophone Union of Moderate Parties (UMP), led by Maxime Carlot Korman, won the largest bloc of seats and formed a coalition government with the National United Party (NUP), led by Lini. Strains between the coalition members led to Lini joining the opposition in August 1993, but Carlot Korman's government survived the defection.

Parliamentary elections were again held in 1995, with the UMP winning slightly more seats than the Vanuatu Party (VP), led by Donald Kalpokas. Rialuth Serge Vohor was prime minister from November 1995 until a no-confidence vote in parliament forced his resignation on 7 February 1996. Maxime Carlot Korman was elected prime minister, forming a coalition, and parliament appointed Kalpokas deputy prime minister. The coalition was considered to be weak, however. On 30 September 1996 Korman was

ousted by a no-confidence motion. Vohor was reelected as prime minister. The Vohor government repealed the Ombudsman's Act, but President Jean Marie Leye refused to declare this piece of legislation as law. Leye, in the face of dissent and political crises, took action to dissolve parliament. The ruling coalition refused to step down, questioning the constitutional right of Leye to do this. The Court of Appeal ruled in January 1998 that Leye's actions were legal, thus opening the way for a new general election. In the election held 6 March 1998 the VP of Kalpokas improved its earlier performance, but could not claim a majority. Kalpokas rejoined forces with Fr. Lini and the NUP and coalesced with minority party legislators to gain a clear majority. Kalpokas was elected prime minister. Willie Jimmy was named deputy prime minister on 19 October 1998. Kalpokas resigned to avoid a no-confidence vote in late 1999, and Barak Sope of Melanesian Progressive Party (MPP) became prime minister. In 1999, the government introduced a Comprehensive Reform Program, to combat corruption and abuse of power by government officials. It included a revamping of state administration, an increase in private sector development, a reduction in the public service sector, and the enactment of a leadership code of conduct.

At the South Pacific Forum in June 1999 Vanuatu supported a proposed Pacific Free Trade Area (FTA) that would initially include 14 countries in the region. The South Pacific Forum set up the Pacific Kava Council to work at protecting the regional rights to kava and its uses. The kava plant's reputed relaxation properties had attracted the attention of producers of herbal medicines. The establishment of kava plantations in Central America threatened the Pacific Islands' production. Vanuatu joined with other small island developing states (SIDS) through the United Nations SIDSnet, an Internet project linking over 40 island nations worldwide to address issues like the economic hurdles of isolation and small markets. The United Nations Environment Program (UNEP) issued a report assessing the ecological and population threats faced by SIDS, Vanuatu included. The UN's Intergovernmental Panel on Climate Change announced its predictions on the consequences of global warming. Vanuatu was mentioned as already affected by inundation of low-lying areas and coastal regions by rising oceans.

In April 2001, Barak Sope was ousted as prime minister in a vote of no confidence, and Edward Natapei became prime minister. The new government undertook investigations into Sope's business dealings, and in November, Sope was charged with two counts of forgery. He was sentenced to three years' imprisonment but was subsequently pardoned by President Fr. John Bani. Natapei was reelected prime minister in May 2002, after parliamentary elections held on 30 April, in which his Vanua'aku Party took 15 seats and the Union of Moderate Parties took 14 seats.

Presidential and legislative elections were held in 2004. The controversial prime minister Serge Vohor, who took office in July 2004, was ousted following a no-confidence vote that December; Vohor had attempted to switch Vanuatu's diplomatic recognition of China to Taiwan. Ham Lini became prime minister in December 2004. In April and May 2004, Alfred Masing Nalo was elected president, but was later removed from office after the Supreme Court invalidated the result of the election. Kalkot Matas Kelekele was elected president in August 2004. The next presidential elec-

tion was to be held in 2009, and the next prime minister election was scheduled to take place after the general elections in 2008.

### **13 GOVERNMENT**

Under the independence constitution adopted in 1979 and effective in 1980, Vanuatu is an independent republic within the Commonwealth of Nations. The head of state is the president (Kalkot Matas Kelekele since August 2004); the head of government is the prime minister (Ham Lini since December 2004). The unicameral legislature consists of 52 members (39 before 1987, and 50 before 1998) elected by universal adult suffrage to four-year terms. The cabinet is responsible to parliament, and the president is chosen by an electoral college for a five-year term. The electoral system includes a degree of proportional representation. A Council of Chiefs chosen by their peers in the chiefs' district councils advises the government on the protection of Vanuatuan languages and culture.

### **14 POLITICAL PARTIES**

The country saw six political parties be represented in parliament in the April 2002 elections: the Union of Moderate Parties (UMP, Serge Vohor); the National United Party (NUP, led by Father Walter Lini until his death in February 1999; thereafter by Dinh Van Than; leadership in 2005 was in question); the Vanua'aku Party (VP, Edward Natapei); Melanesian Progressive Party (MPP, Barak Sope); the Vanuatu Republic Party (VRP, Maxime Carlot Korman), and the Vanuatu Green Party (VGP, Moana Carcasses). Also represented in Vanuatu are the Jon Frum Movement (Song Keaspai); the Friend Melanesian Party (FMP, Albert Ravutia); and the Tan Union (TU, Vincent Boulekone). In the July 2004 elections, the NUP took 10 seats, UMP took 8, the VP won 8, VRP 4, MPP 3, VGP 3, and other candidates held 16 seats. The next parliamentary elections were to be held in 2008.

### **15 LOCAL GOVERNMENT**

Vanuatu is divided into six provinces (Malampa, Penama, Sanma, Shefa, Tafea, Torba). There are municipal councils in Port-Vila and Luganville, and community councils elsewhere. Espiritu Santo and Tanna have special regional councils.

### **16 JUDICIAL SYSTEM**

Despite the great difficulty in unifying laws based on the very different English and French traditions, Vanuatu has sought to establish a single system based on British criminal procedure and the French penal code. The constitution establishes a Supreme Court, with a chief justice and three other judges, as well as an appeals court. Village and island courts have jurisdiction over customary and other matters.

The judiciary is independent of the executive and free from military influence. The constitution guarantees a range of procedural due process protections including the presumption of innocence, fair public trial, habeas corpus, and the prohibition against double jeopardy.

## 17 ARMED FORCES

The nation maintains close links with Papua New Guinea, where Vanuatuan cadets train for a mobile defense force under the auspices of the Australian Ministry of Defense, which also helps to train skilled manpower for national development tasks.

## 18 INTERNATIONAL COOPERATION

Vanuatu joined the United Nations on 15 September 1981 and participates in ESCAP and several nonregional specialized agencies, such as the FAO, the World Bank, UNESCO, UNIDO, and the WHO. It also belongs to the Asian Development Bank (which opened a regional office in Port-Vila in 1984), the ACP Group, G-77, the Pacific Island Forum, the South Pacific Regional Trade and Economic Cooperation Agreement (Sparteca), the Alliance of Small Island States (AOSIS), and the Commonwealth of Nations. The country holds observer status in the WTO.

Vanuatu has taken an active role in Pacific affairs, campaigning for a nuclear-free zone and advocating independence for New Caledonia. Vanuatu has established diplomatic relations with a number of OECD countries, as well as China, Cuba, Vietnam, and Libya. The country is part of the Nonaligned Movement.

In environmental cooperation, Vanuatu is part of the Convention on Biological Diversity, CITES, the London Convention, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Vanuatu has a mixed traditional and modern economy. Agriculture supports about 65% of the population, but the service industry is playing an increasingly important role in the economy. Tourism has been developed since the 1980s and, together with financial services, has become an important foreign exchange earner. GDP grew by less than 3% a year in the 1990s. For the three years 2000 to 2002, GDP growth averaged 3% and inflation averaged 3%. During this period the islands had to deal with the extensive damage from two severe earthquakes, each followed by sizeable tsunamis: in November, 1999 on the northern island of Pentecote, and in January 2002, centered on the capital and surrounding areas. The absence of personal and corporate income taxes has made Vanuatu an offshore financial center, and the government also earns fees from a "flag of convenience" shipping registry.

The GDP growth rate was 2.8% in 2004, up from 1.6% in 2003; in 2005, the economy was expected to grow by 2.8%. The inflation rate has fluctuated slightly, but at 1.8% in 2004, it did not pose a problem to the economy. Strong economic development is hindered by the geographic isolation of the country, its vulnerability to natural disasters, and its dependency on relatively few export commodities.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Vanuatu's gross domestic product (GDP) was estimated at \$580.0 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value

as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$2,900. The annual growth rate of GDP was estimated at 1.1%. The average inflation rate in 2003 was 3.1%. It was estimated that agriculture accounted for 26% of GDP, industry 12%, and services 62%.

According to the World Bank, in 2001 remittances from citizens working abroad totaled \$16 million or about \$76 per capita and accounted for approximately 6.8% of GDP.

## 21 LABOR

About 80% of the population is engaged in peasant labor either for subsistence or producing cash crops such as copra. As of 2002, there were approximately 25,000 persons participating in the formal economy as wage earners. In 2000 (the latest year for which data was available), agriculture accounted for 65% of the labor force, with industry at 5% and the services sector at 30%. There was no unemployment data available. The wage-labor force is concentrated in Port-Vila and Luganville.

For persons engaged in government enterprises, port work, construction, and certain other jobs, the terms of employment and wages are set by legislation. The nation's first trade unions were formed in 1984. In 2002 there were seven trade unions; the largest two were the Oil and Gas Workers' Union and the Vanuatu Airline Workers' Union. Union membership has fallen from 4,000 in 1994 to less than 1,000 in 2002.

The law prohibits children under 12 from working. Children between 12 and 18 may work under restricted hours and conditions. The Labor Department effectively enforces these laws. In 2002, the minimum wage was \$143 per month for all workers. This does not provide an adequate living and most families subsidize this amount with subsistence farming. The law mandates a 44-hour maximum workweek. The Employment Act provides health and safety standards but these are not effectively enforced.

## 22 AGRICULTURE

About 9% of the land is cultivated. While most crops, including yams, taro, manioc, sweet potato, and breadfruit, are raised for local consumption, cash crops like copra, cocoa, and coffee have been increasingly important. Production of coconuts totaled 240,000 tons in 2004. Copra exports have been declining as a share of total exports, from 43% in 1995 to 8% in 2002. Vanuatu maintained an agricultural surplus of \$2.6 million in 2004, with Bangladesh and Japan as the leading markets.

In 1983, Vanuatu's first agricultural census was taken, with British assistance. A land alienation act passed in 1982 limits land ownership to indigenous owners and their descendants, but expatriates can lease land for up to 75 years.

## 23 ANIMAL HUSBANDRY

Hogs and fowl form part of the village economy. Vanuatu is ideal for cattle, and large numbers are raised on plantations; in 2005 there were an estimated 152,000 head of cattle, up from around 124,000 in 1990. The growing meat-packing industry produces frozen, chilled, and tinned beef; production of beef totaled about 3,300 tons (dressed carcass weight) in 2005. The beef industry is centered on the island of Espiritu Santo, where the country's main

abattoir is located. Beef is exported primarily to Japan, with a lesser amount going to New Caledonia.

## 24 FISHING

Although the South Pacific Fishing Co., a joint Vanuatuan government and Japanese venture, has facilities at Luganville that freeze and export both tuna and bonito to Japan and the United States, the full fishery potential has not been realized. Fishing is focused on domestic consumption; exporting fish requires a government permit. Vanuatu's catch was 31,394 tons in 2003; exports totaled \$1.9 million that year.

## 25 FORESTRY

About 37% of the total land area is forest or bushland. Total roundwood production in 2004 was 119,000 cu m (4.2 million cu ft), with 76% burned as fuel. Sawntwood production totaled 28,000 cu m (988,000 cu ft) that year, and exports of forest products were valued at \$3 million. The government approved the establishment of a large commercial forestry plantation on Espirito Santo in 1987.

## 26 MINING

Vanuatu had few known minerals, although gold deposits have been discovered. A small manganese mine on Éfaté ceased exports in 1980.

## 27 ENERGY AND POWER

Temporary generators established throughout the islands by the United States during World War II (1939–45) have mostly deteriorated. Total installed capacity was about 12,000 kW in 2002, all of it conventional thermal. Electricity production in 2002 totaled 42 million kWh, all of it from fossil fuels. Consumption of electricity that year was 39 million kWh.

All hydrocarbon needs were met by imports. In 2002, imports and demand for refined petroleum products each averaged 610 barrels per day. There were no imports or consumption of natural gas or coal in 2002.

## 28 INDUSTRY

The industrial sector is small: in 1990 it contributed about 12.3% to GDP; in 1996, 13% and in 2001, 11.5%. The leading industries are fish and food freezing, wood processing, and meat canning. The small manufacturing sector, accounting for 5.5% of GDP in 1990 and 5% in 2001, is geared to toward domestic consumption. Indigenous crafts include basketry, canoe building, and pottery. In 1990, National Breweries, a joint venture with Sweden, began producing Tusker beer and Pripps Lager.

In 2003, the main contributor to the GDP was the transport and communications sector (32.4%); agriculture came in second with 19.3%. Manufacturing and construction had the smallest share in the economy, with 3.6% and 2.5% respectively.

## 29 SCIENCE AND TECHNOLOGY

There is no advanced technology apart from overseas aid programs.

## 30 DOMESTIC TRADE

A large part of the population still relies on barter. In Port-Vila, European businesses dominate commercial life; there are hotels, supermarkets, fashion shops, and patisseries, as well as Australian steak houses and small Chinese restaurants. Some Vanuatuanans have entered the cash economy in urban areas. There is a very small light industry section that supplies the local markets. The nation's numerous cooperative societies handle most of the distribution of goods on the islands. A value-added tax applies to most goods and services.

Normal business hours in the capital are 7:30 to 11:30 AM and 1:30 to 4:30 PM, Monday through Friday. Banks in Vanuatu are open on weekdays from 8 to 11:30 AM and 1:30 to 3 PM.

## 31 FOREIGN TRADE

In 2000, exports totaled \$23.2 million and imports amounted to \$86.7 million. Service receipts have helped offset the traditionally adverse trade balances. A commodities marketing board exports copra and cocoa, and cooperatives play a major role in foreign trade. Most of Vanuatu's export commodities are foodstuffs, including oil seeds, (34%), vegetables (15%), wood (13%), meat (12%), cocoa (4.7%), and fish (1.3%).

In 2004, exports totaled \$205 million (FOB—Free on Board), while imports grew to \$233 million (CIF—Cost and Freight). Most of the exports went to Thailand (47%), Malaysia (18.4%), Japan (7.5%), Belgium (5.4%), and China (4.9%). Imports included machinery and transport equipment, food and live animals, basic manufactures, and mineral fuels, and primarily came from Taiwan (24%), Australia (16.5%), Japan (11.4%), Singapore (8.5%), New Zealand (7.2%), Fiji (6.3%), and the United States (4.4%).

### Principal Trading Partners – Vanuatu (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	23.2	86.7	-63.5
Bangladesh	5.0	...	5.0
Japan	2.8	4.4	-1.6
United Kingdom	2.4	0.1	2.3
China, Hong Kong SAR	1.4	1.8	-0.4
Australia	1.4	38.5	-37.1
New Caledonia	1.4	5.0	-3.6
Fiji	1.3	7.9	-6.6
French South Antartic Territories	0.8	...	0.8
New Zealand	0.7	10.0	-9.3
Netherlands	0.7	0.1	0.6

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Vanuatu (2003)**

(In millions of US dollars)

<b>Current Account</b>		<b>-41.3</b>
Balance on goods	-65.0	
Imports	-91.8	
Exports	26.8	
Balance on services	40.6	
Balance on income	-11.8	
Current transfers	-5.1	
<b>Capital Account</b>		<b>-4.7</b>
<b>Financial Account</b>		<b>39.6</b>
Direct investment abroad	-0.7	
Direct investment in Vanuatu	15.5	
Portfolio investment assets	2.1	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	51.8	
Other investment liabilities	-29.1	
<b>Net Errors and Omissions</b>		<b>-5.0</b>
<b>Reserves and Related Items</b>		<b>11.3</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.**32 BALANCE OF PAYMENTS**

Continuing trade deficits have been offset by aid from the United Kingdom and France, but this assistance is being steadily reduced.

The US Central Intelligence Agency (CIA) reported that in 2000 the purchasing power parity of Vanuatu's exports was \$22.8 million while imports totaled \$87.5 million resulting in a trade deficit of \$64.7 million.

The International Monetary Fund (IMF) reported that in 2001 Vanuatu had exports of goods totaling \$20 million and imports totaling \$78 million. The services credit totaled \$119 million and debit \$73 million.

Exports of goods and services totaled \$38 million in 2004, up from \$27 million in 2003. Imports grew from \$91 million in 2003, to \$112 million in 2004. The resource balance was consequently negative, and on a downward path—from -\$64 million in 2003 to -\$74 million in 2004. A different trend was registered for the current account balance, which improved from -\$28 million in 2003, to -\$15 million in 2004. Foreign exchange reserves (excluding gold) grew to \$62 million in 2004, covering more than six months of imports.

**33 BANKING AND SECURITIES**

Vanuatu's banking system includes a Central Bank, local retail banks, and a Development Bank that provides loans for agricultural projects, housing, and industrial development. The country's Financial Centre, a tax haven created by the British in 1971, is the third-largest source of government revenue. Favorable regulatory and tax structures have stimulated foreign interest in Vanuatu as an international financial center; more than 600 offshore companies and banks were registered in Port-Vila in 1985. Local banks require no minimum deposits for vatu accounts and a minimum of us\$5,000, or the equivalent in major specified currencies, for foreign currency holdings. Vanuatu has no double taxation agree-

ments with other countries, ensuring maximum confidentiality for international financial transactions. In late 1999, a number of foreign bank-including Deutsche Bank, Banker's Trust, and the Bank of New York-banned trading in us with Vanuatu because of suspected illegal activity being carried on through the Vanuatu financial center. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$55.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$245.6 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.5%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 6.5%.

There is no stock exchange.

**34 INSURANCE**

Insurance coverage is available through agents of overseas companies, mainly British and French.

**35 PUBLIC FINANCE**

The US Central Intelligence Agency (CIA) estimated that in 2003 Vanuatu's central government took in revenues of approximately \$52.6 million and had expenditures of \$54.3 million. Revenues minus expenditures totaled approximately -\$1.7 million. Total external debt was \$83.7 million.

The International Monetary Fund (IMF) reported that in 1997, the most recent year for which it had data, central government revenues were VT6,858 million and expenditures were VT7,023 million. The value of revenues was us\$59 million and expenditures us\$61 million, based on a official exchange rate for 1997 of us\$1 = VT115.87 as reported by the IMF. Government outlays by function were as follows: general public services, 33.8%; public order and safety, 8.4%; economic affairs, 26.3%; housing and com-

**Public Finance – Vanuatu (1997)**

(In millions of vatu, central government figures)

<b>Revenue and Grants</b>	<b>6,858</b>	<b>100.0%</b>
Tax revenue	5,718	83.4%
Social contributions	...	...
Grants	653	9.5%
Other revenue	487	7.1%
<b>Expenditures</b>	<b>7,023</b>	<b>100.0%</b>
General public services	2,372	33.8%
Defense	...	...
Public order and safety	587	8.4%
Economic affairs	1,846	26.3%
Environmental protection	...	...
Housing and community amenities	259	3.7%
Health	655	9.3%
Recreational, culture, and religion	35	0.5%
Education	1,269	18.1%
Social protection	...	...

(...) data not available or not significant.

SOURCE: *Government Finance Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

munity amenities, 3.7%; health, 9.3%; recreation, culture, and religion, 0.5%; and education, 18.1%.

### **36 TAXATION**

Vanuatu has no income, corporation, or sales tax. Government revenues are derived from indirect taxes, which include stamp taxes, an excise tax on locally produced alcoholic beverages, a 10% hotel tax, and a rent tax. In 2000 the OECD listed Vanuatu as one of 38 uncooperative tax havens. In 2002, it was one of seven that remained on the list. In May 2003, however, Vanuatu was removed from the blacklist, having promised an OECD representative to make the required reforms.

### **37 CUSTOMS AND DUTIES**

Vanuatu imposes tariffs on both an ad valorem and specific basis. Tariff rates average 15–20%; however, rates for luxury goods could reach 200%. Printed matter is exempt. A 5% service tax is also charged on all imported goods. Export duties are levied on the country's primary products.

### **38 FOREIGN INVESTMENT**

The government encourages all forms of foreign investment, especially if there is joint local participation. There are no major foreign ownership restrictions, and duty exemptions are available on application to the Ministry of Finance. In late 1999 Vanuatu's Department of Trade announced that, to be considered, all foreign investment proposals must be accompanied by us\$38,000. This action was taken because of the high number of project proposals approved that have not been implemented. According to statistics published by UNCTAD, foreign direct investment (FDI) in Vanuatu was us\$30.2 million in 1997, but dropped to us\$20.4 million in 1998, and averaged us\$20.275 for the three years following (1999 to 2001).

### **39 ECONOMIC DEVELOPMENT**

The British independence settlement provided grants of £23.4 million to Vanuatu, including £6.4 million in budgetary aid (with additional grants provided annually), £4 million for technical aid, and £13 million for development projects aimed at promoting national economic self-sufficiency. Projects under the five-year development plan for 1982–86 included harbor development, agricultural training, and road improvements. Aid for other infrastructural development is provided by Australia, New Zealand, the UN, and the EU. Government development projects emphasize local participation and preservation of Vanuatu's cultural heritage. In 1995, Vanuatu received us\$45.8 million in aid from international sources. In 2000, Vanuatu was listed on the OECD's list of "uncooperative" tax havens. In 2002, it was one of only seven jurisdictions still on the list of not having taken corrective action. In May 2003, however, Vanuatu was the first of the seven to be removed from the blacklist having agreed, after discussions with OECD representatives, to institute the necessary reforms. Vanuatu remains one of the top 10 "flags of convenience" registries.

The economy of Vanuatu recovered in 2003 and 2004, and the trend is expected to continue in coming years, although not at exceptional rates. The economic growth will primarily be driven by the beef industry, and by a rising output in the forestry industry.

The tourism industry is also expected to bring increasing foreign exchange in the country, although the country's main airline might be facing problems in the future (due to increasing oil prices).

### **40 SOCIAL DEVELOPMENT**

The majority of the people cling to traditional village life. The extended family system ensures that no islanders starve, while church missions and the social development section of the Education Ministry concentrate on rural development and youth activities. The government incorporates family planning into its overall maternal and child health program. A provident fund system provides lump-sum benefits for old age, disability, and death. Workers contributed 4% of earnings and employers contribute 6% of payroll. Pensions are provided at the age of 55.

Women are still largely confined to traditional cultural roles, and most marriages include a "bride-price" that encourages men to consider their wives as possessions. Women generally do not own land. Village chiefs usually act to reinforce the subordinate roles of women and are thus viewed as a primary obstacle to female advancement. There are no female leaders in Vanuatu's civic, business, or religious institutions. A disproportionate number of women lost their jobs due to cutbacks in government employment. Violence against women, especially domestic abuse, is common. Most cases of violence against women go unreported because women are afraid of further abuse and do not understand their rights. As of 2004, there were no governmental agencies to support victims of domestic violence.

Human rights are generally well respected in Vanuatu.

### **41 HEALTH**

Malaria is the most serious of the country's diseases, which also include leprosy, tuberculosis, filariasis, and venereal diseases. Safe water was available to 87% of Vanuatu's population.

Medical care is provided by 94 hospitals, health centers, and clinics administered by the Ministry of Health, assisted by the World Health Organization and a number of voluntary agencies. Local training schemes in basic community nursing are provided by Port-Vila hospitals and local clinics train health and sanitation orderlies. In 2004, there were an estimated 11 physicians and 235 nurses per 100,000 people.

Only 12% of married women were using contraception. In 2005, the infant mortality rate was estimated at 55.16 per 1,000 live births. In the same year the estimated birth rate (24.8 per 1,000 people) far exceeded the general mortality rate (8.3 per 1,000 people). The fertility rate was 3.1 children per woman. Average life expectancy was an estimated 62.85 years in 2004. The immunization rates for children under one were as follows: diphtheria, pertussis, and tetanus, 74%; polio, 74%; measles, 53%; and tuberculosis, 86%.

### **42 HOUSING**

In urban areas only the emerging middle class can afford government-built housing. Other migrants to the towns buy plots of land and build cheap shacks of corrugated iron and waste materials, principally near Port-Vila and Luganville. The vast majority of villagers still build their own homes from local materials. The majority of dwellings are traditional Melanesian houses with earth or

coral floors, no glass windows, and palm, bamboo, or cane walls and roofing. The most widely used exterior construction material was bush. In 1998, 87% of the population had access to safe drinking water. In 2001, there were 89 construction approvals granted for residential housing.

### 43 EDUCATION

Primary education is available for almost all children except in a few remote tribal areas. Education is provided in either English or French. Full secondary education is provided by the Anglophone Malapoa College and the French Lycée at Port-Vila; limited secondary education is also available in five English postprimary schools and three French mission schools.

In 2001, about 75% of children between the ages of four and five were enrolled in some type of preschool program. Primary school enrollment in 2003 was estimated at about 94% of age-eligible students. In 2001, secondary school enrollment was about 27% of age-eligible students. It is estimated that about 96.2% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 23:1 in 2003; the ratio for secondary school was about 16:1. In 2003, private schools accounted for about 3.8% of primary school enrollment and 20.6% of secondary enrollment.

For postsecondary education, especially medical and technical training, selected students go principally to Fiji, Australia, and New Zealand. The adult literacy rate for 2004 was estimated at about 74%. As of 2003, public expenditure on education was estimated at 6.3% of GDP, or 28.6% of total government expenditures.

### 44 LIBRARIES AND MUSEUMS

The National Library is housed in the Vanuatu Cultural Center in Port-Vila. The Port-Vila Public Library, also a part of the Cultural Center, has a fairly well-stocked library of both French and English books and periodicals and houses fine collections of Melanesian art and artifacts, as well as a valuable stamp collection; it is the only public library service in the country. The secondary schools also have libraries, and there is a small library in the parliament building. Éfaté has a small museum displaying South Pacific artifacts and current works of art. The Vanuatu Cultural Center maintains a National Museum. There is a private fine arts museum located in Port-Vila.

### 45 MEDIA

Vanuatu is linked by telegraph and telex to Hong Kong; Paris; Noumea, New Caledonia; and Sydney, Australia. An earth satellite tracking station came into service in 1979. In 2003, there were 6,500 mainline phones and 7,800 mobile phones in use nationwide. Radio Vanuatu (founded 1966) broadcasts daily in English, French, and Bislama. As of 2002, there were four radio stations and one television station, all operated by the state. In 1997 there were 254 radios and 10 television sets per 1,000 population. In 2003, there were 7,500 Internet subscribers served by 512 Internet hosts. The weekly government newspaper, *The Vanuatu Weekly*, appears in English, French, and Bislama. In 2002, it had a circulation of 1,700. In 2005, there were also four privately owned weekly papers. The constitution provides for free speech and a free press; however, in practice these provisions are not always honored,

threatening opposition groups and media representatives with revocations of licenses and permits.

### 46 ORGANIZATIONS

There are a great number of European organizations, but the co-operative movement has had the greatest local impact. Co-operative units have organized a training center in Port-Vila for such skills as accounting, management, law, and marketing. Cooperatives receive British aid and government support but remain firmly independent. There is an active Vanuatu Credit Union League offering educational opportunities as well as financial services to members.

National youth organizations include the Vanuatu National Youth Council and the Vanuatu National Union of Students. There are several active sports associations promoting amateur competition for all ages in a variety of pastimes, including cricket, tennis, tae kwon do, and track and field. Many sports clubs are affiliated with the national Olympic Committee. The Vanuatu Association of Women Graduates promotes higher education opportunities for women. There are national chapters of the Red Cross Society, and UNICEF, and Habitat for Humanity.

### 47 TOURISM, TRAVEL, AND RECREATION

The most popular recreations in Vanuatu include marine sightseeing, deep-sea fishing, sailing, and beachcombing for shells. Citizens from most nations do not require visas. However, a valid passport and onward/return ticket are necessary. The number of tourist arrivals reached 50,400 in 2003, almost 58% of whom came from Australia. Tourist receipts totaled \$71 million the same year. There were 10,793 rooms in hotels and other establishments with 28,235 beds and an occupancy rate of 35%. The average length of stay was nine nights.

The US Department of State estimated the daily cost of staying in Port Vila at \$258 in 2005. Other areas ranged from \$33 to \$166 per day.

### 48 FAMOUS VANUATUANS

Father Walter Hayde Lini (1943–99), ordained as an Anglican priest in 1970, served as prime minister in Vanuatu from 1980 to 1991.

### 49 DEPENDENCIES

Vanuatu has no territories or colonies.

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# VIETNAM

Socialist Republic of Vietnam  
*Cong Hoa Chu Nghia Viet Nam*

**CAPITAL:** Hanoi

**FLAG:** The flag is red with a five-pointed gold star in the center.

**ANTHEM:** *Tien Quan Ca* (*Forward, Soldiers!*).

**MONETARY UNIT:** The dong (Đ) is a paper currency of 10 hao and 100 xu. There are coins of 1, 2, and 5 xu, and notes of 5 xu, 1, 2, and 5 hao, and 1, 2, 5, and 10 dong. Đ1 = \$0.00006 (or \$1 = Đ15,855) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some traditional measures are still used.

**HOLIDAYS:** Liberation of Saigon, 30 April; May Day, 1 May; Independence Day, 2 September. Movable holidays include the Vietnamese New Year (Tet).

**TIME:** 7 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated on the eastern coast of mainland Southeast Asia, the Socialist Republic of Vietnam (SRV) has an area of 329,560 sq km (127,244 sq mi), extending 1,650 km (1,025 mi) N–S and 600 km (373 mi) E–W. Comparatively, the area occupied by Vietnam is slightly larger than the state of New Mexico. At its narrowest, Vietnam is only 50 km (31 mi) across. The nation is bordered on the N by China, on the E by the Gulf of Tonkin, on the E and S by the South China Sea, on the SW by the Gulf of Thailand, and on the W by Cambodia and Laos, with a total land boundary of 4,639 km (2,883 mi) and a coastline of 3,444 km (2,140 mi). Before unification, which was proclaimed on 3 July 1976, Vietnam was divided in two by the 17th parallel. To the south was the Republic of Vietnam (RVN), also known as South Vietnam; to the north, the Democratic Republic of Vietnam (DRV), also known as North Vietnam.

Vietnam, China, the Philippines, Brunei, Taiwan, and Malaysia claim all or part of the Spratly Islands and Paracel Islands, located in the South China Sea roughly 600 km (350 mi) east of Ho Chi Minh City and 400 km (250 mi) east of Da Nang, respectively. The Paracel Islands are known in Vietnamese as the Hoang Sa archipelago, and the Spratlys as the Truong Sa. Both archipelagoes are reportedly surrounded by rich undersea oil reserves, and are productive fishing grounds. China has occupied the Paracel Islands since 1974, when Chinese troops drove a South Vietnamese garrison from the western islands. Vietnam occupies six of the Spratlys, and has unsuccessfully engaged in negotiations with Malaysia and the Philippines over the remainder. Periodic clashes between Chinese and Vietnamese naval forces have taken place in the vicinity of both island groups.

Vietnam's capital city, Hanoi, is located in the northern part of the country.

## <sup>2</sup>TOPOGRAPHY

Vietnam has been described as a carrying pole with a rice basket hanging from each end. The description is a fitting one, for a single mountain chain, the Annam Cordillera (in Vietnamese, Truong Son), extends along Vietnam's western border from north to south, connecting two "rice baskets," which are formed by the densely populated Red River Delta of the Tonkin region in the north and the rich Mekong River Delta in the south. Over two-thirds of the entire population of the country lives in the two low-lying delta regions, both of which are composed of rich alluvial soils brought down from the mountainous regions of southern China and mainland Southeast Asia. The remainder of the population lives along the narrow central coast, in the hilly regions of the Central Highlands north of Ho Chi Minh City (formerly Saigon), or in the mountains north and west of the Red River Delta. The highest mountain peak is Fan Si Pan (3,143 m/10,312 ft), near the northern border.

## <sup>3</sup>CLIMATE

Vietnam is entirely located in the tropical belt lying between the equator and the Tropic of Cancer. While there are slight variations in temperature, depending on the season and the altitude, the primary seasonal changes are marked by variations in rainfall.

In the north, the rainy season extends from mid-April to mid-October; the city of Hanoi has a mean annual rainfall of 172 cm (68 in), and in the mountains, annual rainfall sometimes exceeds 406 cm (160 in). Daily temperatures fluctuate considerably in the Red River Delta region, particularly in the dry season, when the thermometer may drop as low as 5°C (41°F) in the region of Hanoi. During the rainy season, the average temperature in Hanoi is about 30°C (86°F).

The south is more tropical; temperatures in Ho Chi Minh City vary only from 18–33°C (64–91°F) throughout the year. Temperatures in the Central Highlands are somewhat cooler, ranging from

a mean of about 17°C (63°F) in winter to 20°C (68°F) in summer. The rainy season extends from early May to November, with annual rainfall averaging about 200 cm (79 in) in lowland regions. The typhoon season lasts from July through November, with the most severe storms occurring along the central coast. Typhoons in this region frequently lead to serious crop damage and loss of life.

#### **4 FLORA AND FAUNA**

The mountainous regions of Tonkin, as well as the Annam Cordillera, are characterized by tropical rain forest broken by large areas of monsoon forest. In the higher altitudes of the far northwest there are pine forests. Shifting cultivation has resulted in many sections of secondary forest. Tropical grasses are widespread, and there are mangrove forests fringing parts of the Red River Delta and in the Ca Mau peninsula, which juts into the Gulf of Thailand. Tropical evergreen forests predominate in the south, with extensive savanna in the southwest.

Deer and wild oxen are found in the more mountainous areas. Two of the seven new species of mammals identified worldwide in the 20th century can be found in a nature reserve in the northwest corner of Vietnam. They are the giant muntjac (a barking deer) and the Vu Quang ox. As of 2002, there were at least 213 species of mammals, 262 species of birds, and over 10,500 species of plants throughout the country.

#### **5 ENVIRONMENT**

During the Vietnam war, massive bombing raids and defoliation campaigns caused severe destruction of the natural foliage, especially in the Central Highlands in the south. In addition, dioxin, a toxic residue of the herbicide known as Agent Orange, had leached into water supplies. Over 50% of the nation's forests have been eliminated. However, reforestation projects have begun in some areas of the country.

The nation has 367 cu km of renewable water resources with 87% of annual withdrawals used for farming activity and 10% used for industrial purposes. As of 2002, only 67% of the rural population had access to improved water sources.

Salinization and alkalization are a threat to the quality of the soil, as are excessive use of pesticides and fertilizers. Environmental damage has also been caused by the slash-and-burn agriculture practiced by nomadic tribal peoples in the Central Highlands and in the mountainous regions in the north. The government is engaged in a program to introduce modern farming practices to these populations.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 41 types of mammals, 41 species of birds, 24 types of reptiles, 15 species of amphibians, 23 species of fish, and 145 species of plants. Endangered species include the tiger, elephant, Sumatran rhinoceros, Thailand brow-antlered deer, kouprey, river terrapin, Siamese crocodile (probably extinct), estuarine crocodile, Javan rhinoceros, and the pileated, crowned, and caped gibbons. The Vietnam warty pig has become extinct.

#### **6 POPULATION**

The population of Vietnam in 2005 was estimated by the United Nations (UN) at 83,305,000, which placed it at number 13 in population among the 193 nations of the world. In 2005, approximate-

ly 7% of the population was over 65 years of age, with another 29% of the population under 15 years of age. There were 100 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 1.3%. The government viewed this rate as too high, despite the significant success of family planning programs in reducing the fertility rate from 3.7 births per woman in 1990 to 2.9 in 2005. The projected population for the year 2025 was 103,187,000. The population density was 251 per sq km (650 per sq mi).

The UN estimated that 26% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 3.21%. The capital city, Hanoi, had a population of 3,977,000 in that year.

#### **7 MIGRATION**

The 1954 partition of Vietnam resulted in the exodus of over 820,000 refugees, the majority of them Catholics, from the northern part of the country. Most eventually settled with government assistance in the Central Highlands or on the outskirts of the capital city of Saigon (now Ho Chi Minh City). During the same period, about 80,000 Viet-Minh troops and their dependents moved from the south to the north.

The Vietnam war caused severe disruption of living patterns in both the north and the south. In the north, intensive US bombing of major industrial cities led to a dispersal of the population from urban areas, while a government-sponsored program resulted in the resettlement of nearly one million Vietnamese from crowded areas in the Delta to less densely populated regions in upland areas of the country. In the south, migration was primarily from the countryside to the cities, as millions of peasants fled their villages to escape the effects of the war or to seek employment in the affluent cities of Saigon and Da Nang. At the end of the war in 1975, nearly one-half of the population lived in urban areas, many in refugee camps on the edges of the major cities.

After seizing control of the south in 1975, the Hanoi regime announced a new program that called for the resettlement of over 10 million Vietnamese into less crowded areas of the country by the end of the century. Many were to be moved from refugee camps in the south to new economic zones established in the Central Highlands or along the Cambodian border. Although the zones were unpopular because of poor living conditions, between the end of the war and 1981, nearly 1.5 million Vietnamese were resettled into new areas. The overall aim was to disperse the entire population into several hundred "agro-industrial districts" that would provide the basis for development of an advanced Socialist economy. Since 1981 another 2.1 million have been resettled.

In addition to this migration within the country, since the war there has been a substantial outflow of Vietnamese fleeing to other countries. About 150,000 were evacuated from the south in the final weeks of the war, many of them eventually settling in the United States. There were 593,213 people of Vietnamese ancestry in the United States in 1990. In 1978, a new exodus began after the government nationalized all private trade and manufacturing in the country. During 1978–87, an estimated one million Vietnamese fled by sea to other countries in Southeast Asia, or overland to China. Many later resettled in Australia, France, the United States, and other countries. From 1979–84, 59,730 persons emigrated legally through the US Orderly Departure Program; this program

was suspended by the Vietnamese government in 1986 but later resumed, with 57,000 emigrating to the United States in 1993 alone. In 1984, the United States started a program that offered asylum to Vietnamese political prisoners and all Asian-American children. This program was restarted in September 1987. Between 1975 and 1984, about 554,000 persons, known as the “boat people,” emigrated illegally. In 1992, Vietnam signed agreements with the United Kingdom providing for the forcible repatriation of almost all the 55,700 “boat people” remaining in Hong Kong. The major refugee community was in China, which was harboring 285,500 Vietnamese of Chinese ancestry at the end of 1992.

As of 1997, 3,000 Vietnamese remained in Hong Kong. By 1999, some 110,000 nonrefugee boat people had returned to Vietnam. In 2004, there were 2,630 refugees in Vietnam and 13 returned refugees. In that same year there were 299,280 Vietnam refugees in China, 21,776 in Germany, 12,382 in the United States and 9,132 in France. Additionally, in that same year over 4,500 Vietnamese sought asylum in 8 countries. In 2005, the net migration rate was estimated as -0.43 migrants per 1,000 population. The government views the emigration level as too low, but the immigration level as satisfactory.

## <sup>8</sup>ETHNIC GROUPS

About 85–90% of the population of the SRV is composed of ethnic Vietnamese. The racial origins of the Vietnamese are obscure, although many scholars believe they represent a mixture of Australoid peoples who lived in mainland Southeast Asia during the Stone Age with Mongoloid peoples who migrated into the area from southern China.

In addition to the ethnic Vietnamese, there are 53 other ethnic groups living in the SRV. Many, like the Tay, the Thai, the Nung, the Rhadé, and the Jarai, are nomadic tribal peoples living in the mountainous areas of the Central Highlands and along the Sino-Vietnamese border. The overseas Chinese (Hoa) are descendants of peoples who migrated into the area in recent centuries. The Cham and the Khmer are remnants of past civilizations that controlled the southern parts of the country.

The largest ethnic minority in the country is the ethnic Chinese, numbering more than two million. The next largest minority group is the Montagnards (mountain people) of the central highlands. The Khmer Krom (Cambodians) number at about 600,000 people, primarily living along the Cambodian border and at the mouth of the Mekong River. Other sizable minority groups are the Muong, the Tay, Meo, Man, and Cham.

## <sup>9</sup>LANGUAGES

The official language of the SRV is Vietnamese (Quoc ngu). A tonal language, it bears similarities to Khmer, Thai, and Chinese, and at least one-third of the vocabulary is derived from Chinese. Formerly, Vietnamese was written in Chinese characters, but under French rule a Romanized alphabet originally developed by Roman Catholic missionaries in the 17th century was adopted as the standard written form of the language. Most of the minority groups have their own spoken languages, and some have their own writing systems, but all children in the SRV receive instruction in the national language. Other languages include Chinese,



LOCATION: 102°10' to 109°30' E; 8°30' to 23°22' N. BOUNDARY LENGTHS: China, 1,281 kilometers (796 miles); Cambodia, 982 kilometers (610 miles); Laos, 1,555 kilometers (966 miles). COASTLINE: 3,444 kilometers (2,140 miles). TERRITORIAL SEA LIMIT: 12 miles.

English, French, Khmer, and the tribal languages of Mon-Khmer and Malayo-Polynesian.

## <sup>10</sup>RELIGIONS

The dominant religious belief was Buddhism; however, many believers practice a mixture of Mahayana Buddhism, Taoism, and Confucianism, sometimes called Vietnam's “Triple Religion.” Though 50% of the population is nominally Buddhist, the government Office of Religious Affairs estimates that only 11% of the population are practicing Buddhists. Like many Asian peoples,

the Vietnamese also practice spirit worship, a form of religious belief that was particularly prevalent among the tribal peoples.

Christianity was first brought to Vietnam in the 17th century by Roman Catholic missionaries sponsored by the French, the Spanish, the Portuguese, or the papacy. Eventually, however, propagation of the Christian faith was forbidden by the imperial court and Catholicism could only be practiced in secret. French priests were especially active in provoking the French decision to conquer Vietnam in the 19th century. Under French rule, Christianity prospered, and when Vietnam restored its independence in 1954, there were more than two million Catholics in the country, a population that increased to between six and seven million in 1998. Estimates indicate that 8–10% of the population are Roman Catholics. There are anywhere between 421,000 to 1.6 million Protestants in the country. About 65,000 people are Muslim, primarily Sunni. About 54,000 people are Hindu, most of whom are ethnic Cham. The Baha'i Faith claims a membership of between 6,000 and 8,000 people.

Two millenarian religious sects, the Cao Dai and the Hoa Hao, have become popular among peasants and townspeople in the Mekong Delta. Both religions are based in part on Buddhism. The Cao Dai claim a membership of about four million. The Hoa Hao have a membership of about 1.3 million.

Since reunification in 1975, religious activities have been restricted, although freedom of religion is formally guaranteed in the 1980 constitution. All religious groups must register with the government, a process established by the government as a means of monitoring and controlling religious activities. The government offers official recognition to some Buddhist, Roman Catholic, Protestant, Hoa Hao, Cao Dai, and Muslim organizations, a designation which offers some freedom to operate openly throughout the country; however, these groups must still receive government approval for all operations, including the appointment of church leaders.

## <sup>11</sup>TRANSPORTATION

The war wreaked massive damage on Vietnam's transportation network, especially its railways, roads, and bridges. Further damage occurred during the Chinese invasion in 1979, after which direct rail and air connections with China were severed. The nation's truck fleet is ancient and seriously lacking in spare parts. Most goods move by small barges or sampans along the countless waterways. The length of inland navigable waterways totals about 17,702 km (11,000 mi), of which 29% is navigable year-round by vessels with less than a 1.8 m draft. Major ports such as Haiphong in the north and Da Nang in the south, are frequently clogged with goods because many of the stevedores—often overseas Chinese—have fled abroad. In 2005, Vietnam had a merchant fleet of 194 ships of 1,000 GRT or more, totaling 1,170,621 GRT.

Recognizing its importance to economic growth, the government is making a major effort to improve the transportation network. The railroads are to be expanded. As of 2004, Vietnam's railway system totaled 2,600 km (1,615 mi) of standard, narrow and dual gauge track, of which 2,169 km (1,347 mi) was narrow gauge, 178 km (111 mi) was standard gauge, and 253 km (157 km) dual gauge.

There were an estimated 24 airports as of 2004, of which 23 (as of 2005), had permanent-surface runways. The nation's air fleet

remains primitive, as the national airline (Hang Khong Vietnam) uses Soviet passenger liners built in the 1950s. In 2003, about 4.553 million passengers were carried on scheduled domestic and international flights. There were 93,300 km (57,977 mi) of roads in the country in 2001, but only 23,418 km (14,552 mi) were paved. There were an estimated 101,100 passenger cars, 144,600 commercial vehicles in 2003. The main route from Hanoi to Ho Chi Minh City badly needs improvement. In 1997, the government authorized the construction of a new north-south highway, the largest infrastructural project ever undertaken in Vietnam. The construction will take at least 15 years, utilizing 10 days of mandatory labor from almost every citizen between the ages of 18 and 45.

## <sup>12</sup>HISTORY

During the first millennium BC, the Lac peoples, the ancestors of the modern-day Vietnamese, formed a Bronze Age civilization in the vicinity of the Red River Delta in northern Vietnam. The Lac were primarily rice farmers, although those living in mountain valleys occasionally practiced the slash-and-burn agriculture now prevalent among nomadic tribes in the Central Highlands and the mountainous regions in the north. In the 3rd century BC, the Vietnamese kingdom of Van Lang was conquered by a Chinese military adventurer who incorporated the Red River Delta area into his own kingdom in southern China. A century later, Vietnam was integrated into the expanding Chinese empire. During 1,000 years of Chinese rule, Vietnamese society changed significantly as it was introduced to Chinese political and social institutions; Chinese architecture, art, and literature; and the Chinese written language. In AD 939, during a period of anarchy in China, Vietnamese rebels restored national independence.

During the next several hundred years, the Vietnamese Empire, then known as Dai Viet (Great Viet), gradually developed its own institutions and expanded steadily to the south. Under two great dynasties, the Ly (1009–1225) and the Tran (1225–1400), the Vietnamese fended off periodic attempts by China to resubjugate Vietnam, while gradually expanding southward at the expense of their southern neighbor, Champa. In the early 15th century, Chinese rule was briefly restored, but a national uprising led by Le Loi led to the expulsion of the Chinese and the formation of an independent Le Dynasty (1428–1788). Under the Le, expansion to the south continued, and the entire Mekong River Delta came under Vietnamese rule during the 17th century. But expansion brought problems, as a weakened Le court slipped into civil war between two princely families, the Trinh in the north and the Nguyen in the south.

The division of Vietnam into two separate political entities came at a time when European adventurers were beginning to expand their commercial and missionary activities into East and Southeast Asia. In 1771, a major peasant revolt led by the Tay Son brothers destroyed the Nguyen and the Trinh and briefly united the entire country under Emperor Nguyen Hue, ablest of the Tay Son. But a prince of the defeated Nguyen house enlisted the aid of a French Roman Catholic bishop and raised a military force that conquered the Tay Son and reunited the country under a new Nguyen Dynasty (1802–1945). When the founding emperor, Gia Long, died in 1820, his son Minh Mang refused to continue the commercial and missionary privileges granted by his predecessor to the French. In 1858, French forces attacked near Saigon and

forced the defeated Vietnamese Empire to cede territory in the area to the French, which became the colony of Cochinchina. In 1884, France completed its conquest of the country, establishing a protectorate over central and northern Vietnam (now renamed Annam and Tonkin). In 1895, the three sections of Vietnam were included with the protectorates of Laos and Cambodia into a French-ruled Indochinese Union.

The first Vietnamese attempts to resist French rule were ineffectual. Western-style nationalist movements began to form after World War I, and an Indochinese Communist Party, under the leadership of the veteran revolutionary Ho Chi Minh, was formed in 1930. After the collapse of France in World War II, Japan forced the French administration to accept a Japanese military occupation of Indochina. During the joint French-Japanese rule, Communist forces under the umbrella of the Viet-Minh Front began to organize for a national uprising at the end of the war. In March 1945, the Japanese, nearing defeat, disarmed the French and seized full administrative control over French Indochina. At the same time, the Japanese set up a puppet government, with Bao Dai, the figurehead emperor of Vietnam, as nominal ruler. Shortly after Japan surrendered to Allied forces in August 1945, Viet-Minh forces, led by the Indochinese Communist Party, launched the nationwide August Revolution to restore Vietnamese independence. On 2 September, President Ho Chi Minh declared the formation of an independent Democratic Republic of Vietnam (DRV) in Hanoi. Under the Potsdam agreements, Nationalist Chinese troops occupied all of Indochina north of the 16th parallel, while British troops occupied the remainder of the old Indochinese Union. Chinese commanders permitted the Viet-Minh to remain in political control of the north, but the British assisted the French to restore their authority in the south.

In March 1946, the French and the DRV signed a preliminary agreement (the Ho-Sainteny Agreement) recognizing Vietnam as a "free state" in the new French Union. The agreement also called for a plebiscite in Cochinchina to permit the local population in that colony to determine their own future. During the summer of 1946, French and Vietnamese negotiators attempted without success to complete an agreement on the future of Vietnam. In September, Ho Chi Minh signed a *modus vivendi* calling for renewed talks early in 1947, but military clashes between Vietnamese and French troops in the DRV led to the outbreak of war in December 1946. The Franco-Viet-Minh war lasted nearly eight years, ending in July 1954 after a successful siege of the French garrison at Dien Bien Phu by Viet-Minh forces. According to the Geneva agreement signed on 21 July, Vietnam was temporarily partitioned along the 17th parallel, pending general elections to bring about national reunification. North of the parallel, the DRV began to build a Socialist society, while in the south, an anti-Communist government under the Roman Catholic politician Ngo Dinh Diem attempted with US aid to build a viable and independent state. In the summer of 1955, Prime Minister Diem refused to hold consultations with the DRV on elections called for by the Geneva accords. On 26 October, Diem proclaimed the Republic of Vietnam (RVN), with its capital at Saigon. In a referendum held three days earlier, Diem had defeated ex-Emperor Bao Dai, and in 1956, Diem became president of the RVN under a new constitution written with US support. With the Geneva accords thus abrogated, Vietnamese guerrillas, supported by the DRV, initiated

low-level political and military activities to destabilize the Saigon regime. Their efforts were assisted by Diem's own shortcomings, as he brutally suppressed all political opposition and failed to take effective measures to bring to an end the unequal division of landholding in South Vietnam.

In December 1960, revolutionary forces in the south formed a National Liberation Front (NLF) to coordinate political activities against the Diem regime. Guerrilla activities by the People's Liberation Armed Forces (known in the United States as the Viet-Cong) were stepped up, and Hanoi began to infiltrate trained cadres from the north to provide leadership to the revolutionary movement. Despite increasing economic and military assistance from the United States, the Diem regime continued to decline, and in November 1963, Diem was overthrown by a military coup waged with the complicity of US president John F. Kennedy's administration, which had watched in dismay as Diem had alienated Buddhist elements by his open favoritism toward Roman Catholics. A Military Revolutionary Council, led by the popular southern general Duong Van (Big) Minh, was formed in Saigon. General Minh promised to continue efforts to defeat the insurgency movement in the south but was unable to reverse the growing political anarchy in Saigon. Early in 1964, he was replaced by another military junta. During the next 15 months, a number of governments succeeded each other, while the influence of the NLF, assisted by growing numbers of regular troops that were infiltrating from the north, steadily increased in the countryside. By early 1965, US intelligence was warning that without US intervention, South Vietnam could collapse within six months.

Beginning in February 1965, US president Lyndon Johnson took two major steps to reverse the situation in South Vietnam. American combat troops were introduced in growing numbers into the south, while a campaign of heavy bombing raids was launched on military and industrial targets in the north. In Saigon, the political situation stabilized with the seizure of power by a group of army officers led by Nguyen Van Thieu and Nguyen Cao Ky. Encouraged by the United States, the new military regime drafted a constitution, and in elections held in September 1967, Gen. Thieu was elected president of the country. By 1967, US troop strength in South Vietnam had reached over 500,000, while US air strikes over DRV territory were averaging about 100 sorties a day. The Hanoi regime attempted to match the US escalation by increasing infiltration of North Vietnamese military units into the south, but under the sheer weight of US firepower, the revolution began to lose momentum, and morale was ebbing.

On 30 January 1968, in an effort to reverse the military decline on the battlefield and encourage the growing popular discontent with the war in the United States, Hanoi launched the Tet Offensive, a massive effort to seize towns and villages throughout the south. The attempt to seize Saigon or force the collapse of the Saigon regime failed to achieve its objective, but the secondary aim of undermining support for the war in the United States succeeded. President Johnson canceled plans to increase the US military commitment and agreed to pursue a political settlement. To bring about negotiations with Hanoi, a complete bombing halt was ordered on 1 November, just before the US presidential election that brought Richard M. Nixon to office as the new Republican president. President Nixon announced a policy of "Vietnamization," according to which US forces would be gradually withdrawn and

the bulk of the fighting in the south would be taken over by RVN forces. On 30 April 1970, in order to destroy enemy sanctuaries beyond the South Vietnamese border, US and South Vietnamese forces invaded neutral Cambodia. The invasion backfired, however, stimulating the rise of revolutionary activities by the Hanoi-supported Cambodian Communist movement and arousing protests in the United States that the war was being expanded. The withdrawal of US military forces continued, and in March 1972, the DRV attempted to test the capability of the South Vietnamese forces by launching a direct offensive across the 17th parallel. The "Easter Offensive" succeeded in capturing the provincial capital of Quang Tri, but further gains were prevented by the resumption of US bombing raids.

By this time, both sides were willing to compromise to bring the war to an end; on 26 October 1972, the DRV announced that secret talks between US secretary of state Henry Kissinger and its representative, Le Duc Tho, had produced a tentative agreement. Hanoi agreed to recognize the political authority of President Nguyen Van Thieu in Saigon, while the United States agreed to complete the withdrawal of US forces without demanding the removal of existing North Vietnamese troops in the south. The negotiations briefly ran aground in late autumn, leading President Nixon to order an intensive bombing assault on the DRV, but the talks resumed in early January, and the Paris Agreement was formally signed on 27 January 1973.

The Paris Agreement and the withdrawal of US forces by no means signaled the end of the conflict. Clashes between revolutionary forces and South Vietnamese units continued in the south, while provisions for a political settlement quickly collapsed. In January 1975, North Vietnamese forces in the south launched a major military offensive in the Central Highlands. When South Vietnamese resistance in the area disintegrated, further attacks were launched farther to the north, and by late March the entire northern half of the country was in North Vietnamese hands. President Thieu resigned on 21 April, but his successor, General Duong Van Minh, was unable to achieve a negotiated settlement. The capital of the RVN, Saigon, was occupied by North Vietnamese troops on 30 April. Thus ended a war in which some 2,000,000 Vietnamese and more than 56,000 Americans were killed and an estimated 4,000,000 people were injured. In the DRV, US bombing was estimated to have destroyed 70% of the industrial plants; in the RVN, more than four million were homeless. During the 1950–74 period, total US economic and military aid to Vietnam was \$23.9 billion (including \$16.1 billion in direct military aid), representing the largest bilateral assistance program in modern history. Chinese aid to the DRV (according to intelligence estimates) probably averaged over \$200 million a year. No complete figures are available on the extent of Soviet assistance to the DRV, but some scholars estimate it at about \$1 billion annually.

During the next 15 months, the DRV moved to complete national reunification of north and south. Nationwide elections for a new National Assembly were held on 25 April 1976. On 24 June, the first Assembly of the unified country met and proclaimed the establishment on 2 July of the Socialist Republic of Vietnam (SRV), with its capital remaining at Hanoi. In December, the Communist Party, known as the Vietnamese Workers' Party since 1951, was renamed the Vietnamese Communist Party. The NLF was dissolved into a nationwide Fatherland Front for the entire country. The na-

tion's Communist leadership, with Le Duan the general secretary of the Communist Party and Pham Van Dong the prime minister, remained unchanged, while loyal members of the revolutionary movement in the south were given positions of prominence at the national level. Ton Duc Thang, figurehead president of the DRV after the death of Ho Chi Minh in 1969, remained in that position until his death in 1980.

Economic reconstruction and the building of a fully Socialist society proved more difficult than reunification. Nationalization of industry and collectivization of agriculture had been achieved in the north in the late 1950s, but the south proved more resistant to official efforts to end private enterprise after 1975. When the regime attempted to destroy the remnants of capitalism and private farming in the south in 1978, thousands fled, and the economy entered a period of severe crisis. Its problems were magnified by the outbreak of war with China. In December 1978, Vietnamese forces had invaded neighboring Kampuchea (known as Cambodia until 1976 and again from 1989) to overthrow the anti-Vietnamese government of the revolutionary Pol Pot. A pro-Vietnamese government was installed in early January 1979. China, which had been supporting Pol Pot to retain its own influence in Southeast Asia, mounted a punitive invasion of North Vietnam in February 1979. After a short but bitter battle that caused severe casualties on both sides, the Chinese forces withdrew across the border. China, however, continued to support guerrilla operations led by Pol Pot against the government in Kampuchea.

During the 1980s, the SRV attempted to recover from its economic crisis. Party leaders worked out a compromise permitting the survival of a small private sector while maintaining a program of gradual Socialist transformation. With the death of Le Duan in June 1986, a new leadership emerged under General Secretary Nguyen Van Linh at the Sixth National Party Congress. This leadership promised a new "openness" in political affairs and a policy of economic renovation (*doi moi*) to improve the livelihood of the population. A strong conservative coalition of party leaders seriously reduced Linh's effectiveness as they stressed the dangers of political liberalization and slowed the pace of economic reform. In March 1988 Prime Minister Pham Hung died, and Linh's choice of a conservative replacement, Do Muoi, was a clear concession to these groups.

Economic recovery continued to be difficult due to a serious lack of investment capital, resources, and technical skills. The SRV's internal problems were compounded by the continuing dispute with China. To protect itself from Chinese intimidation, Hanoi had formed a military alliance with the USSR and was deeply dependent upon Soviet economic assistance. The continuing civil war in Kampuchea also represented a steady drain on the SRV's slender resources and prevented foreign economic assistance, particularly from the United States. In December 1988 the constitution was amended to remove derogatory references to the United States, China, France and Japan, as an attempt to improve international relations. In August 1991 Do Muoi resigned as prime minister. His successor Vo Van Kiet favored free-market reforms. A new constitution was adopted by the National Assembly in April 1992. A general election took place in July 1992 and, for the first time, independent candidates were allowed to present themselves, but neither of the two deemed qualified were elected. On 23 Septem-

ber 1992, the National Assembly elected Lu Duc Anh as president and reelected Vo Van Kiet as prime minister.

In January 1989 the first direct talks between Vietnam and China since 1979 resulted in Vietnam's agreement to withdraw its troops from Cambodia by the end of September 1989 and China's agreement to end aid to the Khmer Rouge guerrillas once the Vietnamese withdrawal was achieved. Later, Vietnam insisted that the withdrawal was contingent on the end of all foreign military aid to factions opposing Cambodian Prime Minister Hun Sen. Hanoi hoped to use the September 1989 withdrawal of its troops from Cambodia as leverage for improved relations with the Association of Southeast Asian Nations (ASEAN), Japan, and the West. On 23 October 1991 a Cambodian peace agreement was signed, paving the way for Vietnam's eventual entry into ASEAN, which occurred in 1995.

The Soviet economic assistance on which Vietnam had depended, withered away with the collapse of the USSR, although technical help from Russia remains important. With the loss of major Soviet aid, Vietnam's relations with the West began to warm considerably. In June 1992, Vietnam announced that all South Vietnamese officials had been released from reeducation camps, a US-mandated prerequisite for lifting its embargo against Vietnam. As a result, on 3 February 1994 President Bill Clinton lifted the US trade embargo against Vietnam. At the time Clinton lifted the embargo, there were still 2,238 US servicemen listed as missing. Vietnam agreed to cooperate with their recovery to the "full-est possible extent." Vietnam and the United States established full diplomatic relations in 1995.

In October 1991 Vietnam agreed to accept the forced repatriation of Vietnamese refugees—known as boat people—who were designated economic migrants, not seekers of political asylum. The boat people were in camps around Asia from 1975–94. The "comprehensive plan of action" adopted by the UN High Commission for Refugees in 1989 reduced the number of boat people fleeing Vietnam. In 1994, the Commission decided that all those still living in camps were to be repatriated.

During the 1990s, Vietnam stepped up its efforts to attract foreign capital from the West and regularize relations with the world financial system. At the same time, the country struggled with its intention not to descend too deeply into Western style consumerism, as demonstrated in 1996, when the government, while continuing to court foreign investment, banned consumer-goods advertising in foreign languages. That move angered Western investors and free-market Vietnamese, but marked the beginning of a countrywide attempt to purge society of overt Western decadence. Analysts attributed the drive to the aging hard-line leadership who looked at the *doi moi* reforms with intense skepticism.

After joining ASEAN in 1995, Vietnam began reframing its trade laws and began instituting legal reforms aimed at codifying its sometimes capricious statutory system. During 1995, a significant year in Vietnam's opening up to the world, the Communist Party held two meetings to discuss the establishment of a law-based civil society to replace the decades-old system of rule by fiat. In this spirit, the National Assembly passed a series of laws aligning the country with international standards on copyright protection—needed for World Trade Organization (WTO) membership—and other areas. An extensive document, called the Civil Code, was passed containing 834 articles ostensibly grant-

ing the Vietnamese people greater civil liberties. Other measures were decidedly investor-unfriendly, such as Prime Minister Kiet's decree that no more land would be turned over from rice production to industrial use. Subsequently, Vietnam's foreign investment rate slid from a peak of \$8.6 billion in 1996, to just \$1.4 billion in 1999.

In June 1996, the Communist Party held its eighth congress, its first full congress since 1991. Much was expected from the congress in light of the country's ambiguous and, at times, conflicting moves toward openness and reform over the 12 years of *doi moi*. The congress returned to power the aging leadership, granting additional five-year terms to General Secretary Do Muoi, President Le Duc Anh, and Prime Minister Vo Van Kiet. The Party issued decrees in favor of continued economic reform and international investment, but balked at the kind of market liberalization most internationalist investors perceive as necessary to the creation of a viable economy.

After the long war between the Communists and the United States, 30 April 2000 marked Vietnam's reunification. Celebrations of the occasion, with military parades and a carnival atmosphere, were followed by the 6 May funeral of former prime minister Pham Van Dong. One of the original troika leading Vietnam during the struggle against France and the United States, Dong (born in 1906) had been an influential, unswerving Communist conservative. It remains to be seen whether the inevitable winnowing of Vietnam's "gerontocracy" will result in significant liberalization.

Severe, violent unrest in the countryside during 1997 led to punishment of rural officials for corruption, and increased awareness of agricultural concerns. As much as 80% of Vietnam's population lives in farming communities. Expressions of rural discontent continued to emerge, even in the form of peasant anticorruption protests in the streets of Ho Chi Minh City.

As aftereffects of the 1997 Asian economic crisis stunted the growth of Vietnam's economy, the country remained poor at the beginning of the 21st century. In spite of strides in rice production, literacy and education, unemployment outpaces economic growth. Rural infrastructure languishes, and the urban gap between a rich elite and struggling masses is enormous. Socialist rhetoric and retrenchment failed to heal the divide, which also exists between North and South. Some effort has been made to recognize Party officials from the South, such as early 2000s appointment of Truong Tan Sang, who had been Ho Chi Minh City's Party head, to lead the Party's economic commission. The reformists within the Party have never been completely marginalized, only outmaneuvered by the old-time Marxists. Retired General Tran Do's open criticism of corruption and other failures of the system resulted in his expulsion from the Party in January 1999. General Tran Do endured other forms of harassment, but it was not as severe as that meted out to other dissidents, due to his revered war veteran, communist faithful, status. He died on 9 August 2002.

Issues of importance relevant to Vietnam's reintegration into the international system have included the status of Vietnamese refugees; border and troop withdrawal disputes with Cambodia, Thailand, and the People's Republic of China; conflicts over the Spratly and Paracel island groups in the South China Sea; conflicts with the United States over the recovery of the remains of US sol-

diers missing-in-action (MIA); and Vietnamese cooperation in a diplomatic settlement in Cambodia.

Trade between the United States and Vietnam was normalized in December 2001. Vietnam initially did not want to be perceived by China as overly friendly with the United States, and the Party elite was reluctant to embark on the economic overhaul that the United States demands. Nevertheless, trade relations between the United States and Vietnam grew steadily in the first decade of the early 21st century. United Airlines began servicing Vietnam in 2004. By April 2005, around the time of the 30th anniversary of the fall of Saigon, the United States had become Vietnam's largest export market. Trade between the two countries totaled \$6.4 billion by 2004, compared with \$451 million in 1995. Stronger trade ties helped Vietnam's economy grow considerably. The World Bank, for instance, had rated 58% of Vietnam's population as poor in 1993; by 2002, that figure stood at 29%. Through the mid-1990s into the early 21st century, the country's economy grew at an annual 7.4% rate.

A May 2000 report, "Vietnam: Silencing of Dissent" by Human Rights Watch, detailed ways in which those expressing views counter to the Party line are subjected to "harassment and intimidation," although it noted that Vietnam has fewer actual political prisoners than in the past. The US government (particularly members of Congress) remains critical of Vietnam's human rights policies, including arbitrary arrest and detention of citizens. In contradiction to assertions of commitment to the cause of human rights, authorities continued to severely limit freedom of speech, press, assembly and association, workers' rights, and rights of citizens to change their government.

Print and broadcast media remain firmly state-dominated. In January 2002, the Communist Party ordered the seizure and destruction of unauthorized books written by leading dissidents. The arrival of Internet access in Vietnam began to provide a means for free expression, although so far Internet content is government-monitored. In August 2001, the government passed a decree that imposed stricter regulations on Internet cafes and imposed fines for illegal Internet usage, while opening up provision of Internet services to privately owned businesses, including foreign companies. The government controlled the operation of the sole Internet access provider. In August 2002, the government proposed severe penalties for Internet cafe owners who allow customers to visit antigovernment or pornographic websites. There were approximately 4,000 Internet cafes in 2002.

The controversy between the People's Republic of China and Vietnam over the control of the Spratly and Paracel archipelagoes in the South China Sea dates to the early part of the 20th century. After the Vietnam War, when oil supplies became an issue, the dispute intensified, leading to numerous armed clashes between China and Vietnam. Vietnam, China, the Philippines, Brunei, Taiwan, and Malaysia claim all or part of the Spratly and Paracel archipelagoes. These competing claims have broad geopolitical implications regarding oil reserves, fishing rights, rights of passage for ships, prevention of nuclear dumping, and security in the region. In 1995, China occupied Mischief Reef, on an island in the area claimed by the Philippines and later that year China signed an agreement with a US oil exploration firm to drill for oil in waters claimed by Vietnam. As a member of ASEAN, Vietnam took its complaint to that body. In March 1997, a meeting of

the ASEAN ambassadors was convened in Hanoi and the regional bloc emerged united in opposition to China's move against what they officially recognized as Vietnam's legal territory, marking the first time the ASEAN nations stood up in defiance of Beijing. Vietnam staked its own claim to the islands when it fired on a Philippines jet in 2002. Although the disputes over the islands remained unresolved as of early 2003, all of the claimants except for Taiwan agreed to resolve the dispute eventually through peaceful means.

At the ninth Party congress held in April 2001, reform-minded National Assembly chairman Nong Duc Manh was chosen as General Secretary to replace the unpopular Le Kha Phieu, who was increasingly seen as an obstacle to Vietnam's modernization. In 2002, the Party revised its rules to allow members to engage in private business. At the meeting of the National Assembly in July 2002, Prime Minister Phan Van Khai and General Secretary Nong Duc Manh, among others, identified corruption as one of the government's main challenges. By September, more than 100 government officials had been arrested, more than 50 police officers had been suspended from duty, and two members of the Central Committee were expelled from the Party for dealings with Nam Cam, a crime figure involved in drug, prostitution, and protection rackets.

In National Assembly elections held on 19 May 2002, approximately 700 candidates competed for 498 seats, some of whom were independents. However, a government body, the Fatherland Front, was responsible for screening candidates. No opposition parties contested the vote. In July 2002, President Tran Duc Luong was reappointed for a second term by the National Assembly, which also reappointed Prime Minister Phan Van Khai for a second five-year term. The next presidential election was to be held in 2007.

### 13 GOVERNMENT

The Communist Party-controlled government of Vietnam has ruled under four state constitutions. The first was promulgated in 1946, the second in 1960, the third in 1980, and the fourth in 1992.

The 1946 constitution of the Democratic Republic of Vietnam (DRV), adopted shortly before the war with the French, was never fully implemented because of wartime conditions. On 1 January 1960, a new constitution was promulgated, instituting a largely presidential system to capitalize on Ho Chi Minh's considerable prestige. In the Republic of Vietnam (RVN), formerly South Vietnam, two constitutions were promulgated. The first, by the regime of Ngo Dinh Diem was introduced in 1956. The second was put forth when Nguyen Van Thieu was elected president in 1967. Like the DRV constitution, it created a modified presidential system, with a cabinet responsible to the legislative branch. Following the fall of the RVN in 1975, the north moved quickly toward national reunification. A nationwide National Assembly was elected in April 1976, and the Socialist Republic of Vietnam was proclaimed in early July. In December 1980, the SRV adopted a new constitution for the entire country. The new charter, more doctrinaire than its predecessors, described Vietnam as a "proletarian dictatorship" led by the Communist Party, and called for an early transition to full Socialist ownership. The highest state authority was the National Assembly. Members were elected for five-year terms by universal adult suffrage at age 18. The Assembly appointed the

Council of Ministers (a cabinet of 33 ministers), the chairman of which ranked as premier. The Council of State (12 members in 1987) served as the collective presidency of Vietnam, elected by the National Assembly from among its own members and accountable to it.

In 1992 a new constitution was adopted by the National Assembly. Like the 1980 constitution it affirmed the central role of the Communist Party, stipulating that the party must be subject to the law. In support of a free-market economy, constitutional protection of foreign investment was guaranteed. However, land remained the property of the state, with individuals or enterprises entitled to the right to long-term leases that can be inherited or sold. The newly created position of president replaced the Council of State; the president has the right to appoint a prime minister subject to the approval of the National Assembly. The National Assembly, with a maximum of 400 members, retained legislative power. Members are elected to five-year terms by universal adult suffrage. As of 2002, there were 498 members of the National Assembly. The next election was to take place in 2007.

## 14 POLITICAL PARTIES

The government of the SRV is a de facto one-party state ruled by the Vietnamese Communist Party (VCP). The Vietnamese Communist Party is the political successor to the Indochinese Communist Party, created in 1930 and formally dissolved in 1945. From 1945 until 1951, the party operated in clandestine fashion, until it emerged once more as the Vietnamese Workers' Party at the Second National Congress in 1951. The party assumed its current name in 1976, shortly after the unification of the country into the Socialist Republic of Vietnam.

The Communist Party is administered through an assembly of national delegates. National party conventions elect a Central Committee to guide party affairs between sessions of the national convention. The Central Committee in turn elects the Politburo, the highest policy making body, and a secretariat to direct day-to-day party operations.

The Fatherland Front is the linear successor of the Viet-Minh Front, formed in 1941 to provide the Communist Party with a broad organization to unify all elements in Vietnam against the French colonial regime. The Fatherland Front was formed in North Vietnam in 1955 as a device to mobilize the population to support the regime's goals. A similar organization, the National Liberation Front (NLF), was established in South Vietnam in 1960 by Nguyen Huu Tho to provide a political force in favor of national reunification. After the fall of the RVN in 1975, the NLF was merged into the Fatherland Front.

Under the RVN government, development of a political party system in the Western sense never passed the rudimentary stage. President Thieu, who headed the People's Alliance for Social Revolution, tried to consolidate anti-Communist political organizations in the RVN through a multiparty National Social Democratic Front, but formal political organizations were weak and plagued with religious and regional sectarianism. Wartime conditions and the lack of a national tradition of political pluralism were additional factors preventing the rise of a multiparty system. All such parties were abolished after the fall of Saigon in 1975.

In the SRV, elections for national and local office are controlled by the Communist Party and the state. In the July 1992 general

elections 601 candidates contested 395 National Assembly seats. For the first time independent candidates—not Communist Party members or endorsed by organizations affiliated with the Party—were permitted to contest seats, although they did require Party approval in order to present themselves. Two candidates qualified, but neither was elected. In 1996, the Communist Party held its eighth congress, at which it was widely expected a new generation of leaders would be inaugurated; but, again the aging hard-line leaders were given another five-year term in office as the country struggled with the consequences of 12 years of economic reform and increased international openness. In 1998's national elections, the first three "self-nominated" candidates (not proposed by the Party or the Fatherland Front) managed to gain seats in the 450-member National Assembly. Women held 26% of seats in the National Assembly as of May 2000, but have not yet risen to the top echelons of the Party. At the ninth party congress held in April 2001, National Assembly chairman Nong Duc Manh was chosen as general secretary, which was seen as a step toward reform. In the 19 May 2002 elections for the 498-member National Assembly, some independents competed for seats, although the Fatherland Front was responsible for approving them. No opposition parties contested the vote. The Communist Party took 90% of the vote (447 seats); the other 10% (51 seats) was won by candidates who are not Party members but were approved by the Party.

## 15 LOCAL GOVERNMENT

Vietnam is divided into 59 provinces (*tin*h), and five municipalities (*th*u do)—Can Tho, Da Nang, Hanoi, Haiphong, and Ho Chi Minh City—all administered by the national government. Districts, towns, and villages are governed by locally elected people's councils. Council candidates are screened by the party. Council members' responsibilities include upholding the constitution and laws and overseeing local armed forces units. The councils in turn elect and oversee executive organs, called people's committees, to provide day-to-day administration. The entire system functions in a unitary fashion, with local organs of authority directly accountable to those at higher levels.

## 16 JUDICIAL SYSTEM

The judicial system of the SRV parallels that of the former DRV. The highest court in Vietnam is the Supreme People's Court, whose members are appointed for five-year terms by the National Assembly on the recommendation of the president. In addition, there are local people's courts at each administrative level; military courts; and "special courts" established by the National Assembly in certain cases. Law enforcement is handled by the People's Organs of Control; the president, or procurator-general, of this body is appointed by the National Assembly.

Although the constitution provides for the independence of judges and jurors, there is close control of the entire governmental system by the Vietnamese Communist Party (VCP) and a judicial selection process which favors appointment of jurists supportive of the VCP. Prison sentences are frequently imposed through administrative procedures without the protections of procedural due process or judicial review.

Trials are generally open to the public. Defendants have the right to be present at the trial, to have an attorney, and to cross-examine witnesses. The legal system is based on communist le-

gal theory and French civil law. Rising crime, including violent robbery and extortion, in the cities, plus endemic corruption and smuggling, provide challenges for under-funded law enforcement agencies and the criminal justice system.

## 17 ARMED FORCES

Since reunification in 1975, Vietnam has continued to maintain a strong military presence. As of 2005, the armed forces had 484,000 active personnel. Of that figure, the Army had about 412,000 personnel, the People's Air Force 30,000 members and the Navy an estimated 15,000 personnel, in addition to 27,000 naval infantry troops. Reserves numbered between three and four million. The Army's primary armament included 1,315 main battle tanks, 620 light tanks, 100 reconnaissance vehicles, 300 armored infantry fighting vehicles, 1,380 armored personnel carriers and over 3,040 artillery pieces. The Navy's major units included two tactical submarines, six frigates, five corvettes 37 patrol/coastal vessels and 15 mine warfare ships. The People's Air Force had 221 combat capable aircraft that included 204 fighters, in addition to four fixed-wing antisubmarine aircraft, 26 attack and 13 antisubmarine warfare helicopters. Paramilitary forces include an estimated 40,000 member Border Defense Corps and local rural and urban militia units with more than five million members. The defense budget in 2005 totaled \$3.47 billion.

## 18 INTERNATIONAL COOPERATION

Vietnam was admitted to the United Nations on 20 September 1977. The nation belongs to ESCAP and several nonregional specialized agencies, such as the World Bank, IAEA, the FAO, UNESCO, UNIDO, UNCTAD, and the WHO. Vietnam is also a member of the Asian Development Bank, APEC, ASEAN, the Colombo Plan, and G-77. The country has observer status in the WTO. Vietnam is part of the Nonaligned Movement.

In environmental cooperation, Vietnam is part of the Basel Convention, the Convention on Biological Diversity, Ramsar, CITES, the Kyoto Protocol, the Montréal Protocol, MARPOL, and the UN Conventions on the Law of the Sea, Climate Change, and Desertification.

## 19 ECONOMY

Wet-rice agriculture is the most important segment of the Vietnamese economy. Approximately 65% of the workforce is engaged in agriculture. While agriculture has continued growth, transforming Vietnam from a net importer 15 years ago into the second-largest exporter of rice, industry has grown even faster. Industry in 2005 accounted for 40.9% of GDP, services 38.1%, and agriculture 21%. The most diversified area in Southeast Asia in terms of mineral resources, Vietnam is well endowed with coal, tin, tungsten, gold, iron, manganese, chromium, and antimony. Foods, garments, shoes, machines, cement, chemical fertilizer, glass, tires, oil, coal, steel, and paper are the main industrial products. Most of the nation's mineral resources are located in the north, while the south is a major producer of rice and tropical agricultural products, such as rubber, coffee, and tea. The war took its heaviest economic toll on Vietnam's infrastructure, which even in the best of times was far from adequate to afford access to and mobilization of the country's agricultural and industrial resources. Further setbacks came in the late 1970s. In 1976, the regime

announced a five-year plan, calling for rapid industrialization and Socialist transformation by the end of the decade. According to official sources, in 1978 floods destroyed 3 million tons of rice, submerged over 1 million hectares (2.5 million acres) of cultivated land, and killed 20% of all cattle in the affected areas along the central coast. The termination of all Chinese aid in the same year, followed by the Chinese attack on the north in February–March 1979, dealt the economy further blows. Vietnam's economy had already been weakened by the military effort in Kampuchea (known as Cambodia until 1976 and again after 1989) and by the suspension of food aid from the EC (now EU), the United Kingdom, Australia, and New Zealand because of objections to Vietnam's refugee policies. Reportedly, the country came close to general famine in 1979.

In 1979, faced with serious shortages of food and consumer goods, Vietnamese leaders approved a new program granting incentives for increased productivity and delaying the construction of farm collectives in the southern provinces. During the 1981–85 five-year plan, emphasis was placed on agriculture and the production of consumer goods. Economic performance improved in the early 1980s, with the growth rate estimated at about 10% annually. Price inflation, however, became a major problem, averaging 700% in 1986–87.

Policy changes were introduced incrementally with economic liberalization preceding consideration of political liberalization. On 3 February 1994 US President Clinton lifted the trade embargo against Vietnam that had been in place for 33 years. The reforms helped Vietnam's economy to grow at a rate of 9% a year during most of the 1990s and by almost 10% in 1996. Growth in the industrial sector was especially strong at over 12% annually between 1988 and 1997. In Hanoi, the increased presence of a foreign community spurred the availability of western-style restaurants and bars, hotel and airport renovation and upgrading, accessible public telephones, and advertising of consumer goods. However, with the onset of the Asian financial crisis in 1997, growth, which was 8.2% for the year in 1997, dropped to 3.5% in 1998 and 4.5% in 1999. Growth increased to 6.8% in 2000, to 6.9% in 2001, 7% in 2002, 7.2% in 2003, and 8.4% in 2005. The pace of growth was projected to be impressive in 2006–07, aided by solid growth in industry, but was forecast to decline slightly from the seven-year high reached in 2005.

Unemployment grew during the 1990s to an estimated 25% in 1995. Several factors contributed to Vietnam's growing unemployment: natural increases in the population; monetary and other adjustments for hyperinflation, which intensified the unemployment problem by limiting growth in some sectors of the economy; the return of demobilized troops from Cambodia; repatriation of refugees; workers laid off from state enterprises; and returning guest workers. However, with capital investment, this labor force could be turned into a resource for growth in labor-intensive manufacturing, considering the low wage base in Vietnam, the high skills levels, and high motivation. The unemployment rate was estimated at 6.1% in 2003, and at 2.4% in 2005. Inflation, which jumped from 3.1% in 1997 to 7.9% in 1998, moderated to 4.1% in 1999, and was at negligible levels in 2000 (-1.7%) and 2001 (0.8%). By 2005, the inflation rate stood at 8%, and had averaged 4.4% over the 2001–05 period. The Party leadership is concerned about persistent unemployment and underemployment, the widening gap

between rich and poor, and increases in bankruptcy, prostitution, and corruption.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Vietnam's gross domestic product (GDP) was estimated at \$251.8 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$3,000. The annual growth rate of GDP was estimated at 7.6%. The average inflation rate in 2005 was 8%. It was estimated that agriculture accounted for 21% of GDP, industry 40.9%, and services 38.1%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$2.700 billion or about \$33 per capita and accounted for approximately 6.9% of GDP. Foreign aid receipts amounted to \$1,769 million or about \$22 per capita and accounted for approximately 4.5% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Vietnam totaled \$25.36 billion or about \$312 per capita based on a GDP of \$39.2 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 5.2%. In 2001 it was estimated that approximately 49% of household consumption was spent on food, 15% on fuel, 4% on health care, and 18% on education. It was estimated that in 2002 about 28.9% of the population had incomes below the poverty line.

## 21 LABOR

Vietnam's labor force was estimated at 44.03 million in 2005. As of 2003, the nation's occupational breakdown was as follows: agriculture (including forestry and fishing) 59.7% of the labor force; industry 16.4%; and the services sector 23.9%. Unemployment in 2005 was estimated at 2.4%.

As of 2002, Vietnamese workers were not free to form or join independent unions. The government-controlled Trade Union Federation of Vietnam (VGCL) is the sole labor organization, and all workers automatically become members of the union of their workplace. In 2001, the VGCL had four million members throughout the country, including 95% of all public sector employees, 90% of workers in state-owned enterprises, and 70% of private sector workers. Strikes are prohibited at enterprises that serve the public or are important to the national economy or defense, and the Prime Minister decides what enterprises come under that definition. Most strikes occur against foreign enterprises.

The minimum age for full-time employment is 18, with special provisions for those between 15 and 18 years of age. However, many children work in violation of this law, especially in the informal economy. The Labor Law requires the government to set a minimum wage, which was \$30 per month for foreign-investment joint ventures in 2002. Outside of these enterprises the minimum was set at \$12 per month. Working hours are set by law at eight hours per day with a mandatory 24-hour rest period per week. Working conditions are slowly improving.

## 22 AGRICULTURE

Nearly 67% of the labor force of the SRV derives its livelihood from agriculture; arable land in 2003 was 8,980,000 hectares (22,190,000 acres). In 2004, there were 32,961 farms with sown crops and 22,759 with perennial crops.

Only about 15% of the land in the north is arable, and 14% of it is already under intensive cultivation. Agriculture in the north is concentrated in the lowland areas of the Red River Delta and along the central coast to the south. The Mekong Delta, among the great rice-producing regions of the world, is the dominant agricultural region of the south. Excess grain from the area is shipped to the northern parts of the country. Annual food-grain production averaged 20 million tons in the early 1990s, reaching 39.6 million tons in 2004.

Rice, the main staple of the Vietnamese diet, occupies 94% of arable land. In the north, two and in some cases three crops a year are made possible through an extensive system of irrigation, utilizing upward of 4,000 km (2,500 mi) of dikes. Single-cropping remains the rule in the south, where heavy rains fall for six months of the year and virtually no rain at all during the other six months. The southern region's extensive network of canals is used mainly for transport and drainage, although some irrigational use was attempted under the RVN government. Rice production between 1975 and 1980 was adversely affected by bad weather and the regime's attempt to promote collectivization, but it began to rebound during the early 1980s. In 1980, 11.7 million tons of paddy rice were produced; output rose to 16.2 million tons in 1985 and to 19.2 million tons in 1990. Production totaled 36.1 million tons in 2004.

Other crops include corn, sorghum, cassava, sweet potatoes, beans, fruits, and vegetables. In 2004, estimated production (in thousands of tons) was sugarcane, 15,880; corn, 3,453; groundnuts in shell, 451; and soybeans, 252. Rubber, formerly a major crop and a leading source of foreign exchange, was grown mostly on large plantations organized under the French colonial regime. As a result of the Vietnam war, practically all of the large plantations in the "redlands" area in the south were shut down, and damage to the trees was severe. In 1975, the SRV announced that rubber workers had resumed the extraction of latex from hundreds of thousands of rubber trees on plantations north and northwest of Ho Chi Minh City, most of which had lain fallow for years. Rubber production was given high priority by the Hanoi regime and increased from 40,000 tons in 1975 to an estimated 400,000 tons in 2004. Other industrial and export crops produced in Vietnam include coffee, tea, tobacco, pepper, and jute. In 2004, 834,600 tons of coffee (second in the world after Brazil), 108,000 tons of tea, 95,700 tons of pepper, 14,000 tons of jute, 27,000 tons of tobacco, and 825,700 tons of cashews (first in the world) were harvested.

Agriculture in the north has reached an advanced stage of collectivization. A land-reform program completed in 1956 distributed 810,000 hectares (2,002,000 acres) to 2,104,000 peasant families. The share of the Socialist sector in agricultural land increased from 1% in 1955 to 95% in 1975. By 1977, the north had 15,200 agricultural cooperatives and 105 state farms.

In the south, rapid collectivization began in 1978, when the regime announced a program to place the majority of southern farmers in low-level cooperative organizations by the end of the 1976–80 five-year plan. Popular resistance was extensive, howev-

er, and by 1981, less than 10% of the rural population was enrolled in full-scale collectives and a roughly equal number in low-level, semi-Socialist production solidarity teams and production collectives.

In an effort to make collectivization more palatable, the regime announced a "household contract" system, permitting members of cooperatives to lease collective land in return for an agreed proportion of total output. This system apparently encouraged many peasants to join cooperative organizations, and the regime announced in mid-1986 that collectivization at the low level had been "basically completed" in the south, with 86.4% of the rural population enrolled in some form of collective organization. In 2003, of the 7,694 agricultural cooperatives throughout Vietnam, only about 25% were in the south.

### **2<sup>3</sup> ANIMAL HUSBANDRY**

The most important aspect of animal husbandry in the SRV remains the raising of draft animals, mainly water buffalo. Lack of feed, shelter, and technical guidance and an inability to control disease combine with the legacy of war damage to hinder the growth of this sector. Increasing the livestock is now a major priority of the Hanoi regime. The sizes of herds in 2005 (with 1975 figures in parentheses) was as follows: hogs, 27,000,000 (8,800,700); buffalo, 2,950,000 (2,193,000); and cattle 5,250,000 (1,485,000). Vietnam also had an estimated 1,200,000 goats, 111,000 horses, 195 million chickens, and 50 million ducks in 2005. Meat production totaled 2,740,000 tons in 2005, with pork accounting for 77%; poultry, 14%; buffalo and other meat, 9%.

### **2<sup>4</sup> FISHING**

Fresh and dried fish and fish sauce (known as nuoc mam) are major ingredients of the Vietnamese diet, and fishing is an important occupation. Shrimp, lobster, and more than 50 commercial species of fish are found in Vietnamese waters. Ha Long Bay, the major fishing area of the north, is particularly rich in shrimp and crayfish. Fish also abound in Vietnam's rivers and canals. In 2004, Vietnam had 20,071 vessels engaged in offshore fishing.

The fishing industry was severely depleted after the Vietnam War, when many fishermen (often overseas Chinese) fled the country. The government has increased marine production into a major export industry. In 2003, ocean production was estimated at 1,896,277 tons, and inland production was estimated at 738,111 tons. Exports of fish products were valued at \$2.2 billion in 2003. Vietnamese aquaculture primarily produces cyprinids and prawns. In 2004, there were 35,424 fish farms covering 904,900 hectares (2,236,000 acres), 70% in marine or brackish water, primarily for shrimp. That year, farmed shrimp production totaled 290,200 tons. The government estimates the value of aquaculture at \$33 trillion, or 66% of the total output value of fishing in 2004.

### **2<sup>5</sup> FORESTRY**

In 2004, forests covered 37% of the total land area of Vietnam, consisting of 9.9 million hectares (24.5 million acres) of natural forest and 2.27 million hectares (5.61 million acres) of planted forest. Important forestry products include bamboo, resins, lacquer, quinine, turpentine, and pitch. Depletion of forests, however, has been serious, not only through US defoliation campaigns in the south during the war, but also because of the slash-and-

burn techniques used by nomadic tribal groups in mountainous areas. Planted forests are mainly found in the northeast, where they serve as watershed protection and supply materials for the mining and paper industries. In 1998, the government began a reforestation program which aims to increase the forest cover by 5 million hectares (12.3 million acres) by 2010.

The damaged areas are recovering faster than anticipated, although reforestation has been slow and some regions are faced with sterility and erosion. Official policy emphasizes the replacement of natural forests with export crops such as cinnamon, aniseed, rubber, coffee, and bamboo. Roundwood production was estimated at 30,597,000 cu m (1.08 billion million cu ft) in 2004, with 86% used as fuel wood. Vietnam has become a world-class producer of wooden furniture, with exports rising from \$200 million in 2000 to nearly \$1.5 billion in 2005.

### **2<sup>6</sup> MINING**

Vietnam had a wide variety of important mineral resources, but the mining sector was relatively small and undeveloped. The principal reserves, located mainly in the north, were bauxite, carbonate rocks, chrome, clays, anthracite coal, copper, natural gas, gemstones, gold, graphite, iron ore, lead, manganese, mica, nickel, crude petroleum, phosphate rock (apatite), pyrophyllite, rare earths, silica sand, tin, titanium, tungsten, zinc, and zirconium. Coal dominated the mining sector, and, along with carbonate rocks, crude petroleum, and phosphate rocks, was produced in large quantity. Iron reserves were estimated at 520 million tons, and apatite reserves, 1.7 billion tons. Bauxite mines in the Central Highlands Province (Lam Dong) were capable of producing 1.7 million tons per year of ore. Mining and quarrying contributed 6.1% to gross domestic product (GDP) in 2003. Also among leading industries were the production of cement, chemical fertilizer, oil, coal, and steel; crude oil was its top export commodity. Vietnam's movement toward a free market has resulted in increased international trade.

Estimated production outputs in 2004 included: chromium ore (gross weight), 150,000 metric tons, up from 120,000 metric tons in 2003; ilmenite (gross weight), 200,000 metric tons, unchanged from 2003; mined zinc, 40,000 metric tons, down from 45,000 metric tons in 2003; mined tin, 3,500 metric tons, up from 2,100 metric tons in 2003; gold, 2,000 kg, unchanged from 2003; lime, 1.5 million tons; and silica sand, 63 million tons, unchanged from 2003. Vietnam also produced barite, bauxite, bentonite, hydraulic cement, chromium, kaolin clay, refractory clay, construction aggregates, copper, fluorspar, gemstones, granite, graphite, ilmenite, iron ore, lead, lime, marble, nitrogen, phosphate rock, pyrite, pyrophyllite, rare earths, salt, silica sand, sulfur, building stone, and zirconium. Most chromite, ilmenite, and zirconium, and some granite, kaolin, salt, and silica sand, was exported. No tungsten was reported produced from 2000 through 2004. Asian Mineral Resources started two diamond drilling programs at nickel deposits. The mining industry comprised state-owned companies, several state-and-foreign mining and mineral-processing company joint ventures, many small-scale local government-owned mining companies, local government-private mining company joint ventures, and local private miners.

## 27 ENERGY AND POWER

Vietnam has the potential to become a regional supplier of oil and natural gas.

As of 1 January 2005, Vietnam had proven oil reserves of 600 million barrels, according to the Oil and Gas Journal. However, that total is seen as increasing as exploration continues to move forward. In 2004, oil production was estimated at 403,000 barrels per day. With domestic consumption in 2004 estimated at 210,000 barrels per day, Vietnam that year became a net oil exporter. In 2004, net oil exports totaled an estimated 193,000 barrels per day.

Vietnam also has reserves of natural gas, estimated by the Oil and Gas Journal, as of 1 January 2005, at 6.8 trillion cu ft. However, it is expected that the country's actual reserves may total as much as 10 trillion cu ft. As of 2002, Vietnam consumed all the natural gas it produced. In that year, output of natural gas and domestic consumption each totaled an estimated 79.8 billion cu ft.

Vietnam also has coal reserves of 165 million short tons, most of which is anthracite coal. In 2002, coal production totaled an estimated 14.4 million short tons. In that year, demand for coal totaled an estimated 9.1 million short tons, making the country a net exporter of coal. Exports of coal that year totaled 5.3 million short tons.

Vietnam's electric power generating capacity in 2002 totaled 8,323 million kW, of which 4,195 million kW of capacity was came from conventional thermal plants. Hydroelectric plants accounted for the remaining 4,128 million kW. Electric power output in 2002 totaled 34,558 billion kWh, of which 16,542 billion kWh came from conventional thermal plants and 18,016 billion kWh, from hydroelectric plants. In the same year, consumption of electricity totaled 32,139 billion kWh.

Control over the Spratly Islands remains a contentious issue between Vietnam, China, Taiwan, the Philippines, Brunei, and Malaysia. The reefs, many of which are partially submerged, lie atop an oil field containing an estimated 1–7 billion barrels of oil.

## 28 INDUSTRY

Most heavy and medium industry is concentrated in the north, including the state-owned coal, tin, chrome, and other mining enterprises; an engineering works at Hanoi; power stations; and modern tobacco, tea, and canning factories. The industrial sector in the south is characterized by light industry and consumer goods industry, including pharmaceuticals, textiles, and food processing, although there are some large utilities and cement works. Much of the industrial sector in the north was badly damaged by US bombing raids during the war. In the south, the private sector was permitted to continue in operation after 1975, but all industry and commerce above the family level was nationalized in March 1978. The results were disastrous, and the regime now permits the existence of a small private sector, mainly in the area of consumer goods and other light industry. The results have been generally favorable; industrial production in the 1980s increased at an average annual rate of 9.5%. During the 1990s, industrial production grew by about 12% per year. Industry accounted for 40.9% of GDP in 2005, up from 28% in 1995. Industrial gross output increased by 15.2% in 2005. Leading industrial sectors are food processing, gar-

ments, shoes, machine building, mining, cement, chemical fertilizers, glass, tires, oil, coal, steel, and paper.

Food processing and packaging accounts for 40% of total export turnover. The average annual growth rate has been about 11%.

VINATEX (Vietnam National Textiles and Garment Corporation), the largest Vietnamese corporation in the textile sector, planned to invest \$900 million in the period 2001 to 2005, made up of \$700 million in the textiles sector and \$200 million in material and accessories sectors, for equipment upgrades. In January 2005, the WTO abolished world textile quotas, and Chinese exports to the United States and EU soared: both the United States and EU during the course of 2005 reimposed certain quotas to protect their textile industries, thus putting a slight curb on the flow of Chinese goods. Although this policy bode well for developing Southeast Asian textile exporters, as competition with China was eased, Vietnam in 2005 was not yet a member of the WTO and thus still faced quotas on its exports to the United States, which it was trying to fill. But because its wages are lower than China's, Vietnam in the long term must pursue strategies to save its clothing industry once it enters a quota-free world.

Vietnam exports about \$3 billion worth of footwear a year, its third-largest export earner after crude oil and textiles. In 2004, Vietnam was Asia's third-largest oil producer, with crude oil production averaging 403,300 barrels per day.

Vietnam's rubber sector has been growing at about 15% a year with an output of 300,000 tons of dried latex. Plans are to invest about \$100 million in the period 2001 to 2010 in building/expanding 11 latex plants. Construction has been one of the driving forces of economy, growing at 15% a year. The construction sector consists of about 3,500 companies, including 270 foreign invested enterprises.

Vietnam has a large-scale wood processing industry with a nation-wide network of some 760 state-managed wood processing units. There are also over 200 local enterprises, more than 50 joint ventures and close to 1,200 small scale production units. In the early 2000s, the market for metal-working machinery and equipment was some \$45 million of which 90% was imported.

The state-dominated industrial sector, which accounts for about 45% of the country's GDP, is still marked by inefficiency and low productivity and has retarded the growth of the private sector. This is due the low level of development, characterized by obsolete plants and machinery, shortages of capital, raw materials, energy and transport, and a command-style economic system. Vietnam's assets include low wages, good skill levels, and a motivated work force.

The government owns an estimated 6,000 state-owned enterprises (SOEs): the majority of nonagricultural enterprises. Most of these SOEs reflect the inefficiencies of parastatals, including debt, obsolete equipment and practices, and poor labor. In 1997, the government organized 2,000 SOEs into 88 conglomerates, accounting for 80% of the state sector and further monopolizing the industrial sector. Foreign investment, while welcome, is hard pressed to find opportunities outside of the Vietnam government's reach. In 2003, the first auction of a state-owned enterprise (SOE) took place, which resulted in the sale of the Hai Phong Agricultural Mechanical Engineering Company for \$300,000 to a private Vietnamese company. The auction was financed by the Australian government.

## 29 SCIENCE AND TECHNOLOGY

Science and technology have been one of the key weak spots in the Vietnamese economy and were targeted for significant growth during the second five-year plan (1976–80). Vietnam's leading learned societies are the Union of Scientific and Technical Associations (founded in 1983) and the General Association of Medicine (founded in 1955), both in Hanoi. The State Commission for Science and Technology supervises research at the universities and institutes attached to the Ministry of Higher Education; the Institute of Science organizes research at other institutions. All research institutes are attached to government ministries.

Courses in basic and applied sciences are offered at Cantho University (founded in 1966), the Hanoi University of Technology (founded in 1956), the University of Hanoi (re-founded 1956), the University of Ho Chi Minh City (founded in 1977), Ho Chi Minh City Pedagogical University of Technology (founded in 1962), and various colleges. In 1996, the Hue College of Sciences (formerly the University of Hue) had 10 departments and a large library.

In 1985, total expenditures on research and development amounted to 498 million dong. In the period 1990–2001, there were 274 researchers engaged in research and development per million people.

## 30 DOMESTIC TRADE

Since 1979, the government has permitted the existence of a private commercial sector, mainly in southern cities as Ho Chi Minh City and Da Nang. Most private businesses are small shops and restaurants. In 1991, private enterprise and company laws were adopted by the National Assembly. It is estimated that private businesses account for 70% of domestic trade. Consumer items, durable, and nondurable goods, are available in greater abundance.

Wholesalers in Vietnam consist of state-owned trading companies and private local wholesalers. The retail sector in Vietnam is undergoing rapid transformation, as new sales outlets and merchandising techniques have emerged. In the major urban areas, several Western-style mini-markets and privately-owned convenience stores have opened. Showrooms and service centers for electronics, appliances, and industrial goods offer wholesale and retail sales. In 1996, the Saigon Superbowl opened in Ho Chi Minh City as Vietnam's first entertainment and retail center. Outside of the largest cities, retail outlets consist of family-operated market stalls or small street-front shops. There is still a strong "gray market" of smuggled goods. A value-added tax applies to most goods and services. Advertising appears in many forms. The government has restricted the use of foreign imagery in outdoor advertising by placing limitations on foreign language, landscapes, and models.

Business hours are usually Monday through Friday between 8 AM and 5 PM, with a midday break between noon and 1:00 PM. Those hours pertain to government offices as well. Commercial offices are also open on Saturdays from 8 to 11:30 AM. Banks are open until 3 or 4 PM weekdays and until 11:30 AM on Saturdays. Shops and restaurants are open into the evenings and on Sundays.

## 31 FOREIGN TRADE

Beginning in 1980, emphasis was placed on the development of potential export commodities such as cash crops, marine prod-

ucts, and handicrafts, while imports were severely limited. To promote trade expansion with Japan, Singapore, and Hong Kong, several export-import firms were set up in Ho Chi Minh City under loose official supervision. The results were favorable but the experiment aroused distrust among communist party leaders, and the freewheeling enterprises were integrated into a single firm strictly supervised by the government.

The economic reforms of the late-1980s, including currency devaluation, adoption of a flexible exchange rate system, and lifting restrictions on foreign trade, contributed to the rapid growth in exports in the early 1990s. The US lifting of economic sanctions in 1994 pushed the volume of foreign trade even further upwards. Investments in Vietnam are contributing to the development and expansion of tourism. Vietnam joined the ASEAN Free Trade Area (AFTA) in 1995, committing itself to tariff reductions among member nations. In 1999, the economy recorded its smallest trade deficit in recent memory as exports climbed 23% while imports increased only 2.1%. In 2001, a US-Vietnam Bilateral Trade Agreement (BTA) was concluded, which, by 2004, had resulted in a fourfold increase in bilateral trade between the two countries. Since 2001, the government has moved toward economic liberalization and international integration in order to modernize the economy and produce more competitive, export-driven industries.

Import commodities include petroleum and steel products, motor vehicles and tractors, tires, foodstuffs, raw cotton, sugar, and grain. The most important export commodities for Vietnam are crude petroleum, footwear, and apparel. Other exports include rice, shellfish, and coffee.

In 2004, Vietnam's major exports, in percentage terms, were: crude oil (22.1% of total exports); textiles and garments (17.1%); and footwear (10.5%). Primary imports included: machinery and equipment (17.5% of total imports); refined petroleum (11.5%); and steel (8.3%). Vietnam's leading markets in 2004 were: the United States (20.3% of total exports); Japan (13.7%); China (8.5%); and Australia (7%). The leading suppliers were: China (14.1% of total imports); South Korea (11.9%); Japan (11.3%); and Singapore (11.2%).

### Principal Trading Partners – Vietnam (2002)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	16,706.1	19,745.5	-3,039.4
United States	2,453.2	458.6	1,994.6
Japan	2,437.0	2,504.6	-67.6
China	1,518.3	2,158.8	-640.5
Australia	1,328.4	286.3	1,042.1
Singapore	961.1	2,533.5	-1,572.4
Other Asia nes	817.7	2,525.3	-1,707.6
United Kingdom	571.6	166.5	405.1
Korea, Republic of	468.7	2,279.6	-1,810.9
Iraq	439.9	...	439.9
France-Monaco	439.4	299.2	140.2

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

**Balance of Payments – Vietnam (2002)**

(In millions of US dollars)

<b>Current Account</b>		<b>-604.0</b>
Balance on goods	-1,054.0	
Imports	-17,760.0	
Exports	16,706.0	
Balance on services	-750.0	
Balance on income	-721.0	
Current transfers	1,921.0	
<b>Capital Account</b>		<b>...</b>
<b>Financial Account</b>		<b>2,090.0</b>
Direct investment abroad	...	
Direct investment in Vietnam	1,400.0	
Portfolio investment assets	...	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	624.0	
Other investment liabilities	66.0	
<b>Net Errors and Omissions</b>		<b>-1,038.0</b>
<b>Reserves and Related Items</b>		<b>-448.0</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.**32 BALANCE OF PAYMENTS**

A traditional merchandise trade deficit is partially offset by an inflow of foreign money. This inflow, however, has made the Vietnamese currency overvalued (some argue by as much as 20–30%) and was seen to be hurting exports by driving up the cost of goods. The 1998 financial crisis reflected the culmination of this overvaluation, which was remedied by 1999 with low import levels, and smaller investment figures. Vietnam is the world's second-largest rice exporter after Thailand, exporting 5.2 million tons of rice in 2005. In recent years, Vietnam has received an increase in foreign loans, aid, and direct investment. Vietnam's foreign debt stood at \$19.17 billion in 2005.

In 2004, the value of merchandise exports increased by some 27% to \$25.6 billion. However, merchandise imports increased to \$31.1 billion, up from \$24.9 billion in 2003, resulting in a merchandise trade deficit of \$5.5 billion in 2004, compared with \$4.7 billion in 2003 and \$2.5 billion in 2002. The current-account balance averaged -1.6% of GDP over the 2001–05 period.

**33 BANKING AND SECURITIES**

The State Bank of Vietnam, created in 1951, was the central bank of issue for the DRV, with numerous branches throughout the territory and an extensive agricultural and industrial loan service; in 1976, it became the central bank of the SRV. Foreign exchange is regulated by the Foreign Trade Bank. The Bank for Agricultural Development provides loans to the agricultural and fishing sectors.

Financial chaos became a constant threat during the final years of the RVN. The National Bank of Vietnam (NBV), established in 1954, was the sole authority for issuing notes, controlling credit, and supervising the formation of new banks and changes in banking establishments.

In early May 1975, shortly after the fall of Saigon, the new revolutionary regime announced the temporary closure of all banks in

the south, although the RVN piaster continued to circulate as the only legal tender. Two months later, the National Bank of Vietnam was reopened under new management. Stringent regulations were announced to control inflation and limit currency accumulation. All private Vietnamese and foreign banks were closed in 1976. By then, the Hanoi regime had ordered a complete withdrawal from circulation of the RVN currency and its replacement by the dong, in use in the north.

Since the banking reorganization of July 1988, but particularly since 1992, Vietnam has moved to a diversified system in which state-owned joint-stock, joint-venture, and foreign banks provide services to a broader customer base. The first foreign representative bank office arrived in 1989. In 1992, foreign banks were granted permission to open full commercial branches. The government set up the Bank for the Poor in 1995, and gave it the task of lending to "the poor living in underprivileged areas." As of December 1998, in addition to four state-owned commercial banks, there were numerous joint-stock banks, foreign bank branches, joint-venture banks and foreign banks with representative offices. Foreign banks only recognize three of the joint-stock banks as viable partners, however.

The state banks still dominate the system, state enterprises are still the main borrowers, and their lending is still predominantly short-term because of the skewed interest rate structure. These banks are the Bank of Foreign Trade (Vietcombank), the Vietnam Industrial and Commercial Bank (Incombank), the Vietnam Bank for Agriculture and Rural Development (BARD), and the Vietnam Bank for Investment and Development (BIDV).

Two banking decrees, issued in October 1990 and governing respectively commercial banks, credit cooperatives and other financial institutions, and the State Bank, aimed to regulate the financial system more strictly. Credit cooperatives had to be licensed by the State Bank rather than by local People's Committees. The first decree also gave the state commercial banks greater autonomy, and permitted them to compete with each other and to seek capital from sources other than the state. The second decree introduced new instruments through which the State Bank could control the banking sector, including open-market operations and varying reserve requirements and discount rates.

Despite these changes, the banking system is in poor health. Public confidence in the system remains low. Only 4% of all potential holders of accounts have actually opened one. There were only 10,000 bank accounts in the entire country of 80 million people in 2002. As of 2002, the Vietnam banking system had gained little international confidence, although international audit standards are beginning to be implemented. Loan fraud investigations and low loan liquidity have brought bank finances under scrutiny. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$7.6 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$17.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.8%.

In July of 2000, the Vietnam Stock Exchange opened its doors for the first time.

### 3<sup>4</sup> INSURANCE

Before May 1975, life and property insurance coverage was available in the RVN from three small Vietnamese insurance companies and through local representatives of about 70 French, UK, and US insurance firms. By the end of 1975, all private insurance facilities had ceased to operate, and the Vietnam Insurance Co., established in the DRV in 1965, had become the nation's lone insurance firm. In 1981, the main types of insurance offered were motor vehicle, personal accident, hull and cargo, offshore exploration, aviation, and third-party risk. In Vietnam, third-party automobile insurance and employers' liability are compulsory.

In 1997, other insurance companies operating in Vietnam were Hochiminh Insurance Co., Nha Rong Joint-Stock Insurance Co., Petrolimex Joint-Stock Insurance Co., Petrovietnam Insurance Co. (PVIC), Vietnam National Reinsurance Co., and the Yasuda Fire and Marine Insurance Co. As of 2002, foreign insurers were allowed in Vietnam, thus opening up the market. In 2003, the value of all direct insurance premiums written totaled \$550 million, of which life insurance premiums accounted for \$331 million. In 2001, Bao Viet was the country's leading nonlife and life insurer, with gross written nonlife premiums of \$75.5 million and gross written life insurance premiums of \$102.4 million.

### 3<sup>5</sup> PUBLIC FINANCE

The main sources of monetary revenue are income taxes, the sale of SOE's, and customs taxes. Annual deficits are financed by foreign aid. Monetary policy reforms enacted since 1988 helped end the hyperinflationary spiral of the 1980s. Aid from the former Soviet Union, formerly Vietnam's most prominent donor, was greatly reduced after the dissolution of the USSR in 1991. Foreign investment peaked in 1995 after the United States declared an end to

economic sanctions, but quickly receded thereafter. Implementation of a VAT in 2000 was expected to increase revenue.

The US Central Intelligence Agency (CIA) estimated that in 2005 Vietnam's central government took in revenues of approximately \$11.6 billion and had expenditures of \$12.9 billion. Revenues minus expenditures totaled approximately -\$1.3 billion. Public debt in 2005 amounted to 75.5% of GDP. Total external debt was \$19.17 billion.

The International Monetary Fund (IMF) reported that in 2001, the most recent year for which it had data, budgetary central government revenues were D102,223 billion and expenditures were D117,180 billion. The value of revenues was us\$7 million and expenditures us\$8 million, based on a market exchange rate for 2001 of us\$1 = D14,725 as reported by the IMF. Government outlays by function were as follows: general public services, 65.3%; economic affairs, 7.0%; health, 3.6%; education, 13.7%; and social protection, 10.5%.

### 3<sup>6</sup> TAXATION

Individual income is subject to a progressive tax ranging from 0–40%. Individuals realizing capital gains from the right to use land or the transfer of a house are subject to a progressive tax with a top rate of 60%.

The main corporate tax rate is 28%. In addition, companies deriving income from land use rights are subject to a surtax from ranging from 10–25%. Capital gains incurred by companies by the sale of fixed assets are taxed at the corporate rate. Gains stemming from the sale of shares in a foreign-invested company are taxed at a 25% rate. There is no tax on dividends, although income from interest and/or royalties are each subject to a 10% withholding rate.

Other taxes include capital transfer taxes, land and housing taxes, a natural resources tax, technology transfer fees, import and export duties. There are also special consumption taxes applied to tobacco products, spirits, beer, and other items ranging and which range from 15–100%. Vietnam also imposes a value-added tax (VAT) with a standard rate of 10% and which covers all goods and services. Exports however are exempt.

### 3<sup>7</sup> CUSTOMS AND DUTIES

All imports must be authorized by one of the state trading corporations. Customs duty is generally charged on imports and exports, with many exemptions and duty reductions available (including imports related to an aid program and goods to be used for security, national defense, scientific and educational training, or research purposes). Tariff rates are divided into three categories according to the import source country's trade relationship with Vietnam: ordinary rates apply to goods imported from countries that have not exchanged normal trade relations (NTR) agreements with Vietnam; preferential rates apply to goods from countries that have exchanged NTRs with Vietnam; and special preferential rates apply to goods from countries that have made special trade arrangements with Vietnam. Ordinary tariff rates are about 50% higher than preferential rates. Special preferential rates vary by country. There are also special consumption taxes (mostly

#### Public Finance – Vietnam (2001f)

(In billions of dong, budgetary central government figures)

<b>Revenue and Grants</b>	<b>102,223</b>	<b>100.0%</b>
Tax revenue	81,363	79.6%
Social contributions	...	...
Grants	5,300	5.2%
Other revenue	15,560	15.2%
<b>Expenditures</b>	<b>117,180</b>	<b>100.0%</b>
General public services	76,515	65.3%
Defense	...	...
Public order and safety	...	...
Economic affairs	8,210	7.0%
Environmental protection	...	...
Housing and community amenities	...	...
Health	4,175	3.6%
Recreational, culture, and religion	...	...
Education	16,030	13.7%
Social protection	12,250	10.5%

(...) data not available or not significant. f = forecasted or projected data.

SOURCE: Government Finance Statistics Yearbook 2004, Washington, DC: International Monetary Fund, 2004.

on luxury goods) of up to 100%, a value-added tax (VAT) of 0%, 5%, 10% and 20%, and import quotas.

In 1994, the United States lifted its trade embargo on Vietnam and in 1995 the two countries established formal relations. Vietnam is a member of ASEAN and its free trade area (AFTA).

### 38 FOREIGN INVESTMENT

France was the dominant foreign investor in Indochina before World War II. Resident Chinese, however, played a major role in rice milling, retailing, and other activities (and continued to do so in the south through the early 1970s). Following the 1954 partition agreement, the French economic position in the DRV was completely liquidated, and the participation of private foreign investors in the DRV economy was prohibited. The RVN government encouraged the introduction of private capital. In March 1957, a presidential declaration provided guarantees against nationalization and expropriation without due compensation, temporary exemption from various taxes, and remittance of profits within existing regulations. Despite these efforts, because of wartime conditions, relatively little new private foreign investment was attracted to the country, apart from a few ventures by US and Japanese interests. In 1977, the SRV issued a new investment code in an effort to attract private foreign capital to help develop the country. However, because of stringent regulations and a climate of government suspicion of private enterprise, the 1977 code attracted little enthusiasm among potential investors. Only the USSR and France made sizable investments, although Japan subsequently laid the foundation for future investment by bank loans. Beginning in 1984, the regime began to encourage the formation of joint ventures and announced that preparations were under way for a new foreign investment code.

In 1987 the National Assembly passed a liberalized investment law seeking to improve the overall investment climate and emphasize the development of export industries and services. The Vietnamese investment laws were much more liberal than those of other countries in Southeast Asia. The code permitted wholly owned foreign enterprises in Vietnam, levied low taxes on profits, allowed full repatriation of profits after taxes, and guaranteed foreign enterprises against government appropriation. The law also encouraged oil exploration. Factors hindering performance of foreign investors are bureaucracy, lack of management expertise, smuggling and corruption, and an underlying distrust and uncertainty on the part of officialdom.

In early 1994 the government announced three proposals intended to improve the investment environment and increase foreign trade: expedited decisions on small investment projects; the elimination of the requirement for import-export licenses for many commodities; and reduced list of industries that would be off limits to foreign investors. Foreign investments were allowed in insurance companies and brokerages, and reinsurance between companies. Under amendments to the Foreign Investment Law in 1996 more authority over investment licensing was given to local governments.

Total foreign direct investment (FDI) approvals from 1988 to June 2002 amounted to \$38.58 billion, but the total disbursed was a little over \$20 billion, about 52% of approved FDI. Since the 1994 reduction of restrictions, however, actual inflows of FDI have averaged about 70% of the approvals. After the Asian financial crisis,

the level of inflow decreased by about \$900 million a year. From 1998 to 2000, the annual average inflow was \$1.7 billion. The main cause of the decline was reduced investments from other Southeast Asian countries. As of 2003, it was estimated that FDI projects produced 13% of the country's GDP, including 36% of industrial production. As of 1999, Singapore was the largest foreign investor with \$5.9 billion of total investments approved by the Vietnam government between 1988 and 1999 (only \$2 billion actualized). Other major investors included Taiwan, Hong Kong, Japan, South Korea, France, the British Virgin Islands, Russia, the United States, and the United Kingdom. The Vietnamese government controls both upstream and downstream oil and gas industries, but since 1998 foreign investment has been permitted. In 2001, the consortium that included Conoco, the Korean National Oil Company (KNOC), SK Corporation of South Korea, and Geopetrol of France made a major find of oil in the Cuu Long Basin. In 2002, the Japan Vietnam Petroleum Company (JVPC) made its first sizeable discoveries. JVPC is the operator in the joint venture, and holds a 46.5% share.

Vietnam's encouragement of foreign investment includes its ability to attract and utilize large amounts of foreign capital, both in the form of FDI and ODA (official development assistance). As of 2006, Vietnam did not allow significant foreign portfolio investment. For the 2001–05 period, the government set targets for FDI at \$11 billion in disbursements from existing and newly licensed foreign investments and for approximately \$10 to \$11 billion in ODA disbursed by foreign donors for a total of \$21 to \$22 billion from foreign sources. These levels of FDI and ODA were designed to maintain a GDP growth rate of 7.5% per year. By December 2004, Vietnam had attracted nearly \$46 billion in investment commitments since the country was opened to foreign investment in 1988, 58% of which had been disbursed.

Vietnam's primary investors in 2004, in terms of licensed capital, were, in order: Taiwan, South Korea, Japan, Hong Kong, the British Virgin Islands, Canada, Singapore, Malaysia, China, and the United States.

There is little information on Vietnam's direct investment abroad, but according to the government, as of the end of 2004 Vietnam had invested in 113 projects worth about \$226 million in Russia, Singapore, Laos, Japan, Hong Kong, Cambodia, Tajikistan, the Middle East, the United States, Uzbekistan, and Taiwan.

### 39 ECONOMIC DEVELOPMENT

With the defeat of the RVN forces in April 1975, Vietnam faced the task of restoring its infrastructure, damaged by the war, while working toward the goal of a technologically advanced society. Long-range planning centered on the second five-year plan (1976–80), which called for major emphasis on heavy industry and rapid agricultural growth. Due to factors including unfavorable weather, decreased foreign aid, and high military expenditures—combined with managerial inefficiency—the plan was a disaster. Industrial production grew by only 0.6% and agriculture by 1.9%. The third five-year plan (1981–85) was more modest in its objectives. Emphasis was placed on agricultural development and the promotion of consumer goods, with industrial development in the background. Socialist transformation remained a high priority, although a less rapid rate of change was expected than during the previous five years. Although the goals of the new plan were

more realistic than those set for its predecessor, its success was limited. Growth figures in industry (9.5%) and agriculture (4.9%) improved significantly over the previous five years. Production remained spotty in key areas, however, and problems of mismanagement—primarily by the state sector—proliferated.

The fourth five-year plan (1986–90) continued the previous plan's emphasis on agricultural growth and expansion of exports and light industry. Efforts to promote Socialist transformation were to continue, but at a gradual pace and "by appropriate forms." Development aid continued to come primarily from the former USSR and other CMEA countries. In 1978, the SRV became fully integrated into the CMEA planning and development structure, and its five-year plans were coordinated with those of its CMEA partners. Planned Soviet outlays for the 1986–90 period totaled some \$11–13 billion. This aid and trade waned with the decline of the USSR, with the full cutoff occurring in 1991. The SRV's new economic emphasis, *doi moi* (renovation) was instituted by Nguyen Van Linh following the sixth national party congress (1986). His plan included policy and structural reforms for a market-based economic system: price decontrol (liberalized prices), currency devaluation, private sector expansion through decollectivization of agriculture (food production), legal recognition of private business, new foreign investment laws, autonomy of state enterprises, business accounting methods, devolution of government decision-making in industry to enterprise level, and limiting government participation to macroeconomic issues. Implementation of these policies was achieved with varied success.

Inflation policy and agricultural reform resulted in immediate increases in rice production. Vietnam changed from a net importer of rice to the third major rice exporter after Thailand and the United States. It was the second-largest world rice exporter in 2005.

Industry has replaced agriculture as the main engine of the economy, and by 2005 accounted for 40.9% of GDP. Agriculture remains important, however, accounting for about 21% of GDP and about 65% of the labor force. A privatization program in the early 1990s met with resistance from conservative politicians, companies, and from foreign investors. Conservatives feared that privatization undermined the economic basis of socialism, and foreign investors were wary of poor investments with meager legal underpinnings. Opposition from managers who would lose a "free hand," and employees whose jobs might be replaced by new equipment also arose. In 1994 the director and deputy director of the textile company that was the flagship for this privatization program were dismissed for alleged corruption.

US president Bill Clinton's lifting of the 30-year-old trade embargo in 1994 opened the way for waiting American companies to do business in Vietnam. International assistance during the mid-1990s was from the World Bank for education and agricultural reforms, the Japan Overseas Economic Cooperation Fund for infrastructure programs, the United Kingdom for soft loans, technical training and refugee resettlement, and from the Asian Development Bank. A continuation of reforms promoting foreign investment and minimizing the state's role in the economy moved slowly in the late 1990s due to political corruption and inefficiencies.

The Asian financial crisis negatively affected investor confidence in the region, severely reducing Vietnam's main focus of economic development. A complete overhaul of the financial regulatory sys-

tem is still necessary in order to stimulate the economy. Vietnam's increasing integration in regional and international economic organization should impel more competitive production methods. At the end of 2001, Vietnam concluded a bilateral trade agreement with the United States, and it is on the path toward accession to the World Trade Organization.

Vietnam by 2006 had largely overcome the negative effects of the Asian financial crisis, with GDP growth ticking along at 7.4% over the 2001–05 period, despite the global economic slowdown of 2001–03. Vietnam must work to promote job creation to keep up with the country's high population growth rate. The government has made progress in reducing poverty: as of 1993, the World Bank declared 58% of the population to be poor, and by 2002, that had fallen to 29%. Nevertheless, the poor remain concentrated in remote, rural districts populated mainly by ethnic minorities, which are areas least touched by the government's reform program. Cities are growing faster than the countryside. Other economic challenges remain, in terms of strengthening the financial sector and the legal framework and reforming state-owned enterprises. Diseases like SARS (severe acute respiratory syndrome) and avian flu, had not made a severe dent in the economy by 2005. Small businesses are booming: by the end of 2002, more than 50,000 new companies had been established. However, Vietnam has few mid-sized private firms between these small family firms and large exporters backed by foreign investors.

#### 40 SOCIAL DEVELOPMENT

A social security plan provides old age, disability and survivorship benefits, as well as worker's injury and medical insurance. All private and public sector employees with employment contracts of at least three months are covered. Pensions are funded by 5% of employee wages, 10% of employer payroll, and government contributions. Maternity benefits are payable at 100% of wages for 120 days, and are also available to women who adopt a newborn baby. Workers' compensation is provided according to the level of disability.

Women have full legal rights under law, but are subject to various forms of social discrimination. Few women are found in senior management or high level government positions, but business and the public sector nevertheless employ many women, and they are an important part of the economy. Women also generally receive lower wages than their male counterparts. Domestic violence against women is common, and women tend to stay in abusive marriages rather than confront the stigma of divorce.

The human rights record is poor, and there are continuing reports of arbitrary detention and the mistreatment of detainees during interrogation. In 2004, the restrictions on the Internet were increasing, with the government closely monitoring activity. Human rights organizations are not permitted to operate in Vietnam.

#### 41 HEALTH

Wars in Vietnam since 1946 have undermined much of the progress made by the DRV, RVN, and SRV in the health field. Damage to urban hospitals in the north was especially severe. A 1976 World Health Organization report indicated the dimensions of that destruction: 24 research institutes and specialized hospitals, 28 provincial hospitals, 94 district hospitals, and 533 community

health centers; all destroyed mainly as the result of US bombing. Three decades of intermittent war has also had a devastating effect on health conditions in the south.

The incidence of tuberculosis, which had been largely controlled rose again in the late 1990s. Commonly reported diseases in Vietnam were diarrheal disease, malaria, and tuberculosis. Venereal and paraveneal diseases were said to have afflicted one million persons in the south (about 5% of the total population) and, WHO claimed, 80% of RVN soldiers. Opiate addiction affected about 500,000 persons. The HIV/AIDS prevalence was 0.40 per 100 adults in 2003. As of 2004, there were approximately 220,000 people living with HIV/AIDS in the country. There were an estimated 9,000 deaths from AIDS in 2003.

During the early 1980s, foreign visitors routinely reported observing severe cases of malnutrition and shortages of medical equipment and supplies. While conditions have generally improved as agricultural production has increased, most Vietnamese continue to live at the minimum level of subsistence. In February of 1996, Vietnam was considering fortification of foods with iron and vitamin A. In 1995, the Vietnamese government issued the National Plan of Action for Nutrition (1995–2000), which aimed to eliminate food insecurity, reduce malnutrition, and reduce micronutrient deficiencies. About 39% of all children under 5 were classified as malnourished in 2000.

Vietnam reported life expectancy in 2005 to be 70.61 years and infant mortality to be 25.95 per 1,000 live births. Maternal mortality was 160 per 100,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 20.9 and 6.1 per 1,000 people. Immunization rates for children up to one year old were tuberculosis, 96%; diphtheria, pertussis, and tetanus, 95%; polio, 95%; and measles, 96%.

Family planning services were provided to 2,157,000 people in 1992. An estimated 75% of married women (ages 15 to 49) were using contraception in 2003. Abortion is available on request. Vietnam's fertility rate in 2000 was 2.2, down nearly 2% from the previous 5-year period.

In 2004, the country had an estimated 53 physicians, 56 nurses, and 18 midwives per 100,000 people. About 97% of the population had access to health care services. Approximately 56% of the population had access to safe drinking water and 73% had adequate sanitation. Total health care expenditure was estimated at 4.8% of GDP.

## 42 HOUSING

Housing is a serious problem in Vietnam, particularly in urban areas of the north where war damage has caused overcrowding and lack of resources has hampered efforts to resolve the problem. By 1986, housing had become a critical problem in Hanoi, particularly in the central sections of the city, where per capita living space was reduced to four sq m. Large flats are gradually being erected in the suburbs to ease the problem. In the meantime, many families live in temporary quarters built directly on the sidewalk or attached to other buildings. Housing is less a problem in the countryside, where many farm families have begun to take advantage of a rising standard of living to build new houses of brick and stone. Similarly, in the south, housing is available to meet the re-

quirements of the population because building construction had continued at a relatively high level during the war years.

At the 1999 census, about 12.8% of the housing stock were permanent houses, 50.4% were semipermanent, 14.1% were built with a durable wood frame, and 22.7% were temporary houses. The average living area per household (excluding temporary housing) was 47.9 sq m; the average living space per person was 10.4 sq m. About 13% of all households had clean tap water, 10.1% used rain water as a main water source, and 54.9% used some type of filter system or hygienic well. Only 16.4% of all households used a flush toilet. About 77.8% of all households used electricity.

## 43 EDUCATION

After 1975, the educational system in the south was restructured to conform to the Socialist guidelines that had been used in the DRV. The 12-year school cycle was reduced to 10 years, and the more than 20,000 teachers in the south were among those subjected to "reeducation." By 1976, some 1,400 tons of textbooks printed in the DRV had been shipped to the south, and the books used previously under the RVN were destroyed. In addition, more than 1,000 formerly private schools in the south were brought under state control.

Education is free at all levels, and five years of primary education is compulsory. Seven years of secondary school is offered through two cycles of four plus three years. Students progress to the upper level only through completion of an entrance examination. Vocational studies are also offered at the upper secondary level. The academic year runs from September to June.

In 2001, about 43% of children between the ages of three and five were enrolled in some type of preschool program. Primary school enrollment in 2001 was estimated at about 95% of age-eligible students. The same year, secondary school enrollment was about 62% of age-eligible students. It is estimated that about 95.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 25:1 in 2003; the ratio for secondary school was about 26:1.

There are about 90 colleges and three universities in the SRV. The major university is in Hanoi. In 2003, it was estimated that about 10% of the tertiary age population were enrolled in tertiary education programs. The adult literacy rate for 2004 was estimated at about 90.3%, with 93.9% for men and 86.9% for women.

As of 1999, public expenditure on education was estimated at 2.8% of GDP.

## 44 LIBRARIES AND MUSEUMS

The École Française d'Extrême-Orient once maintained an extensive research library in Hanoi, which was transferred intact to the DRV; it is now the National Library, housing about one million volumes. The bulk of the present collection has been added since 1954 and includes a substantial number of Russian titles. The General Scientific Library in Ho Chi Minh City (formerly the National Library) maintains a collection of over 800,000 volumes. Vietnam National University at Hanoi Library holds 1.4 million volumes.

The collections of the Musée Louis-Finot, an archaeological and cultural museum established by the French in Hanoi, were transferred intact to the DRV. These collections, now part of the Historical Museum, contain artifacts and related material from archaeological discoveries in Thanh Hoa and Yen Bay, including a

2,500-year-old burial boat and an excellent array of bronze implements. Hanoi's National Art Gallery includes a folk-art collection and Vietnamese Bronze Age artifacts. Notable also is the Museum of the Revolution, grouping memorabilia of Vietnam's struggle for independence from the French since the early 1900s. The Army Museum, housed in the Hanoi Citadel, contains a collection of weapons and documents concerning the Indochina war. The Vietnamese Fine Arts Museum (1966) houses exhibits on the decorative and applied arts, and folk and modern art. The architecture of religious edifices and former Vietnamese imperial structures reflect the country's cultural heritage. The Ho Chi Minh City Museum, founded in 1977, has a section devoted to the revolution and another to ancient arts.

#### 45 MEDIA

Vietnam's postal, telegraph, and telephone services are under the Ministry of Communications. The country made significant progress in upgrading its telecommunications system in the 1990s: all provincial switchboards have been digitized and fiberoptic and microwave transmission systems have been extended from the major cities to the provinces. However Vietnam still lags behind its Southeast Asian neighbors. In 2003, there were an estimated 54 mainline telephones for every 1,000 people. The same year, there were approximately 34 mobile phones in use for every 1,000 people.

Hanoi has a strong central broadcasting station, the Voice of Vietnam, boosted by local relay transmitters. Since 1975, almost the entire country has been blanketed by a wired loudspeaker system. Radio programs beamed abroad include broadcasts in Chinese, English, French, Japanese, Spanish, Thai, Bahasa Indonesia, Russian, Khmer, and Lao, and there are special broadcasts to mountain tribes. Television was introduced into the RVN in 1966, and an extensive service, reaching some 80% of the population, was in operation by the early 1970s. A pilot television station was inaugurated in the DRV in 1971. Many of the major cities now have television stations, all under the guidance of the Ministry of Information, which replaced the State Committee for Radio and Television in 1987. As of 1999, there were 65 AM and 7 FM radio stations. In 1998, there were seven television stations. In 2003, there were an estimated 109 radios and 197 television sets for every 1,000 people. The same year, there were 9.8 personal computers for every 1,000 people and 43 of every 1,000 people had access to the Internet. There were 10 secure Internet servers in the country in 2004.

Most newspapers in the south were shut down by the PRG in 1975, but some papers that had been sympathetic to the NLF/DRV cause were allowed to continue publication. All press is strictly controlled by the Ministry of Culture and Information. Principal Vietnamese dailies (with their affiliation and estimated 2002 circulation) are: *Nhan Dan* (Communist Party, 200,000), *Quan Doi Nhan Dan* (army, 60,000), *Hanoi Moi* (Communist Party, 35,000), and *Saigon Giai Phong* (Communist Party, 100,000). The English-language *Saigon Times* was established in 1995.

Even though the constitution provides for freedom of speech and of the press, the government places major restrictions and regulations on all media and prison time for violators is not uncommon.

#### 46 ORGANIZATIONS

The principal mass organization is the Fatherland Front, which merged in January 1977 with the National Liberation Front and with the Vietnam Alliance of National, Democratic, and Peace Forces. The Fatherland Front draws up single slates of candidates in all elections and seeks to implement the political, economic, and social policies of the Communist Party.

Other organizations that form part of the Fatherland Front are the Peasant Union, with some five million members; the Ho Chi Minh Communist Youth Union, with four million members; and the Vietnamese Women's Union, with 11.4 million members. Industrial and commercial enterprises are represented by the Chamber of Commerce of the SRV in Hanoi.

There are some professional organizations that also serve to promote education and research in specific fields, such as the Chemical Society of Vietnam and the Vietnam Medical Association. There are several charitable organizations, primarily those representing aid from other countries or other major international organizations, such as the Red Cross and Habitat for Humanity.

#### 47 TOURISM, TRAVEL, AND RECREATION

Vietnam possesses a number of historic and scenic areas of interest to tourists. In the north, the beauty of Ha Long Bay, with its countless grottoes and rock spits jutting vertically into the sea, is well known. Hanoi itself, with its historical monuments, its lakes and pagodas, and its extensive French colonial architecture, is extremely picturesque. Hotel facilities are improving in the larger areas and in some resorts.

In 1986 and 1987, the government made plans to expand international and domestic airline service, double hotel capacity in the major cities, simplify the complicated visa restrictions, and grant shore leave passes to passengers on cruise ships stopping at Vietnamese ports. As a result of these measures, tourism grew rapidly. From 20,000 tourists in 1986, visitor arrivals rose to 450,000 in 1992 and 1,715,637 in 1997. In 2000, about 2,140,000 foreign visitors arrived in Vietnam. That year there were 66,700 hotel rooms with 120,800 beds and an occupancy rate of 50%. All visitors need visas and must register with the government within 48 hours of arrival.

In 2005, the US Department of State estimated the cost of staying in Ho Chi Minh City at \$182 per day. Travel costs in Hanoi were estimated at \$176 per day.

#### 48 FAMOUS VIETNAMESE

Important figures in Vietnamese history include the sisters Trung Trac and Trung Nhi, national heroines who led a revolt (AD 40–43) against China when that nation was imperial master of Tonkin and North Annam; Ngo Quyen, who regained Vietnamese independence from China in 938; Tran Hung Dao, who defeated the forces of Kublai Khan in 1288; Emperor Le Loi, national hero and brilliant administrator, in whose reign the Vietnamese legal code was promulgated in 1407; Emperor Gia Long (d.1820), who reunified Vietnam in the early 19th century; and Le Van Duyet (1763–1832), a military leader who helped the emperor to unify the country.

Phan Boi Chau (1875–1940) was Vietnam's first modern nationalist and, like China's Sun Yat-sen, is claimed by Vietnamese

Communists and nationalists alike as their spiritual leader. Ho Chi Minh ("The Enlightener"), born Nguyen That Thanh (1890–1969), was a man of many other pseudonyms. Ho Chi Minh (1890–1969) was a founding member of the French Communist Party in 1920 and founded the Vietnamese Communist Party in 1930. Often referred to as "Uncle Ho," he was president of the DRV from 1945 until his death. General Vo Nguyen Giap (1912–75), a professor of history turned strategist, organized the first anti-French guerrilla groups in 1944, led the Viet-Minh in its eight-year struggle against France, and defeated the French at Dien Bien Phu; subsequently he served as minister of defense, commander in chief of the army, and vice-premier of the DRV. Truong Chinh ("Long March," 1906–88), the DRV's foremost Communist thinker, was secretary-general of the Vietnamese Communist Party from 1940 until 1956, when he was purged from his post for having mismanaged the land reform; exonerated shortly thereafter, he was president of the Council of State (1981–87). Pham Von Dong (1908–2000), a member of the nobility, joined the Vietnamese revolutionary movement at its inception and became minister of foreign affairs in 1954, premier of the DRV in 1955, and premier of the SRV in 1976; he resigned in 1987. Le Duan (1907–86), first secretary of the Communist Party, presided over Vietnam's reunification and the formation of the SRV. Le Duc Tho (1911–90), a member of the Communist Party Politburo but with no post in the government, was the DRV's chief negotiator in talks that led to the 1973 Paris Peace Agreement; for his role, Le shared with US Secretary of State Henry Kissinger the 1973 Nobel Peace Prize.

Prominent political figures in the formation of the RVN included Bao Dai (Nguyen Vinh Thuy; b.France, 1913–97), who had served as nominal emperor of Annam under the Japanese and had attempted to form a unified national government after the war, and Ngo Dinh Diem (1901–63), who served as president of the RVN from its founding on 26 October 1955 until his overthrow and death in November 1963. Nguyen Cao Ky (b.1930), an RVN air force commander, took control of the government in the coup of June 1965. General Nguyen Van Thieu (1923–2001) was elected president of the RVN in the elections of September 1967 (with Ky as his vice presidential running mate), an office he retained until the RVN's defeat in 1975. Both Thieu and Ky left the country in 1975, Thieu taking up residence in Taiwan and Ky in the United States. The new leadership in the south, following the 1975 NLF victory, was headed by Pham Hung (1912–88), chairman of the southern wing of the Communist Party since 1967; Huynh Thanh Phat (1913–89), the PRG premier, who later became a member of the Council of State; and Nguyen Thi Binh (b.1927), the PRG's foreign affairs minister who had headed the NLF delegation at

the Paris talks and who also became a Council of State Member. Pham Hung became premier of the SRV in 1987, and Vo Chi Cong (b.1913?) became president of the Council of State. Nguyen Van Linh (1915–98) became general secretary of the Communist Party in December 1986.

The 13th-century writer Nguyen Si Co is regarded as one of the first truly Vietnamese authors; he is best known for his collection titled *Chieu Quan Cong Ho*. Other leading literary figures are two 15th-century poets, Ho Huyen Qui and Nguyen Binh Khien; the latter's collection, *Bach Van Thi Tap*, is a classic of Vietnamese literature. Nguyen Du (1765–1820) wrote a famous novel in verse, *Kim Van Kieu*. Hoang Ngoc Phach, who wrote the romantic novel *To Tam* (1925), is credited with the introduction of Western literary standards into Vietnamese literature. Duong Thu Huong (b.1947) is a contemporary Vietnamese author and political dissident; her first two books were published in Vietnam, but subsequent novels were only published abroad.

## 49 DEPENDENCIES

Vietnam has no territories or colonies.

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# YEMEN

Republic of Yemen  
*Al-Jumhuriyah al-Yamaniyah*



**CAPITAL:** Ṣanʿāʾ

**FLAG:** The national flag is a tricolor of red, white, and black horizontal stripes.

**ANTHEM:** *Al-Watani (Peace to the Land)*.

**MONETARY UNIT:** The Yemeni riyal (YR) is a paper currency of 100 fils. There are coins of 1, 5, 10, 25, and 50 fils and notes of 1, 5, 10, 20, 50, and 100 riyals. YR1 = \$0.00519 (or \$1 = YR192.67) as of 2005.

**WEIGHTS AND MEASURES:** The metric system is being introduced, but local measures remain in common use.

**HOLIDAYS:** Labor Day, 1 May; Day of National Unity, 22 May; National Day, 14 October; Independence Day, 30 November. Movable Muslim holidays include Laylat al-Miraj, ʿId al-Fitr, ʿId al-ʿAdha, Milad an-Nabi, and 1st of Muharram.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Yemen is located in the southern part of the Arabian Peninsula. It is slightly larger than twice the size of the state of Wyoming with a total area of 527,970 sq km (203,850 sq mi). Yemen shares boundaries with Saudi Arabia on the n, Oman on the e, Gulf of Aden on the s, and the Red Sea on the w, and has a total land boundary length of 1,746 km (1,085 mi) plus a coastline of 1,906 km (1,184 mi).

## <sup>2</sup>TOPOGRAPHY

The topography of Yemen features a narrow coastal plain backed by flat-topped hills and rugged mountains. Dissected upland desert plains in the center of the country slope into the desert interior of the Arabian Peninsula. The highest known point is the summit of Jabal Hadhur, rising 3,760 m (12,336 ft) above the Red Sea coast. The western part of the country contains fertile soil in its highland plateaus which rise from about 1,200 to 3,000 m (4,000 to 10,000 ft). A system of wadis drain mountain slopes into the desert and into the Gulf of Aden.

In December 2004, an earthquake centered in the Indian Ocean caused a tsunami that affected many of the nearby countries. There were only two confirmed deaths in Yemen, but damage to coastal fishing villages and businesses was severe.

## <sup>3</sup>CLIMATE

Extreme humidity combines with high temperatures—as high as 54°C (129°F) in the shade—to produce a stiflingly hot climate. Winds blowing northwest in summer and southwest in winter bring little rain but cause severe sandstorms. During January and February, however, the temperature averages about 20°C (68°F). The climate of the highlands is generally considered the best in Arabia. Summers are temperate and winters are cool, with some frost. Temperatures vary from 22°C (72°F) in June, the hottest month, to 14°C (57°F) in January. Rainfall in the highlands ranges from 41 cm (16 in) at Ṣanʿāʾ to 81 cm (32 in) in the monsoon area

of the extreme southwest. The average year-round temperature at Ṣanʿāʾ is 18°C (64°F).

## <sup>4</sup>FLORA AND FAUNA

Vegetation is sparse along the coast, but in the highlands and wadis, it is plentiful. Acacia, date palm, and many fruit trees are common. Many varieties of grapes are cultivated. Custard apple, euphorbia, and spurge grow in abundance. Alpine roses, balsam, basil, wild elder, and Judas tree are among the flowers and herbs. Wild mammals include the baboon, gazelle, leopard, and mountain hare. Scorpions and millipedes are everywhere, but snakes are less common. Many varieties of birds are found, including the bustard, hawk, vulture, raven, parrot, hornbill, honeysucker, and weaver finch. More than 27,000 varieties of insects and over 600 specimens of flowering plants have been collected in Yemen. There are at least 66 species of mammals and 93 species of birds found throughout the country.

## <sup>5</sup>ENVIRONMENT

Yemen's main environmental problems have long been scarcity of water, soil erosion, and desertification. Water pollution is a problem due to contaminants from the oil industry, untreated sewage, and salinization. The nation has 4 cu km of renewable water resources with 92% of annual withdrawals used for farming activity and 1% for industrial purposes.

Natural forests in mountainous areas have been destroyed by agricultural clearing and livestock overgrazing. The National Environmental Council, established in 1976, disseminates information on conservation. In response to the nation's environmental needs, the government of Yemen has created laws governing the use of the country's water supply. Law Number 42 (1991) protects water and marine life.

According to a 2006 report issued by the International Union for Conservation of Nature and Natural Resources (IUCN), threatened species included 6 types of mammals, 14 species of birds, 2

types of reptiles, 1 species of amphibian, 11 species of fish, 2 types of mollusks, and 159 species of plants. Endangered species include the northern bald ibis, the South Arabian leopard, slender-billed curlew, and two species of turtle (green sea and hawksbill). Queen of Sheba's gazelle and the Saudi Gazelle have become extinct in the wild.

## **6 POPULATION**

The population of Yemen in 2005 was estimated by the United Nations (UN) at 20,727,000, which placed it at number 51 in population among the 193 nations of the world. In 2005, approximately 4% of the population was over 65 years of age, with another 46% of the population under 15 years of age. There were 103 males for every 100 females in the country. According to the UN, the annual population rate of change for 2005–10 was expected to be 3.3%, a rate the government viewed as too high. Yemen's fertility rate, at 6.8 births per woman, is among the highest in the world. The projected population for the year 2025 was 39,644,000. The overall population density was 39 per sq km (102 per sq mi), with most of the population concentrated in the Tihama foothills and central highlands of Yemen. Most of southern Yemen is very sparsely populated.

The UN estimated that 26% of the population lived in urban areas in 2005, and that urban areas were growing at an annual rate of 5.15%. The capital city, Ṣanāʾ, had a population of 1,469,000 in that year. Other large cities and their estimated populations include Taʾizz (2,363,000), Al Ḥudaydah (Hodiedah) (2,004,049), and ʿAden (568,700), the chief port.

## **7 MIGRATION**

There were 1,168,199 citizens of Yemen working abroad in 1986. Most were working in Saudi Arabia and other Gulf states. When Yemen took Iraq's side in the war that followed its 1990 annexation of Kuwait, Saudi Arabia effectively expelled an estimated 800,000–1,000,000 Yemeni workers by revoking their work privileges. These workers had been sending home some \$3 billion a year in remittances.

Many people from the Wadi Hadramawt in southern Yemen have worked abroad in East Africa, India, and Indonesia for centuries. Following independence and the establishment of a leftist regime in the PDRY, more than 300,000 people fled to the north, including about 80,000 Yemenis from the YAR, and virtually all minority groups left the country. Subsequent political upheavals resulted in further emigration.

In 1992 more than 60,000 Yemenis returned from the Horn of Africa, chiefly because of turmoil in Somalia. In 1998 and 1999, Yemen experienced a significant influx of Somali asylum seekers, who fled their country for economic reasons. They were accommodated in a refugee camp in Al Ghahain, near ʿAden, supervised by the UN High Commissioner for Refugees (UNHCR). As of 2004, there were 66,384 refugees in Yemen, most from Somalia, and 2,270 asylum seekers and 39 returned refugees.

The net migration rate in 2005 was estimated as zero migrants per 1,000 population, a significant decline from 9.8 per 1,000 in 1990. Worker remittances in 2002 amounted to \$1.2 billion. The government viewed the immigration level as too high, but the emigration level as satisfactory.

## **8 ETHNIC GROUPS**

Since independence, the population has been almost entirely Arab. However, there are Afro-Arab concentrations in western coastal locations, South Asians in southern regions, and small European communities in major metropolitan areas. Many ethnologists contend that the purest "Arab" stock is to be found in Yemen. Classified as Joktanite Semites, the Yemenis claim descent from Himyar, great-grandson of Joktan, who, according to the book of Genesis, was descended from Shem, the son of Noah. Yemenis were prominent in the early armies of Islam and thus helped to Arabize much of the Middle East. The Tihama has been subjected to occupation and infiltration by many conquerors, and its people show significant admixtures of other racial types, including Negroid peoples. About 2–5% of the population are Akhdam, a group that is considered to be the lowest social class. This group faces a greater level of poverty and social discrimination than some other minorities. The history of the Yemenite Jews predates by centuries the Islamic Hijra (AD 622). How they came to settle in the region has not been determined.

## **9 LANGUAGES**

Arabic, the national language, is spoken in a variety of dialects. In vocabulary and other features there is a considerable difference between the classical language used for writing and formal speaking and the spoken dialect used for ordinary discourse. Traces of the ancient South Arabian languages spoken prior to the coming of Muhammad appear in the dialects of the more remote districts of southern Yemen. Mahri, a rare and relatively unstudied language of unknown origins, is spoken in the east. English is widely understood in the former PDRY.

## **10 RELIGIONS**

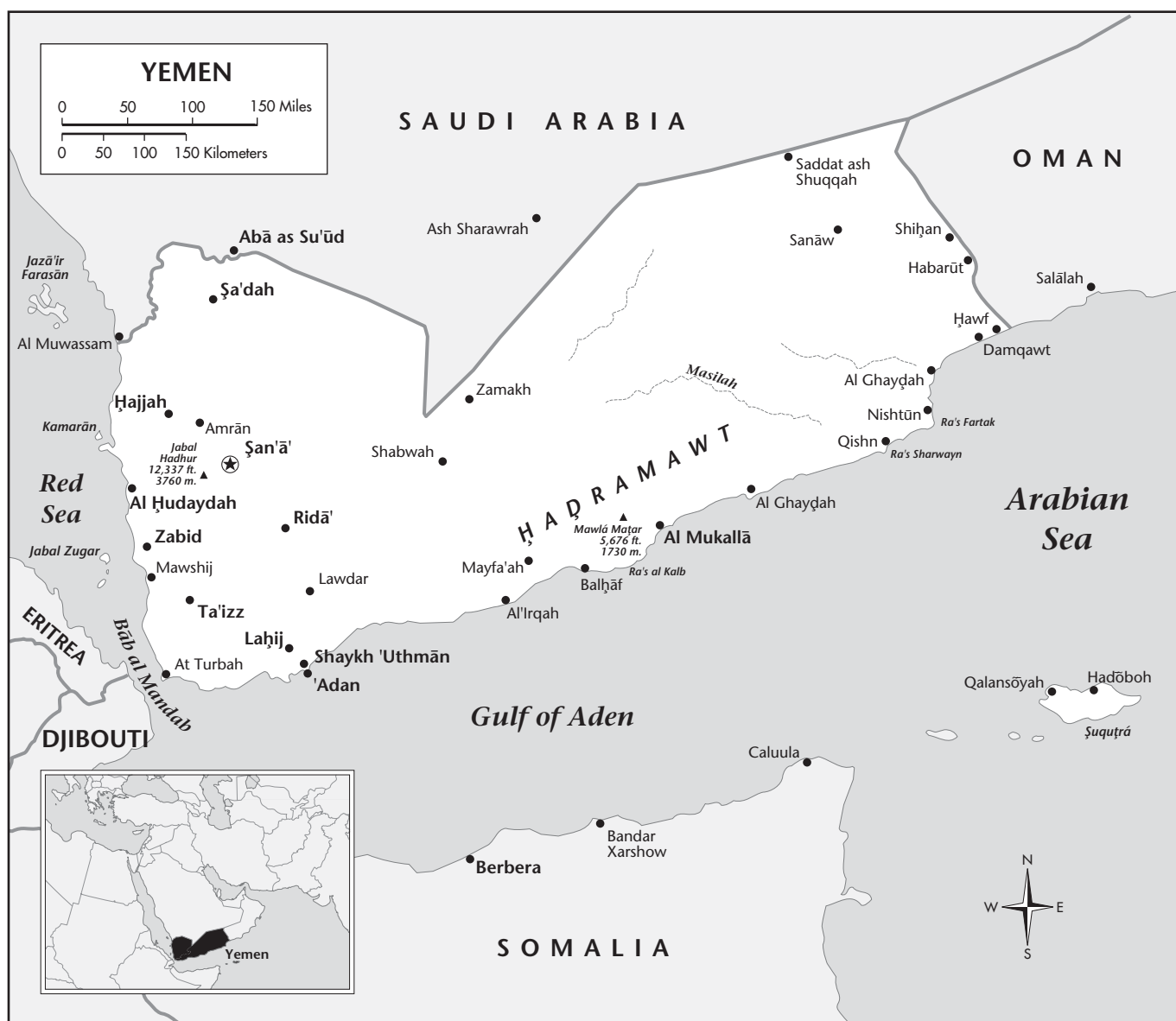
The Republic of Yemen is officially a Muslim country. Almost all of the inhabitants are Sunnis of the Shaf'i school, one of the four major schools of Islamic law. They reside chiefly in the coastal plains and the southwestern part of the country. Most of those remaining are Shias of the Zaydi sect, who live in the highlands. This sect, originating in the 9th century, takes its name from Zayd bin ʿAlī (d.740), a descendant of Muhammad, and doctrinally is very close to Sunni Islam. In addition, there is a small minority of Ismailis, members of another Shia sect.

Nearly all of the country's once sizable Jewish population has emigrated. There are no legal restrictions on the few hundred who remain, although there are traditional restrictions on places of residence and choice of employment. About 500 Jews live in the villages between Ṣanāʾ and Ṣaḍdah in northern Yemen. There are also small Christian and Hindu communities. In remote areas there is still evidence of shamanism, animism, and other indigenous forms of religion.

The constitution provides for freedom of religion, but the government does enforce some restrictions. Conversion of Muslims to other religions is punishable by death; non-Muslims are prohibited from proselytizing and holding public office.

## **11 TRANSPORTATION**

Through the 1950s, Yemen's transportation system consisted of a few primitive mud tracks connecting the larger towns. Then, in



LOCATION 12°41' to 17°32' N; 42°32' to 53°5' E. BOUNDARY LENGTHS: Oman, 288 kilometers (179 miles); Saudi Arabia, 1,458 kilometers (907 miles); coastline, 1,906 kilometers (1,183 miles).

1961, technicians from China completed a 224-km (139-mi) road between Sana'a and Al Hudaydah, the country's first asphalt highway. Seven years later, the United States finished the 386-km (240-mi) highway linking Sana'a, Ta'izz, and Al-Mukha; the USSR completed a road from Ta'izz to Al Hudaydah in 1969. Other paved roads extend from Sana'a to Ma'rib, from Sana'a to Sa'idah, from Ta'izz to At-Turba, from the Sana'a-Ta'izz highway to Al Bayda, and from Ta'izz to Aden (Adan). A direct link between Sana'a and Wadi Hadhramaut via Marib was completed in 1999. By 2002, Yemen had about 69,263 km (43,040 mi) of roadway, of which only 9,963 km (6,191 mi) were paved. In 2003, passenger cars numbered 290,208, while there were 331,410 commercial vehicles. There are no railways or waterways in Yemen.

Improvements to the main port of Al Hudaydah have expanded berthing, storage, and handling facilities and increase cargo capac-

ity to 1,750,000 tons annually. Other ports are Al-Mukha, Aden, and Salif, which have sheltered harbors and deepwater berths capable of taking 10,000-ton ships. In 1999 the 'Aden Container Terminal opened with further expansion plans underway. In 2005, Yemen had a merchant fleet of five ships of 1,000 GRT or more, totaling 19,766 GRT.

Progress in air transportation has been rapid in recent years. In 2004 there were an estimated 44 airports, 16 of which had paved runways as of 2005. The principal airfield, capable of handling modern jet aircraft, is Ar-Rahba International Airport, north of Sana'a. There are smaller international airports at Al Hudaydah, Ta'izz, and Aden. 'Aden International Airport was renovated and Sana'a's renovation was scheduled for late 2001. Yemen Airways (Alyemda), the national airline, operates services between Sana'a, Ta'izz, Al Hudaydah, and Al-Bayda and also schedules flights to

Egypt, Ethiopia, Kuwait, Saudi Arabia, and the United Arab Emirates. The airline carried about 844,000 passengers in 2003.

## 12 HISTORY

Classical geographers divided Arabia into three regions: Arabia Petraea ("rocky"), Arabia Deserta ("deserted"), and Arabia Felix ("fortunate"). The last, the southwestern corner, included the territory now occupied by Yemen. The region was the site of a series of rich kingdoms that dominated world trade. The wealthy kingdom of Sheba (or Saba), with its capital at Ma'rib, is the best known of the South Arabian kingdoms. The prosperity of this kingdom (10th to 2d centuries BC) was based on the spice and incense trade. Competition from new trade routes undermined Sabaean prosperity and caused the kingdom to decline. From the 2d century BC to the 6th century AD, the Himyarite dynasty, of ethnic stock similar to that of the Sabaeans, ruled in Arabia Felix, and paganism gradually gave way to Christianity and Judaism.

The Himyarite hegemony was ended in 525 by invading Christian Ethiopians, whose rule lasted until 575, when they were driven out by Persian invaders. Islam was accepted in the next century, and Yemen became the battleground of Muslim religious factions. The coastline (Tihama) was held by the Sunnis of the Shafi'i School, while the highlands were controlled by the Zaydis, a Shia sect.

In the 9th century, a Zaydi ruler, Yahya al-Hadi ila'l Haqq, founded a line of imams that survived until the second half of the 20th century. Nevertheless, Yemen's medieval history is a tangled chronicle of contesting local imams. The Fatimids of Egypt helped the Isma'ilis maintain dominance in the 11th century. Saladin (Salah ad-Din) annexed Yemen in 1173. The Rasulid dynasty (Kurdish and Turkish in origin) ruled Yemen, with Zabid as its capital, from about 1230 to the 15th century. In 1516, the Mamluks of Egypt annexed Yemen; but in the following year, the Mamluk governor surrendered to the Ottoman Turks, and Turkish armies subsequently overran the country. They were challenged by the Zaydi imam Qasim the Great (r.1597–1620) and expelled from the interior around 1630. From then until the 19th century, the Ottomans retained control only of the coastal area, while the highlands generally were ruled by the Zaydi imams.

Early in the 19th century, Yemen was overrun by Wahhabis, but in 1818, Ibrahim Pasha, the son of Muhammad 'Ali of Egypt, drove them out of Yemen and reestablished Zaydi control. Egyptian troops occupied the main ports of Yemen until 1840, when they were withdrawn. The Zaydi imams recognized Ottoman suzerainty and paid a large annual subsidy to the Ottoman sultan. After 1840 the situation was anarchic, and law and order in any form was not reestablished until 1872, when the Ottomans again occupied Ṣan'ā and consolidated their control. The northern mountains remained under the control of Zaydi imams from the Hamid ad-Din family. The Ottomans kept a large force in Yemen during World War I, but under the armistice terms evacuated it in 1918 and Yemen became independent.

In 1834 the British had occupied 'Aden as a coaling station on the route to India; the importance of the territory was substantially increased with the opening of the Suez Canal in 1869.

To protect its foothold in 'Aden the United Kingdom had signed a treaty of "protection and advice" with rulers of the tribes and states in the hinterland, leading to the adoption of the names

Western Aden Protectorate (WAP) and Eastern Aden Protectorate (EAP). As long as northern Yemen remained at least nominally a part of the Ottoman Empire, relations on the frontier between the United Kingdom (in the WAP and EAP) and the Turks (in Yemen) were relatively peaceful.

During World War I the British supported the Idrisi tribe's attempt to establish itself in Yemen. In 1919 the United Kingdom occupied Al Ḥudaydah, which came into Idrisi hands when the British withdrew in 1921. The Zaydis, now led by Imam Yahya ibn Muhammad Hamid ad-Din, who had become imam in 1891, waged an armed struggle against the Idrisis that ended when Imam Yahya seized Al Ḥudaydah in 1925. The imam also sought to move into the states of the Western Aden Protectorate in an attempt to reestablish his suzerainty in these territories formerly held by the Yemenis. The Idrisis came under the protection of King Ibn Sa'ud, and in 1934, a war broke out between the Saudis and Yemenis. By the Treaty of Ta'if (May 1934), Yemen lost 'Asir to Saudi Arabia but won British and Saudi recognition of its independence. However, incursions by the Imams against the UK protectorate in 'Aden continued until 1962.

In 1959 the United Kingdom formed the six WAP states into the Federation of Arab Emirates of the South, with others joining later. The inhabitants of 'Aden, who were more politically and economically advanced than those of the protectorates, opposed adherence to the federation. Nevertheless, 'Aden in 1963 was merged into the federation, which then became known as the Federation of South Arabia.

The dispute over the future form and direction of this new political entity, as well as over which other states would join it, resulted in several years of factional violence, as various political parties, labor organizations, and other groups struggled for political ascendancy. Finally, in 1967, the National Liberation Front (NLF) emerged as the strongest political group, and the United Kingdom agreed to negotiate with it concerning future independence. On 30 November 1967 all the states of the WAP and EAP were amalgamated, the last British soldiers withdrew, and the NLF declared the independence of the People's Republic of South Yemen. On 22 June 1969 the head of the NLF, Qahtan ash-Sha'bi, was deposed by a group of young leftists of the NLF. The new regime, headed by a five-man council, renamed the country the People's Democratic Republic of Yemen (PDRY), developed close ties with the USSR, and secured economic aid from it and China. A further political alignment occurred in 1971, when Salim Rubaya 'Ali became head of state and 'Abd al-Fattah Isma'il was named head of the party, in an uneasy rivalry. In 1978 Isma'il, the head of the Yemen Socialist Party (YSP), formerly the NLF, overthrew and executed President 'Ali and assumed the presidency. Isma'il resigned his position in 1980, ostensibly for reasons of health, and went into exile. 'Ali Nasir Muhammad al-Hasani, the prime minister, assumed the presidency.

Meanwhile, Yemen joined the League of Arab States in 1945, and in 1958, it formed a federation, the United Arab States, with the newly established United Arab Republic (UAR). In December 1961 however, the pro forma federal connection with Egypt was severed, and in September 1962 the government of Imam Muhammad al-Badr, only a few days old, was overthrown by revolutionary forces led by Brigadier (later Marshal) 'Abdallah as-Sallal. He proclaimed himself president and commander-in-chief of the

army and declared the establishment of the Yemen Arab Republic. Badr escaped to the northern regions of the YAR, where he organized a counterrevolutionary force.

A civil war between the royalists (defenders of the imamate) and the republican government broke out, and appeals by both sides for support brought about the active intervention of other Arab states. Saudi Arabia supported the royalist cause, and the UAR came to the assistance of the republic, dispatching up to 70,000 troops to the YAR; fighting was particularly bitter during the winter of 1963–64. Eventually the conflict subsided, as the Saudis curtailed their aid to the royalists and the Egyptians to the republicans. Sallal was deposed in November 1967 and replaced by a Republican Council. Talks between republican leaders and Saudi Arabia in March 1970 at Jiddah concluded with an agreement that ended the civil war and left the republicans in control.

In June 1974 'Abd ar-Rahman al-Iryani (who had been president since 1967) resigned, thrusting the country into a state of political confusion. By the end of the year Lieutenant Colonel Ibrahim Muhammad al-Hamdi had emerged as president, heading a government with powers of centralized control that were progressively strengthened. Hamdi was assassinated by unknown assailants in October 1977. His successor, Colonel Ahmad ibn Hussein al-Ghashmi, who formed a civilian government and established the Constituent People's Assembly, met a similar fate in June 1978, in a bomb blast in which PDRY involvement was suspected. Lieutenant Colonel 'Ali 'Abdallah Saleh thereupon became president. In 1982, he inaugurated the General People's Congress as an instrument for popular political mobilization.

Since independence, the PDRY was embroiled in conflicts with all three of its neighbors. A separatist movement was supported in Oman; there were border skirmishes with Saudi forces in 1969 and 1973; and the PDRY fought a brief war with the YAR in February–March 1979. The war ended with a truce, mediated by the Arab League, and with an agreement in principle to seek unification of the two Yemens. On 13 January 1986 PDRY President Muhammad attempted to eliminate his rivals within the YSP. A number of officials were killed, including Isma'il, and Muhammad was forced into exile, along with thousands of his followers. A civil war ensued during the following two weeks, in which about 4,200 died and the supporters of Muhammad were defeated. Haydar Abn Bakr al-Attas, the prime minister, took over as acting president; Dr. Yasin Sa'id Nu'man was appointed prime minister, and 'Ali Salim al-Bayd was chosen as the new head of the YSP. President al-Attas was officially elected in November 1986.

In late 1981 a constitution for the two Yemens was drafted. However, implementation was hampered by the continuing insurgency against President Saleh by the leftist National Democratic Front (NDF), which was based in, and reportedly aided by, the PDRY. Saleh was able to defeat the NDF militarily in 1982. Movement toward unification was maintained in repeated declarations and meetings through 1985, but no real progress was achieved. The January 1986 civil war in the PDRY set back relations between the two countries, particularly since 50,000 refugees fled the YAR, but both governments subsequently reaffirmed their commitment to unity.

In 1989 the leaders of the YAR and PDRY approved the 1981 draft constitution and their legislatures ratified it on 21 May 1990. The unified Republic of Yemen was proclaimed the following day.

In the May 1990 election, 121 seats were won by the northern General People's Congress, 62 by Islaah (an Islamist and tribalist party), 56 by the southern Yemeni Socialist Party, 47 by independents, and 15 by five other parties. On 22 May 1990 Ali Abdullah Saleh became the president of Yemen and Haidar Abu Bakr al-Attas the first prime minister, serving until 9 May 1994. A 30-month transition period was set for unifying the different political and economic systems. The army, police, and civil service were not integrated as planned, however. Meanwhile, the economy was hard hit by the consequences of Yemen's support for Iraq after the Kuwait invasion. It is estimated that Saudi Arabia expelled between 800,000 and one million Yemeni workers, thus depriving Yemen of some \$3 billion in foreign exchange. In addition, the Saudis and Gulf states ended \$2 billion in foreign aid. Unemployment in Yemen reached 30%.

Free and fair parliamentary elections were held in April 1992 with President Saleh's General People's Congress (GPC) barely missing a majority victory. A three-party coalition was formed but foundered in late 1993 when Vice President Ali al-Beidh of the Yemen Socialist Party boycotted meetings. Although the quarrel appeared to be patched up with an agreement in February 1994, fighting broke out in May of that year. In a few months, thousands of casualties had been suffered; tribes, clans, and militias were engaged in seeking their own selfish goals and the city of 'Aden was under siege. Some observers attributed the civil conflict to the recent discovery of massive oil reserves in the south and to Saudi Arabia's interest in weakening Yemen by promoting the breakup of the union. The future looked bleak, despite efforts of the UN and some Arab states to promote peace. Meanwhile, on 9 May 1994 Muhammed Said al Attar became acting prime minister until 6 October 1994 when Abdel Aziz Abdel Ghani took office.

Although bloody, the civil war was short-lived, with the north having subdued the rebellious south by July. Restoring civil order was difficult, especially in light of the dire economic straits faced by the country, which in 1995 had 70–90% inflation and a deficit of 17% of GDP. The IMF and World Bank stepped in after the war and instituted structural adjustment programs which brought inflation down below 10%.

In 1997 parliamentary elections were scheduled for May and it was expected that Saleh's GPC would retain its sizable majority. The international community expressed skepticism as to the fairness of the elections but, in the context of the Persian Gulf, they were expected to be reasonably fair. Notably, the YSP, representing the defeated south, announced that it would boycott the elections in protest of the GPC's collusion with Islaah, a tribal and Islamist party, to rig the elections. Saleh maintained the presidency and on 14 May 1997 Faraj Said Bin Ghanem became the new prime minister. On 29 April 1998 Bin Ghanem resigned and Abdel Karim al-Iriani became acting prime minister. In September 1999 President Ali Abdullah Saleh was reelected in Yemen's first direct presidential election. The YSP boycotted the election. Charges of fraud were made by the opposition with allegations of underage voting, multiple balloting, and unauthorized submission of ballots by absentee voters.

Yemen's history of kidnappings, over 100 Westerners the first six years of the 1990s, continued through 2000. In the past the kidnappings were economically motivated, i.e., Yemeni tribesmen asking for money. Later, others appeared ideological—Mus-

lims demanding the release of prisoners held by another Muslim group. Kidnappings damaged Yemen's economy by their impact on its tourist industry. Falling world oil prices also hit Yemen hard since oil accounts the vast majority of Yemen's exports. Yemen attempted to increase economic productivity with a campaign against qat (khat) chewing. Qat is a mild indigenous narcotic plant customarily chewed by some 75% of the Yemeni population. In August 1999 the government led by President Saleh, himself a qat user, launched a campaign to reduce qat usage by swearing off qat and encouraging others to follow his example. Anti-qat campaigns have been politically treacherous as former prime minister Mohsin al-Aini was ousted in 1972 after attempting to stamp out qat-chewing.

On 12 October 2000, two suicide bombers detonated a small boat containing explosives alongside the USS *Cole* as it was refueling in Aden harbor. Seventeen US sailors were killed and 39 others were wounded. Al-Qaeda leader Osama bin Laden praised the attack. Bin Laden, whose father was of Yemeni origin, had been indicted by the United States for the 1998 bombings of the US embassies in Kenya and Tanzania that killed 224 people. In the aftermath of the 11 September 2001 terrorist attacks on the United States, attributed to al-Qaeda, the United States focused attention on governments in the world responsible for harboring and supporting terrorists. Since 1992, the United States has alleged that bin Laden and al-Qaeda targeted US military forces in Yemen, and that al-Qaeda has formed alliances with jihad groups in Yemen. In June 2001, Yemeni officials arrested 9 men believed to be affiliated with the Islamic Army of Aden, a fundamentalist group linked to bin Laden, for the 2000 attack on the *Cole*. The group was responsible for kidnapping 16 Western tourists in December 1998; four of the hostages were killed in a gun battle between the group and Yemeni government troops. The Islamic Army of Aden advocates the imposition of Islamic law in Yemen, is against the United States or other Western states using Yemeni ports or bases, and supports the lifting of international sanctions against Iraq.

In November 2001, President Saleh met with US President George W. Bush, assuring him that Yemen was a partner in the war on terrorism. In December, Yemen detained some 80 foreign students and teachers from an Islamic fundamentalist institute in the Marib province, where Yemeni special forces were searching for al-Qaeda suspects. In February 2002, Yemen expelled more than 100 foreign Islamic scholars, including British and French nationals, in an effort to curb the spread of terrorism. Scores of prisoners being held by the United States as a result of its 2001–02 campaign in Afghanistan are natives of Yemen. In March 2002, the United States was finishing plans to send hundreds of US Special Forces to Yemen, to “advise and assist” Yemeni forces combating armed groups affiliated with al-Qaeda.

On 6 October 2002, the French oil tanker *Limburg* was the target of a terrorist attack in the Gulf of Aden, which killed one crew-member and released 90,000 barrels of oil. An explosives-laden boat hit the tanker, in an attack that was similar to the one on the USS *Cole*. On 3 November, a US CIA-controlled unmanned Predator surveillance plane fired a Hellfire missile into a car in northwest Yemen, killing six al-Qaeda operatives, including Qaed Salim Sunian al-Harethi, considered to be Osama bin Laden's chief operator in Yemen. Al-Harethi was also a suspect in the 2000 bombing of the *Cole*. President Saleh called on al-Qaeda members to

renounce violence and turn themselves in to face trial in Yemen, as opposed to being turned over to the United States.

In December 2002, a North Korean freighter disguised as a Cambodian ship was intercepted in the Arabian Sea and seized at gun point by the US Navy and Spanish marines; the vessel was carrying a shipment bound for Yemen of 15 Scud missiles, warheads, and an agent used in Scud fuel. President Bush ordered the shipment released after concluding the Yemen-North Korean deal was concluded on a legal basis. Also in December, a Yemeni Muslim extremist killed three American doctors and wounded a pharmacist by opening fire in a Baptist hospital in the town of Jibla.

On 20 February 2001, Yemen amended its constitution to extend the presidential term of office from 5 to 7 years, and to reorganize the bicameral parliament. The referendum was passed by 73% of the voting population. Also in February, municipal elections were held for the first time.

In the summer of 2004, government forces battled supporters of an anti-American Shia cleric, Hussein al-Houthi, in the northern part of the country. Estimates of the dead ranged from 80 to 600. According to the government, Al-Houthi's group, called “Believing Youth,” attempted to model itself after Lebanon's Hezbollah, and receives foreign funding. In September 2004, government forces killed al-Houthi. However, from March to May 2005, fighting resumed between government troops and supporters of the slain al-Houthi; more than 200 people were killed. In May, President Saleh announced the leader of the rebellion in the north agreed to renounce the campaign in exchange for a pardon, but some fighting continued, including in the capital Ṣan‘ā’.

In July 2005, scores of people across the country were killed in clashes between police and demonstrators protesting a reduction in fuel subsidies. Tanks were deployed in Ṣan‘ā’. The poor were most affected.

### 13 GOVERNMENT

The 1970 YAR constitution affirmed Islamic law as the basis of all legislation and established the unicameral Consultative Assembly as the supreme legislative body. The assembly was authorized to name the president and to appoint the ruling Executive Council. In the first national elections, held in 1971, voters selected 119 members of the Consultative Assembly; the president appointed the 40 remaining members. This body was dissolved in 1974, and in 1978, the Constituent People's Assembly replaced it, with 99 members elected and 60 members appointed by the president for a two-year term.

In the General People's Congress (GPC), created in 1982, 700 of the 1,000 members were elected, with the other 300 appointed by the government. Between meetings (held every two years), the GPC's affairs were to be handled by a 75-member standing committee. The president, elected by the Constituent People's Assembly for a five-year term, served as secretary-general of the GPC and commander-in-chief of the armed forces and appointed the prime minister and a ministerial council.

The 1970 constitution of the PDRY was ratified by the general command of the United Political Organization–National Front, which later became the Yemen Socialist Party (YSP). The Supreme People's Council, which had 111 members elected by universal suffrage at age 18, enacted laws; elected a Presidium and its chairman, who served as head of state; and chose the prime minister

and the Council of Ministers. The YSP apparatus and the organs of government were closely intertwined.

The 1990 unity constitution established a political system based on free, multiparty elections. During the transitional period a presidential council was created with five members, three from the North and two from the South, to oversee executive operations. The council appointed a prime minister who picked a 38-member cabinet. A 301-member parliament was also formed, with 159 members chosen from the North, 111 from the South, and 31 at large. Constitutional amendments in 1994 eliminated the presidential council, and provided that the president would be elected by popular vote from at least two candidates selected by the legislature. In 1999, Yemen held its first direct presidential elections.

Legislative elections were again held in 1993, with the GPC maintaining its majority (124 seats). Islaah won 61 seats and the YSP took 55. Independent candidates won 47 and members of the country's dozens of other political/tribal parties took 13 seats. Following the 1994 civil war, the GPC and Islaah formed a unity government. The next parliamentary elections were in April 1997. The GPC maintained its dominance taking 187 of 299 seats. The YSP, the only substantial opposition since the GPC and Islaah joined forces, boycotted the elections, which they said were being managed by the GPC leadership.

On 20 February 2001, new constitutional amendments extended the presidential term of office from five to seven years, and extended the parliamentary term of office to six years. The president may now serve a maximum of two seven-year terms. A bicameral legislature was created, consisting of an upper house, the Consultative Council or Shura Council, with 111 seats appointed by the president; and a House of Representatives composed of 301 members elected by popular vote. The next presidential election was slated for 2006; President Saleh promised he would step down. Suffrage is universal at 18.

## 14 POLITICAL PARTIES

The National Liberation Front, which emerged in 1967 as the strongest faction in the disputes before South Yemen's independence, became the United Political Organization–National Front in 1970 and changed its name to the Yemeni Socialist Party (YSP) in 1978, when two smaller leftist parties were merged with it. This Marxist-Leninist organization, the PDRY's lone political party, was the only group to offer candidates in the 1986 legislative elections and survived to represent southern interests in the unified Yemen.

In preunification north Yemen, political parties in the Western sense played no role. Tribal allegiances were more important political factors. After unity, the northern leader, General Saleh, formed the General People's Congress (GPC), which became the country's largest party. The second-largest bloc in the parliament was held by the Islaah Party (The Yemeni Congregation for Reform), a fusion of tribal and Islamic interests that opposed the unity constitution because it did not sufficiently adhere to Islamic principles. At least 40 smaller parties have been active in the politics of unified Yemen, but the GPC, Islaah, and the YSP are the only ones of national significance. After the 1994 civil war, the GPC and Islaah formed a coalition government to establish civil order.

In the April 1997 legislative election the GPC won a landslide victory and no longer governed in coalition with Islaah. The YSP boycotted the April 1997 legislative election. In addition to these three main parties, the other parties active in the political arena that had fulfilled Yemen's legal procedures to practice political activities were the People's Nasserite Reformation Party, Liberation Front Party, Nasserite Democratic Party, League of the Sons of Yemen, Federation of Popular Forces, National Arab Socialist Baath Party, National Democratic Front, Al Haq Party, Yemen League Party, and the National Social Party. As of 2005, the active parties were GPC, Islaah, Yemeni Socialist Party (YSP), Nasserite Unionist Party, and the National Arab Socialist Baath Party.

In September 1999, Yemen held the first direct presidential elections ever held on the Arabian peninsula. Longtime president Saleh captured 96.3% of the vote; Najeeb Qahtan al-Shaabi, his only opponent, won 3.7% of the vote. Led by the YSP, a coalition of opposition groups boycotted this election. In legislative elections held on 27 April 2003, the GPC won 228 seats in parliament, Islaah 47, YSP 7, Nasserite Unionist Party 3, National Arab Socialist Baath Party 2, and independents 14. The next legislative elections were scheduled for 2009.

## 15 LOCAL GOVERNMENT

The YAR was divided into 11 governorates (*muhafazat*), each headed by a governor. Each governorate contained a varying number of sectors (*nawahi*). Traditional divisions still extant included the *uzlah*, a group of villages (*qura*) of people who belong to the same tribe, headed by a sheikh; and the *mahall*, a group of houses administratively subordinate to a village. The central government retained ultimate authority over local officials, although certain administrative sanctions were granted to traditional local rulers.

In an effort to de-emphasize older loyalties and associations, the PDRY government created a highly centralized state and divided the country into six governorates, all closely controlled by the central authorities. Each had an appointed governor, and each was divided into districts, which were also administered by appointed officials.

The unified government established 17 governorates, subdivided into districts. In the countryside, especially in the north and east, tribal authority is often stronger than formal government institutions. There are 20 governorates, and 326 district municipalities. The government has taken steps to implement decentralization. Municipal elections were held for the first time in February 2001. Authority over local planning, development, and administration is consolidated in municipal councils. The February elections included 26,832 candidates for 6,614 district municipal council seats and over 2,500 candidates for 418 provincial council seats. Those elected served a two-year term.

## 16 JUDICIAL SYSTEM

Under a 1991 decree the separate judicial systems of the former YAR and the former PDRY were unified at the Supreme Court level. A Supreme Judicial Council administers the judiciary, appointing and promoting judges and reviewing policies regarding the structure and functioning of the judicial system. There are courts of first instance, which hear civil, criminal, commercial, and family matters; decisions can be appealed to courts of appeal. The Supreme Court rules on the constitutionality of laws, hears cases

brought against high government officials, and is the last court of appeal for all lower court decisions. The judiciary, especially at the lower levels, is susceptible to pressure and influence from the executive branch. All laws are codified from Shariah, and there are no jury trials. In addition to regular courts, a system of tribal adjudication exists for some noncriminal issues, although the tribal “judges” often hear criminal cases as well.

The former YAR judicial system consisted of Shariah law and courts for criminal and family law areas administered in each district by a hakim and commercial law and courts for business matters. In remote areas, tribal law was applied in tribal courts. The Shariah courts applied Islamic law and litigants could appeal the decision of a *hakim* to another *hakim*, and from him take a final appeal to the Istinaf, the highest court of appeal, in Ṣan‘ā’. Both sets of courts were considered generally fair and impartial. Former YAR state security courts were abolished with unification.

The former PDRY court system was organized in three tiers: magistrate or divisional courts, provincial courts, and military courts. Magistrate courts handled most criminal, juvenile, family, housing, agrarian and other minor civil matters. Provincial courts handled more serious criminal cases, inheritance cases, major civil claims, and appeals from magistrates’ courts. Shariah courts applying Islamic law and tribal courts applying traditional law also existed alongside the modern court system.

## 17 ARMED FORCES

In 2005, the active armed forces of Yemen numbered 66,700. The Army had 60,000 active members, and was equipped with 790 main battle tanks, 130 reconnaissance vehicles, 200 armored infantry fighting vehicles, 710 armored personnel carriers and 1,167 artillery pieces (310 towed). The Navy had 1,700 active personnel. Major naval units included 19 patrol/coastal vessels and 6 mine warfare ships. The Air Force, in 2005 had 5,000 members, including 2,000 air defense personnel. The service had 75 combat capable aircraft, including 41 fighters and 30 fighter ground attack aircraft. The Air Force also had eight attack helicopters. The country’s paramilitary forces totaled 70,000 personnel, which were comprised of 50,000 Ministry of Interior Forces, and tribal levies in excess of 20,000. A coast guard is slowly being established. Yemen’s defense budget in 2005 totaled \$942 million.

## 18 INTERNATIONAL COOPERATION

Yemen was admitted to the United Nations on 30 September 1947; it participates in the ESCWA and several nonregional specialized UN agencies such as the World Bank, the FAO, ILO, UNESCO, UNHCR, UNCTAD, and the WHO. The country is also a member of the Arab Fund for Economic and Social Development, the Arab Monetary Union, the Council of Arab Economic Unity, the Islamic Development Bank, the Arab League, G-77, and the Organization of the Islamic Conference (OIC). Yemen has observer status in the OAS and the WTO.

Yemen is on good terms with both conservative and radical Arab states. The country is part of the Nonaligned Movement, IN environmental cooperation, Yemen is part of the Basel Convention, the Convention on Biological Diversity, CITES, the Kyoto Protocol, the Montréal Protocol, and the UN Conventions on the Law of the Sea, Climate Change and Desertification.

## 19 ECONOMY

Traditionally an agricultural area, northern Yemen was self-sufficient in food and a net exporter of agricultural product until the Civil War in the 1960s and a prolonged drought in the early 1970s. In the late 1970s and early 1980s many farmers switched from labor intensive food crops to the more profitable cultivation of *qat*, a mild stimulant chewed by many Yemenis that has no significant export market. The economy of southern Yemen developed through foreign assistance (especially from the former USSR). The southern city of Aden, with its port and refinery, is the economic and commercial center of the country. The Yemeni economy depends on imports of wheat, flour, rice, and other foodstuffs. Trade deficits have been offset by remittances from Yemenis working abroad and by foreign aid.

Crude oil is a significant sector of the economy, with exports accounting for over 80% of total exports. In 2004, income from the production and sale of crude oil and natural gas accounted for 72% of total government revenue, which was significantly higher than budgeted income due to higher-than-expected international oil prices. However, with no new significant finds, oil resources could be commercially depleted within 5 to 20 years. Following the unification of the country in 1990, responsibility for development of the oil sector fell to the state-owned general corporation for oil and mineral resources. Civil war in 1994 disturbed output. Oil output has been declining since 1995, and over 200 dry wells have been drilled, suggesting that the industry has passed its peak. In 2005, proven oil reserves totaled 4 billion barrels. Although Yemen’s oil output declined each year from 2003–05, (from 448,288 barrels per day in 2003 to 416,656 barrels per day in the first nine months of 2005) the country hoped to boost output to 500,000 barrels per day in the late 2000s.

When Yemen aligned with Iraq during the Gulf War, Saudi Arabia and the Gulf states, Yemen’s main aid donors and hosts to large numbers of Yemeni workers and their families, ended the Yemenis’ privileged status. The economic impact of lost remittances was estimated at about \$1 billion per year. After the Gulf crisis, Yemen was confronted with high unemployment, lost remittances, halving of US military aid, a sharp cutback in USAID programs, other canceled foreign assistance, and the cost of food imports and social services for the returnees totaling about \$500 million.

Following the civil conflict in 1994, the government began a five-year program in 1995 that removed all controls on the exchange rate and cut the interest rate, as well as initialized trade policy reform, privatization, and the elimination of price controls. The reforms were favorably received by the World Bank and IMF, which agreed to provide aid.

A new liquefied natural gas drilling project promised exploitation of Yemen’s 482 billion cu m (17 trillion cu ft) of gas reserves in subsequent years, although in 2002 US companies ExxonMobil and Hunt Oil withdrew from the project, leaving the French-based company, TotalFinaElf (Total) as the lead investor. However, Hunt later retracted its withdrawal. In 2005, the government approved three liquefied natural gas (LNG) supply agreements for 6.7 million tons per year, with KOGAS, Total, and Tractebel. Yemen subsequently awarded an engineering, procurement, and construction contract for the project. First shipments of LNG could be made available by late 2008, with gas likely to flow to the United States and South Korea.

Gross domestic product (GDP) grew at an average rate of 3.8% from 1988 to 1998. Low oil prices in 1999 held real GDP growth to 3.7% in 1999, and their recovery helped push real growth to GDP to 5.1% in 2000. A stabilization in oil prices combined with declines in the growth of agricultural output, electricity and manufactures, attributable more to the domestic lack of rain than to the global economic slowdown, reduced GDP growth to 3.3% in 2001. Consumer price inflation had fallen to 6% in 1996 and 8% in 1998, but the average from 1999 to 2001 was 11%. An increase to 15.8% inflation was estimated for 2002 reflecting high fuel, electricity, and food prices from both shortages and the lowering or elimination of subsidies.

Yemen's real GDP grew 2.7% in 2004, and was estimated at 2.5% for 2005. In 2005, agriculture made up 13.3% of GDP, industry 47.9% and services 38.8%. Most people are employed in agriculture and herding; services, construction, industry, and commerce account for less than one fourth of the labor force. Yemen is one of the 25 poorest and economically least developed countries in the world with about a third of the population living in poverty. In 2005, the GDP at market exchange rate was \$14.1 billion and \$17.2 billion in purchasing power parity terms (PPP); the per capita GDP (PPP) was \$800. In 2005, the inflation rate was estimated at 9.6%. The unemployment rate was estimated at 35% in 2003. In mid-2005, the government attempted to roll back subsidies on all petroleum products, which led to a 90% increase in the price of gasoline and a 260% increase in the price of diesel fuel; prices on kerosene and cooking gas were also raised. The decision followed sustained pressure on the government from the IMF and World Bank to cut subsidies and introduce a sales tax, with the aim of curtailing government spending. Rioting and demonstrations followed the government's decision to eliminate the subsidies, and 22 people were killed in the violence. In late July 2005, the government rolled back the price increases.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2005 Yemen's gross domestic product (GDP) was estimated at \$17.2 billion. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange based on current dollars. The per capita GDP was estimated at \$800. The annual growth rate of GDP was estimated at 2.5%. The average inflation rate in 2005 was 9.6%. It was estimated that agriculture accounted for 13.3% of GDP, industry 47.9%, and services 38.8%.

According to the World Bank, in 2003 remittances from citizens working abroad totaled \$1.270 billion or about \$7 per capita and accounted for approximately 11.5% of GDP. Foreign aid receipts amounted to \$243 million or about \$13 per capita and accounted for approximately 2.4% of the gross national income (GNI).

The World Bank reports that in 2003 household consumption in Yemen totaled \$7.98 billion or about \$42 per capita based on a GDP of \$11.0 billion, measured in current dollars rather than PPP. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the period 1990 to 2003 household consumption grew at an average annual rate of 3.9%. In 2001 it was estimated that ap-

proximately 25% of household consumption was spent on food, 26% on fuel, 3% on health care, and 5% on education. It was estimated that in 2003 about 45.2% of the population had incomes below the poverty line.

## 21 LABOR

In 2005, Yemen's workforce was estimated at 5.83 million. According to 1999 figures (the latest year for which data was available), 54.1% of the labor force is employed in agriculture, 34.7% in the services sector, 11.1% in industry, with the remainder in undefined occupations. In 2003, the unemployment rate was estimated at 35%.

United Yemen enacted a new labor code in 1995, (amended in 1997) which guaranteed the rights of unionization and collective bargaining. The government restricts this right by placing government officials in union positions of prominence. The Yemeni Confederation of Labor Unions, the country's only labor confederation, had 350,000 members in 14 unions in 2002. There exists a limited right to strike. All collective bargaining agreements must be reviewed by the minister of labor.

There is no nationally fixed minimum wage. Average wages do not provide a family with a decent standard of living. Although children under the age of 15 are prohibited from working, child labor is common, especially in rural regions. The labor code calls for a maximum eight-hour workday and a 48-hour workweek.

## 22 AGRICULTURE

Yemen, with its wide range of arable climatic zones, has the greatest potential for agricultural development of any nation on the Arabian Peninsula. Agriculture is an important part of the economy (accounting for 15% of GDP in 2003), despite the lack of arable land, scarcity of water, periodic droughts, and difficult terrain. Employment in the agricultural sector accounts for more than 50% of the workforce, but with only 3% of its land area arable, Yemen's potential for agricultural self-sufficiency is very remote. As of 2004, Yemen's agricultural trade deficit was \$947 million.

Traditionally, Yemen was famous for its coffee, shipped from the port of Al-Mukha, from which the English word mocha derives. The main cash crop is qat, a mild stimulant chewed by many Yemenis on a daily basis, but not exported significantly because it is highly perishable. Industrial farming of fruits and vegetables, using modern irrigation techniques, provides a level of production to nearly satisfy domestic demand. As a high-cost producer, Yemen is not yet able to internationally compete in marketing its produce, especially since such exports are often blocked at the borders.

Agriculture output in 2004 (in 1,000 tons) included sorghum, 263; tomatoes, 248; wheat, 105; grapes, 169; bananas, 99; seed cotton, 29; sesame seed, 19; coffee, 11; and cotton, 9.9.

## 23 ANIMAL HUSBANDRY

Animal husbandry is a key sector of the economy, and the export of hides and skins has long been an important source of foreign exchange. In 2001, the livestock population was estimated at 5,029,000 sheep, 4,453,000 goats, 1,400,000 head of cattle, 500,000 donkeys, and 198,000 camels.

Commercial production of poultry in Yemen began in the mid-1970s. Yemen produces about 95% of its annual consumption of

eggs and is emerging as a significant producer of broilers (chicken meat). The brief civil conflict in 1994 hurt the industry by driving up the costs of imported feed and vaccines. About 87,000 tons of poultry and 32,000 tons of eggs were marketed in 2005.

## 24 FISHING

Fishermen work along the Arabian Sea, Gulf of Aden, and Red Sea coasts. The annual fish catch in 2003 was about 159,000 tons. Principal species of that catch included Indian and Spanish mackerel, cuttlefish, lobster, and scavengers. Fish-processing plants are located at Al Hūdaydah and Al-Mukalla. Exports of fish and fish products were valued at \$56.7 million in 2003. Pearl and coral diving have been practiced for centuries.

## 25 FORESTRY

Forest and woodland coverage is negligible. Forests once covered Yemen, but overgrazing by goats and the systematic cutting of timber for fuel and construction have almost completely eliminated the forest cover, especially in the south. Roundwood production totaled 352,700 cu m (12.5 million cu ft) in 2004, all of it used for fuel. Lumber imports amounted to \$86.1 million in 2004.

## 26 MINING

Until the discovery of petroleum, the preeminent segment of the Yemeni economy, the mineral industry, had been limited to the production of cement, dimension stone, gypsum, and salt. In 2004, production of cement amounted to 1,546,300 metric tons. Other mineral commodities produced in 2004 were: marble, 100,000 sq m; gypsum, 44,000 metric tons; and salt, 120,000 metric tons. The government was focusing on creating conditions favorable to foreign investment, to develop the nation's mineral resources. The government had exclusive domain over the precious stone and hydrocarbon industries; mining legislation guaranteed the rights of private property for all other commodities. ZincOx Resources, of the United Kingdom, continued evaluating the Al-Jabail zinc deposit, which Anglo American Corp. had explored in the late 1990s.

## 27 ENERGY AND POWER

Yemen is a small non-OPEC producer of oil and has the potential to be an exporter of natural gas.

Yemen, as of 1 January 2005, had proven reserves of crude oil estimated at 4 billion barrels, according to the Oil and Gas Journal. Oil production in 2005 was estimated at 416,000 barrels per day. With domestic consumption of oil in that year estimated at 83,000 barrels per day, the country was a net exporter of oil. In 2005, net exports were estimated at 333,000 barrels per day. Yemen's crude oil refining capacity, as of 1 January 2005, was estimated at 130,000 barrels per day, based upon a pair of aging refineries, the 'Aden refinery and the Marib refinery. The capacity of the 'Aden refinery had declined from 170,000 barrels per day before the 1994 civil war to 120,000 barrels per day as of 1 January 2005. The newer Marib plant has a capacity of 10,000 barrels daily.

Yemen has proven natural gas reserves estimated, as of 1 January 2005, at 16.9 trillion cu ft. As of 2003, there was no systematic production of natural gas. Whatever gas is produced results from

the oil extraction process and is re-injected. Most of the known reserves are concentrated in the Marib-Jawf fields.

Total electricity production in 2003 was estimated at 3.8 billion kWh, of which 100% was from fossil fuels. Total installed capacity in 2003 was estimated at 800,000 kW, and was entirely based on conventional thermal sources. Demand for electricity in 2003, was estimated at 3.6 billion kWh.

## 28 INDUSTRY

In northern Yemen industry traditionally has been based on food processing, but this subsector has suffered from poor productivity of agriculture and reliance on imported raw materials. Building materials, textiles, leather wear, jewelry, and glass making are other industries in the north. The largest industry in southern Yemen is petroleum refining. Southern manufactures include clothing, processed food, metal products, soap, and perfumes. Industrial production accounts for 47.9% of GDP (2005 est.)

Yemen's main refinery at 'Aden processed 60,000 barrels of petroleum per day in 1994 after sustaining damage in the civil war. Output reached 100,000 barrels per day by the start of 1995 with the repair of the main pumping station and two tapping units. That year, the refinery produced 26.5 million barrels of residual and distillate fuel oil, 10 million barrels of gasoline, and 3.5 million barrels of kerosene. In 2005, Yemen's total refinery capacity was 130,000 barrels per day, most from the 120,000-barrels-per-day-capacity 'Aden refinery operated by the 'Aden Refinery Company (ARC), and the rest from a 10,000-barrels-per-day refinery at Marib operated by Yemen Hunt Oil Company. In December 2002, the government signed an agreement with the Hadrāmawt Refinery Company, a Saudi venture, for the construction of a 50,000-barrels-per-day refinery at Al Mukallā costing \$450 million. Another refinery is planned for Ra's Isa with a capacity of 60,000 barrels per day, to be completed in 2007.

Yemen's considerable natural gas reserves—estimated at 480 billion cu m (16.9 trillion cu ft), have not been developed. A liquefied natural gas project was initiated in 1995 by TotalFinaElf (now Total) and several other major multinational oil companies, which established the Yemen Liquefied Natural Gas Company (Yemen LNG). In June 2002, two US companies, ExxonMobil and Hunt Oil, announced they were leaving the consortium, but Hunt later retracted its withdrawal. In 2005, the Yemeni government approved three LNG supply agreements for 6.7 million tons per year, with KOGAS, Total, and Tractebel. The government then awarded an engineering, procurement, and construction contract for the project. The first shipments of LNG were planned for late 2008, with gas likely flowing to the United States and South Korea. In 2004, more than 25 companies bid on a domestic gas utilization and pipeline feasibility study for a proposed 373-mile pipeline that would transport gas from Marib to a power station at Maabar. The World Bank, in cooperation with Yemen's National Coordination Council, was funding this study.

As of 2006, the government was preparing a new investment plan to utilize Yemen's fish wealth, to attract Arab and foreign investment to the sector. Thirty-six sites were identified for fish cultivation. In May 2005, the first factory for the canning and exporting of fish was set up by a Saudi company. There was also German interest in establishing a fish cultivation site in Hadrāmawt. Fish production increased to 151,000 tons between January and Sep-

tember 2005, an increase of 18.5% compared with the same period in 2004. Fish exports reached 74,000 tons in 2004, worth \$213 million. Fish sector revenues rank second after oil revenues for the economy. Yemen ranked fourth among Arab fish exporting countries after Morocco, Mauritania, and Egypt in 2004. The fish sector created 315,000 jobs in 2004 compared with 100,000 in 1990. Approximately 1.7 million people were employed in the fish sector as of the end of 2005.

Construction of a 120,000 metric-ton-per-year-capacity rolling mill at Hodaidah for Al-Rahabi Trading Group was expected to be completed in 2005.

The government's economic diversification project would be helped by the development of metal deposits and additional industrial mineral deposits. In 2004, Yemen produced more than 1.5 million metric tons of cement, 44 million metric tons of gypsum, 120,000 metric tons of salt, 630,000 metric tons of sand and gravel, and 2.4 million metric tons of quarried stone.

## 29 SCIENCE AND TECHNOLOGY

The University of 'Aden, founded in 1975 at Al-Mansoorah, has faculties of science, arts, and education; agriculture; engineering; and medicine. Şan'a' University, founded in 1970, has faculties of science, medicine and health sciences, engineering, and agriculture.

## 30 DOMESTIC TRADE

At the center of most towns is a market place (*sug*), the lanes of which are lined with open-front booths where food, clothing, and implements are displayed and sold. Some goods are bartered. Others sold for cash, usually after bargaining. The production of *qat*, a mild stimulant which many Yemenis chew, plays an important role in domestic trade. Relying on a highly efficient internal distribution system, the production of *qat* would increase per capita GDP an estimated 15–20% were it included in the national income statistics. Corruption among civil servants is a common element of domestic commerce—soldiers at checkpoints confiscate money or *qat*, and businesses are often obliged to pay off local officials.

Customary business hours are from 8 AM to 1 PM and from 4 PM to 7 PM, Saturday through Thursday. Banks are open from 8 AM to noon (11:30 AM on Thursdays).

### Principal Trading Partners – Yemen (2000)

(In millions of US dollars)

Country	Exports	Imports	Balance
World	4,077.7	2,326.5	1,751.2
China	774.1	81.6	692.5
Korea, Republic of	735.2	28.3	706.9
Thailand	700.0	76.1	623.9
India	612.5	59.3	553.2
United Kingdom	252.3	177.4	74.9
Areas nes	113.9	...	113.9
Japan	84.3	73.9	10.4
Kuwait	71.0	108.7	-37.7
Australia	69.5	58.6	10.9
Brazil	63.5	57.4	6.1

(...) data not available or not significant.

SOURCE: 2003 *International Trade Statistics Yearbook*, New York: United Nations, 2004.

## 31 FOREIGN TRADE

Petroleum accounts for about 90% of the country's exports. Income from the production and sale of crude oil and natural gas accounted for 72% of total government revenue in 2004, largely due to the high price of oil on international markets. Other exports in recent years have included coffee and dried and salted fish; imports included food and live animals, machinery and equipment, and manufactured goods.

In 2004, Yemen's primary export partners were: Thailand (33.8%), China (30.3%), and Singapore (7.8%). Primary suppliers were: the UAE (12.2%), Saudi Arabia (9.7%), China (8.8%), France (7.3%), India (4.4%), the United States (4.4%), and Kuwait (4.2%).

## 32 BALANCE OF PAYMENTS

Yemen's balance of payments was adversely affected in the early 1990s, as other nations sought to economically punish Yemen for its support of Iraq during the Persian Gulf War. In 1993, the current account deficit reached a peak of \$1.217 billion, foreign exchange reserves sank to just \$144.6 million, and the trade deficit was \$920 million. Transfers, consisting largely of remittances from Yemenis working in other Gulf states fell by 42% between 1990 and 1993.

As of the early 2000s, Yemen's balance of payments position had substantially improved: its current account surplus stood at \$1.8 billion in 2000, up from a \$455 million deficit in 1998. Yemen's bilateral and multilateral debt situation had also improved, with debt to Russia reduced, debt rescheduling by the Paris Club, and financing from the World Bank and IMF. In 2005, Yemen's outstanding debts stood at approximately \$5.689 billion.

In 2005, total exports were estimated at \$6.387 billion and imports were estimated at \$4.19 billion. The current-account balance was estimated at \$1.282 billion.

### Balance of Payments – Yemen (2003)

(In millions of US dollars)

<b>Current Account</b>		<b>148.7</b>
Balance on goods	376.9	
Imports	-3,557.4	
Exports	3,934.3	
Balance on services	-685.9	
Balance on income	-909.4	
Current transfers	1,367.1	
<b>Capital Account</b>		<b>86.3</b>
<b>Financial Account</b>		<b>-61.1</b>
Direct investment abroad	...	
Direct investment in Yemen	-89.1	
Portfolio investment assets	-0.4	
Portfolio investment liabilities	...	
Financial derivatives	...	
Other investment assets	-31.7	
Other investment liabilities	60.2	
<b>Net Errors and Omissions</b>		<b>156.4</b>
<b>Reserves and Related Items</b>		<b>-330.3</b>

(...) data not available or not significant.

SOURCE: *Balance of Payment Statistics Yearbook 2004*, Washington, DC: International Monetary Fund, 2004.

### **33 BANKING AND SECURITIES**

The republican government set up the Yemen Currency Board in 1964 with a capital of YR2 million; in 1971, the Currency Board was replaced by the Central Bank of Yemen (CBY). The state-owned Yemen Bank for Reconstruction and Development (YBRD), founded in 1962, finances development activities, and the International Bank of Yemen, organized in 1980, operates as a commercial bank. In the 1970s, the YBRD dominated the banking business, controlling some 70% of the loans outstanding in the YAR; during the same decade, a number of foreign commercial banks, including ones from Hong Kong, Iraq, Pakistan, the United States, and the United Kingdom, opened offices in Ṣanʿāʾ.

The economic recovery in 1995 and the partial liberalization of interest rates on bank deposits appear to have succeeded in encouraging the growth in savings as reflected in higher quasi-monetary holdings. In 2002, there were 11 commercial banks (9 private and 2 public) and two public sector specialized banks (Agriculture and Housing) operating under the jurisdiction of CBY. There were also three Islamic banks in operation. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.4 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 15.16%.

There are no securities exchanges in Yemen.

### **34 INSURANCE**

There were at least 10 insurance firms in the Yemen in 1999. Much of the Yemen's insurance business is transacted abroad. In 1999, there was 18.8 million dollars of premiums written in Yemen, giving the insurance industry a .30% share of the Gross Domestic Product.

### **35 PUBLIC FINANCE**

The US Central Intelligence Agency (CIA) estimated that in 2005 Yemen's central government took in revenues of approximately \$5.6 billion and had expenditures of \$5.7 billion. Revenues minus expenditures totaled approximately -\$103 million. Public debt in 2005 amounted to 35.9% of GDP. Total external debt was \$5.689 billion.

The International Monetary Fund (IMF) reported that in 1999, the most recent year for which it had data, budgetary central government revenues were YR282,268 million and expenditures were YR310,702 million. The value of revenues was us\$1,813 million and expenditures us\$1,995 million, based on a market exchange rate for 1999 of us\$1 = YR155.718 as reported by the IMF. Government outlays by function were as follows: general public services, 30.8%; defense, 18.8%; public order and safety, 8.3%; economic affairs, 11.5%; housing and community amenities, 1.6%; health, 4.4%; recreation, culture, and religion, 2.8%; and education, 21.8%.

### **36 TAXATION**

Personal income taxes are levied on wage workers and the self-employed. Taxes on business profits are taxed at a 35% rate. Capital

gains are included in taxable income and are taxed at the corporate rate. Dividends, interest and royalties are each subject to a 10% withholding tax.

Other taxes include excise duties, road and vehicle taxes, port fees, a tax on rents, and telegraph fees. The state also derives income from the confiscated property of the imamate. Another tax is the 2.5% Zakat (the religious charity tax) which is state-enforced, but under the republican regime, its estimation has become a voluntary concern of each individual. Yemeni businessmen have been trying to abolish Zakat as an obligatory levy entirely, leaving it to the discretion of each individual to give to the needy. The chronic budget deficits of the 1980s forced the government to place considerably more emphasis on the traditionally lax collection of taxes. In early 2002 a general sales tax (GST) was signed into law, but its implementation was delayed pending a review of the country's indirect tax system.

### **37 CUSTOMS AND DUTIES**

Import duties are generally levied at rates varying from 5% on essential goods to 25% on luxury items; medical and agricultural items are duty-free, while tobacco is dutiable at 145%. Surcharges are added to these basic rates to cover defense expenditures, to finance schools and orphanages, and to assist the poor. Export duties are levied on a variety of products. Interestingly, in 1995 the government renounced the secondary and tertiary aspects of the Arab League's boycott of Israel, but will not renounce the primary aspect until the Arab League gives up the boycott completely by consensus of the member nations.

### **38 FOREIGN INVESTMENT**

Foreign investment is encouraged by the Yemeni government as it is prospecting for more oil and hoping to develop its natural gas reserves. The Yemen General Investment Authority (GIA) was established in 1992, and worked with the World Bank's Foreign Investment Advisory Service, to revise Yemen's Investment Law 22 of 1991 (as amended) to refocus it on promotion rather than regulation of foreign investment. Investment law restructuring is part of the IMF-World Bank-sponsored economic reform program that has been being pursued in Yemen since 1995. The Yemeni Free Trade Zone Public Authority was established in 1991 to develop the 'Aden Free Trade Zone. The port was developed as a joint venture between the Port of Singapore Authority (PSA) and the Bin Mahfouz Group of Saudi Arabia. In Phase II of the program, 30 hectares were made available for lease. Free zone incentives the right to have 100% foreign ownership, no personal income taxes for non-Yemenis, a 15-year corporate tax holiday, renewable for up to 10 years, and the right to 100% repatriation of capital and profit.

There are no reliable statistics on foreign investment in Yemen. US investment has mainly been in the oil and gas sector. The Houston-based Yemen Hunt Oil Company has been operating since 1984. Its pipelines have been repeatedly attacked. Security can not help but be a concern for Western investors given events like the kidnapping of 16 tourists in 1998 (with four killed in the rescue attempt); a bomb explosion at the 'Aden Refinery in 1998, the bombing of the USS *Cole* in 'Aden Harbor in October 2000, with 17 dead, and in 2002, the explosion and fire on the French-flagged tanker the *Limburg*, with one killed and 90,000

barrels of oil spilled. More hopeful is the settlement of its debt issues with Kuwait and Saudi Arabia, which has thus made Yemen eligible for concessional loans from these neighboring states. In 1995, a consortium was established for the development of natural gas production. In addition to the government's 26% share, Total (France) had 36% equity; Hunt Oil (US), 14.6%; Exxon (US), 14.1%; and Yukong (ROK), 9.3%. In 2002 Exxon (now ExxonMobil) and Hunt Oil withdrew from this enterprise, which has stalled for lack of an identifiable market through which the investors could recoup their investments. However, Hunt later retracted its withdrawal. In 2005, the Yemeni government approved three LNG supply agreements for 6.7 million tons per year, with KOGAS, Total, and Tractebel. The government then awarded an engineering, procurement, and construction contract for the project. The first shipments of LNG were planned for late 2008, with gas likely flowing to the United States and South Korea. In 2004, more than 25 companies bid on a domestic gas utilization and pipeline feasibility study for a proposed 373-mile pipeline that would transport gas from Marib to a power station at Maabar. The World Bank, in cooperation with Yemen's National Coordination Council, was funding this study.

As of 2006, the Chinese Bank for Exports and Imports was considering funding the building of Yemen's first railway. In addition to Chinese investments, an overall increase in foreign investment was projected for the late 2000s. Up to the end of June 2005, the volume of Arab and foreign investment in Yemen reached approximately YR129 billion; investment in the industrial sector had reached YR69.5 billion. The services sector ranked second, at YR51.9 billion.

### 3<sup>9</sup> ECONOMIC DEVELOPMENT

After unification in 1990, the new government assumed all debts incurred by former governments. Domestic political strains ultimately culminated in civil strife in 1994. As a result, the economy was further burdened with reconstruction costs.

The government launched a major reform program in 1995. The program included revenue mobilization through tax measures, depreciation of the customs valuation rate, the liberalization of cement prices, an increase of petroleum product prices by about 90%, and a 60% rise in electricity tariffs. The government's medium-term goal was to eliminate all subsidies by 1999–2001. Fiscal and monetary measures included the containment of primary nondevelopment budget expenditures, partial reform of the exchange system (including currency depreciation), interest rate reform, and monetary management reforms. Furthermore, transportation and communication charges were deregulated, health and education fees were increased, and privatization programs were initiated. In 1996, 16 public enterprises were targeted for privatization. Laws prohibiting foreign investment in certain industrial sectors were abolished in 1996.

International aid has an ongoing role in the economy's development. In early 1996, the IMF agreed to provide a 15-month standby credit of \$191 million, and the World Bank authorized the loan of \$80 million to support the reform policies. The World Bank also decided to allocate government loans to Yemen worth \$365 million during 1996–99. The EU also pledged grants worth \$61.7 million in 1996/97, including \$30 million in project finance. Yemen benefited when Russia was admitted to the Paris Club (an

organization of countries owed money from past official loans). Approximately 80% of Yemen's debts to Russia, mostly for arms purchases, was forgiven in the debt rescheduling. The remainder of Yemen's debt to Paris Club members was rescheduled under Naples terms (for the poorest countries, this allows for cancellation of 50–66% of eligible sovereign debt), and in 2001, another Paris Club rescheduling provided an "exit treatment" that allowed Yemen to reach a sustainable level of indebtedness.

External debt was brought to a steady average of about 55% GDP for 2000. Yemen's fiscal imbalance has also improved in recent years, helped considerably by recovering oil prices. The fiscal deficit reached 6.4% of GDP in 1998, but then moderated to 0.2% of GDP in 1999, and, with increasing oil prices, soared to a surplus of 8.5% of GDP in 2000. In 2001 and 2002, the government continued to run surpluses of revenues and grants over expenditures, amounting to 2.8% of GDP in 2001 and 0.4% of GDP in 2002. Inflation, however, reached over 15% in 2002 due to increased prices for fuel, electricity and food. By 2005, however, the government had a budget deficit once again, with revenues of \$5.616 billion and expenditures of \$5.719 billion. Public debt was 35.9% of GDP. External debt was \$5.689 billion. The inflation rate was estimated at 9.6%.

In 2002 the parliament signed into law a general sales tax (GST), but implementation of this major tax reform designed to broaden and rationalize the tax base was delayed with IMF approval while more information about the effect of indirect taxation was collected. Yemen remains one of the poorest and least developed countries in the world. With a population growth rate of 3.45% in 2005 and growing, poverty has actually been expanding in recent years. About one-third of households are considered to be living in poverty. Water scarcity poses a severe challenge. The water crisis involves a depletion of groundwater, so that economic activity may become unsustainable in some areas. The growing of *qat*, while lucrative for many rural dwellers, consumes a disproportionately high amount of water, and accounts for half of irrigation water use in Yemen. Areas used for the growing of *qat* have expanded at a rate of 9% a year; the development of income-generating alternative crops that consume less water would create jobs and potentially develop new export commodities. The fertility rate is 6.67 and growing, and illiteracy among women and girls is particularly high—70% of females and 29.5% of males are illiterate—a social deficiency with serious implications for economic development.

In 2005, the World Bank announced it would increase its allocations for Yemen for the following three years, but only if the country's economic performance improved. The World Bank had reduced its funding from \$420 million for three years beginning in 2002, to \$280 million for three years beginning in 2005. In January 2006, the Yemeni government announced a third five-year development plan for poverty reduction, which was geared toward integrating the national economy with the international economy. Yemen hoped for accession to the WTO at that time, and was pushing for trade and industrial development. The five-year plan aimed to set up new industrial zones to improve opportunities for medium and small industries, and to set up a fund for industrial development. The plan also has measures to stimulate investment, including reforming the legal structure. Small industries are to be developed, such as crafts, clothes, and foodstuffs, so that they may compete in foreign markets. The plan called for measures to pro-

tect the environment from pollution, and to meet international standards regarding the protection of the environment.

#### 40 SOCIAL DEVELOPMENT

A social insurance system provides old age, disability, survivor, and workers' compensation benefits. This program covers most employees, including Yemeni nationals working overseas. Workers contribute 6% of their wages, and employers pay 6% of payroll. The government contributes as an employer only. Old age benefits are payable at age 60 with at least 15 years of contributions for men, and age 55 with at least 10 years of contributions for women. A health insurance program exists only for public employees. While the government has expanded its role in providing assistance, traditional means still predominate.

Although the constitution provides for equal rights and opportunity for all, women face considerable official and social discrimination. Polygamy is legal, and the practice of paying large dowries continues to be widespread. Women are required to obtain permission from a male member of the family in order to leave the house, and are rarely allowed to travel unaccompanied. Women have limited access to education. Estimates place the illiteracy rate for women at 67.5%, compared with 27.7% for men. Child marriage is common, and some girls marry as early as 12 years old. Women are permitted to vote, but social customs discourage most women from becoming politically active. The law states that a wife must obey her husband. Violence against women and children is prevalent but considered a family issue and not reported to authorities.

Although reports of arbitrary arrest and detention continue, Yemen's human rights record remained poor, and the government continued to commit serious abuses in 2004. However, some international and domestic human rights organizations operate in Yemen.

#### 41 HEALTH

Malnutrition and the diseases associated with it are major health problems. It was estimated that nearly 30% of children under five were malnourished. Malaria, typhus, tuberculosis, dysentery, whooping cough, measles, hepatitis, schistosomiasis, and typhoid fever are widespread, and sewage disposal of the most rudimentary type constitutes a general health hazard. Approximately 69% of the population had access to safe drinking water and 45% had adequate sanitation. Civil conflict in July 1994 created a shortage of water, food, and medical supplies in 'Aden, exacerbating health problems. As of 2004, there were an estimated 22 physicians, 45 nurses, and 1 dentist per 100,000 people. Total health care expenditure was estimated at 5.6% of GDP.

Immunization rates for children up to one year old were tuberculosis, 62%; diphtheria, pertussis, and tetanus, 57%; polio, 57%; and measles, 51%. Life expectancy in 2005 was estimated at 61.75 years; the infant mortality rate that year was 61.50 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 43 and 9.3 per 1,000 people.

The HIV/AIDS prevalence was 0.10 per 100 adults in 2003. As of 2004, there were approximately 1,200 people living with HIV/AIDS in the country.

#### 42 HOUSING

Housing is inadequate; about one-fourth of urban housing units are huts, tents, or other makeshift structures. In the hot coastal region, most dwellings, except those of the ruling classes, are straw huts. In the highlands, the poorer people live in huts of stone or baked brick. Wealthier Yemenis live in large houses whose style is unique to southwestern Arabia: the lower part is generally built of sandstone, basalt, or granite, while the upper part, which may rise from two to eight stories, is usually of baked brick with windows outlined in decorative designs. Often a loggia topped with brass and open on all sides rises from the roof. The preliminary results of the 2004 census indicated that there were 2,882,034 dwelling units in the country to serve a total population of 19,721,643 people. There were 7.14 people per household on average.

#### 43 EDUCATION

Early Yemeni education, with regard to medieval disciplines of law, religion, history and poetry, was sophisticated and, for a country of its type, remarkably widespread. Its people contributed nobly to medieval Islamic civilization. The Al-Azhar University of Cairo was well known for its education during the 10th and 11th centuries and it attracted students from nearby countries such as Ethiopia, Arabia, and Somalia. However, in the 19th and 20th centuries, there was slow progress in the field of education. Prior to the 1962 revolution, no proper educational system was in place. Civil war and internal political upheaval only worsened the situation.

In 1990, the literacy rate for the People's Democratic Republic of Yemen was 39.1% (males, 52.8%; females, 26.1%). The rate for the Yemen Arab Republic was 38.5% (males, 53.3%; females, 26.3%). The adult literacy rate for 2004 was estimated at about 49%, with 69.5% for men and 28.5% for women.

Basic education is compulsory for nine years. This may be followed by three years of secondary education, through which students choose either scientific or literary studies at a general school or vocational or agricultural studies at a technical school. Islamic schools focusing on religious studies are also available. The academic year runs from September to June.

Primary school enrollment in 2003 was estimated at about 72% of age-eligible students; 84% for boys and 59% for girls. In 2000, secondary school enrollment was about 34.5% of age-eligible students. It is estimated that about 65.5% of all students complete their primary education. The student-to-teacher ratio for primary school was at about 30:1 in 2000; the ratio for secondary school was about 14:1.

There are two universities: Şan'a' University (founded in 1970) and the University of 'Aden (established in 1975). Students who score well on the secondary leaving exam (*Al Thanawiya*) may be admitted to university. Over 2,000 Yemenis are being educated at foreign universities. In 1999, it was estimated that about 11% of the tertiary age population were enrolled in higher education programs. As of 2003, public expenditure on education was estimated at 9.5% of GDP, or 32.8% of total government expenditures.

#### 44 LIBRARIES AND MUSEUMS

The Yemen National Library is located in 'Aden. The Miswal Library in 'Aden maintains a traveling library to serve citizens. The Library of the Great Mosque of Şan'a' maintains a collection of

10,000 manuscripts, but is not accessible to the public. The British Council maintains two libraries: at 'Aden (3,000 volumes) and at Ṣan'ā' (10,400 volumes).

The National Museum has branches in 'Aden and Ṣan'ā'. The 'Aden site focuses primarily on ancient, pre-Islamic civilizations. 'Aden is also home to the Crater Military Museum and the Crater Folk Museum. There are local museums in Taizz and Zafar.

#### 45 MEDIA

Since unification, efforts have been underway to upgrade the country's telecommunications infrastructure. Two-way radio links Yemen directly with Cairo and Rome. Telephone and telegraph facilities are available in major cities, and a modern dial telephone system has been installed in Ṣan'ā', Ta'izz, and Al Ḥudaydah. In 2003, there were an estimated 28 mainline telephones for every 1,000 people; about 704,800 people were on a waiting list for telephone service installation. The same year, there were approximately 35 mobile phones in use for every 1,000 people.

The government operates or controls all of the broadcast networks through the Ministry of Information and the Public Corporation for radio and Television. As of 1999, there were 4 AM and 1 FM station and 7 television broadcast stations. In 2003, there were an estimated 65 radios and 308 television sets for every 1,000 people. The same year, there were 7.4 personal computers for every 1,000 people. There was one secure Internet server in the country in 2004.

In 2004, there were 6 government-controlled newspapers, 19 independent papers, and 14 party affiliated newspapers. There are approximately 80 magazines in circulation. In 2002 the three major daily newspapers were: *Al-Thawrah* (circulation 110,000), published in Ṣan'ā'; *Al-Jumhuriyah* (100,000), in Ta'izz; and *Ar-Rabi Ashar Min Uktubar* (20,000), published in 'Aden. The English-language weekly, *Yemen Times*, has a circulation of 20,000. All of the press is controlled by the Ministry of Information.

The constitution provides for free speech and press only within the limits of the law. The law includes restrictions on any speech or press against the government, particularly criticism of the head of state.

#### 46 ORGANIZATIONS

The government has encouraged the formation of cooperatives, but private associations with political overtones are suspect. There are chambers of commerce in the major cities. The Federation of Yemen Chamber of Commerce and Industry is located in Ṣan'ā'.

National youth organizations include the Fattah Socialist Youth Union, the General Union of Yemeni Students, General Union of Yemeni Youth, Supreme Student Committee of the Yemen Arab Republic, and the Yemen Scout Association. There are sports associations representing amateur athletes of all ages in a wide variety of pastimes.

The Yemeni Federation of Women's Organizations is based at Ṣan'ā' University. There are national chapters of the Red Crescent Society and UNICEF.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourists can visit historic and religious sites (such as the Ghum-dau Palace and the Great Mosque in Ṣan'ā') and exotic markets, and enjoy scenic areas including the Red Sea coast. Passports and

visas are required by foreign visitors. Vaccination against meningitis is required for pilgrims to Mecca. Precautions against meningitis, typhoid, and hepatitis are recommended for all visitors.

In 2003, there were 154,667 tourist arrivals, almost 39% of whom came from Saudi Arabia. There were 13,280 hotel rooms with 33,816 beds that same year.

According to the 2004 US Department of State estimates, the cost of staying in Ṣan'ā' was \$216 per day. Elsewhere in the country, travel costs were less expensive.

#### 48 FAMOUS YEMENIS

Imam Yahya ibn Muhammad Hamid ad-Din (1869?–1948) ruled during the period when Yemen established its independence; he was assassinated during an uprising. 'Alī 'Abdullah Saleh (b.1942) became president of the YAR in 1978, ending a period of upheaval in which his two immediate predecessors were assassinated. He became united Yemen's first directly-elected president in 1999. Field Marshal 'Abdallah as-Sallal (1920–94) was the first president of the YAR and held power from 1962 until a coup ousted him in 1967. 'Alī Nasir Muhammad al-Hasani (b.1940?) was prime minister of the PDYR in 1980 and president from 1980 to 1986. Haydar Abu Bakr al-'Attas (b.1939) was prime minister of the PDYR during 1985–86.

#### 49 DEPENDENCIES

Yemen has no territories or colonies.

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# INDEX TO COUNTRIES AND TERRITORIES

This alphabetical list includes countries and dependencies (colonies, protectorates, and other territories) described in the encyclopedia. Countries and territories described in their own articles are followed by the continental volume (printed in *italics*) in which each appears. Country articles are arranged alphabetically in each volume. For example, Argentina, which appears in *Americas*, is listed this way: Argentina—*Americas*. Dependencies are listed here with the title of the volume in which they are treated, followed by the name of the article in which they are dealt with. In a few cases, an alternative name for the same place is given in parentheses at the end of the entry. The name of the volume *Asia and Oceania* is abbreviated in this list to *Asia*.

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- Norfolk Island—*Asia*: Australia
- North Borneo—*Asia*: Malaysia
- Northern Ireland—*Europe*: United Kingdom
- Northern Mariana Islands—*Asia*: US Pacific Dependencies
- Northern Rhodesia—*Africa*: Zambia
- North Korea—*Asia*: Korea, Democratic People's Republic of
- North Vietnam—*Asia*: Vietnam
- Northwest Territories—*Americas*: Canada
- Norway—*Europe*
- Nosy Boraha and Nosy Be—*Africa*: Madagascar
- Nyasaland—*Africa*: Malawi
- Ocean Island—*Asia*: Kiribati (Banaba)
- Ogasawara Islands—*Asia*: Japan (Bonin Islands)
- Okinawa—*Asia*: Japan
- Oman—*Asia*
- Outer Mongolia—*Asia*: Mongolia
- Pacific Islands, Trust Territory of the—*Asia*: Federated States of Micronesia; Marshall Islands; Palau; US Pacific Dependencies
- Pakistan—*Asia*
- Pakistan, East—*Asia*: Bangladesh

- Palau—*Asia*  
 Palmyra Atoll—*Asia*: US Pacific Dependencies  
 Panama—*Americas*  
 Papua New Guinea—*Asia*  
 Paracel Islands—*Asia*: China (Xisha Islands)  
 Paraguay—*Americas*  
 Peru—*Americas*  
 Peter I Island—*Europe*: Norway  
 Petit Martinique—*Americas*: Grenada  
 Philippines—*Asia*  
 Phoenix Islands—*Asia*: Kiribati  
 Pitcairn Island—*Europe*: United Kingdom  
 Poland—*Europe*  
 Polar Regions—*United Nations*  
 Portugal—*Europe*  
 Portuguese Timor—*Asia*: East Timor  
 Puerto Rico—*Americas*: United States  
  
 Qatar—*Asia*  
 Queen Maud Land—*Europe*: Norway  
 Quemoy Islands—*Asia*: Taiwan  
  
 Ras al-Khaimah—*Asia*: United Arab Emirates  
 Réunion—*Africa*: French African Dependencies  
 Rhodesia—*Africa*: Zimbabwe  
 R'ò Muni—*Africa*: Equatorial Guinea  
 Romania—*Europe*  
 Ross Dependency—*Asia*: New Zealand  
 Ruanda-Urundi—*Africa*: Burundi; Rwanda  
 Russia—*Europe*  
 Rwanda—*Africa*  
 Ryukyu Islands—*Asia*: Japan  
  
 Sabah—*Asia*: Malaysia  
 St. Christopher—*Americas*: St. Kitts and Nevis  
 St. Christopher and Nevis—*Americas*: St. Kitts and Nevis  
 St. Helena—*Africa*: UK African Dependencies  
 St. Kitts—*Americas*: St. Kitts and Nevis  
 St. Kitts and Nevis—*Americas*  
 St. Lucia—*Americas*  
 St. Pierre and Miquelon—*Americas*: French American Dependencies  
 St. Vincent and the Grenadines—*Americas*  
 Sala y Gómez Island—*Americas*: Chile  
 Samoa—*Asia*  
 Samoa, American—*Asia*: US Pacific Dependencies  
 Samoa, Western—*Asia*: Samoa  
 San Ambrosio Island—*Americas*: Chile  
 San Andrés and Providentia—*Americas*: Colombia  
 San Felix Island—*Americas*: Chile  
 San Marino—*Europe*  
 São Tomé and Príncipe—*Africa*  
 Sarawak—*Asia*: Malaysia  
 Saudi Arabia—*Asia*  
 Scotland—*Europe*: United Kingdom  
 Senegal—*Africa*  
 Serbia—*Europe*  
  
 Seychelles—*Africa*  
 Sharjah—*Asia*: United Arab Emirates  
 Sierra Leone—*Africa*  
 Sikkim—*Asia*: India  
 Singapore—*Asia*  
 Slovakia—*Europe*  
 Slovenia—*Europe*  
 Society Islands—*Asia*: French Pacific Dependencies: French Polynesia  
 Solomon Islands—*Asia*  
 Somalia—*Africa*  
 Somaliland, French—*Africa*: Djibouti  
 South Africa—*Africa*  
 South Arabia, Federation of—*Asia*: Yemen  
 Southern Rhodesia—*Africa*: Zimbabwe  
 Southern Yemen—*Asia*: Yemen  
 South Georgia—*Americas*: UK American Dependencies: Falkland Islands  
 South Korea—*Asia*: Korea, Republic of  
 South Vietnam—*Asia*: Vietnam  
 South West Africa—*Africa*: Namibia  
 Spain—*Europe*  
 Spanish Guinea—*Africa*: Equatorial Guinea  
 Spanish Sahara—*Africa*: Morocco  
 Spratly Islands—*Asia*: Vietnam  
 Sri Lanka—*Asia*  
 Sudan—*Africa*  
 Suriname—*Americas*  
 Svalbard—*Europe*: Norway  
 Swan Islands—*Americas*: US  
 Swaziland—*Africa*  
 Sweden—*Europe*  
 Switzerland—*Europe*  
 Syria—*Asia*  
  
 Tahiti—*Asia*: French Pacific Dependencies: French Polynesia  
 Taiwan—*Asia*  
 Tajikistan—*Asia*  
 Tanganyika—*Africa*: Tanzania  
 Tanzania—*Africa*  
 Thailand—*Asia*  
 Tibet—*Asia*: China  
 Timor, East—*Asia*  
 Tobago—*Americas*: Trinidad and Tobago  
 Togo—*Africa*  
 Tokelau Islands—*Asia*: New Zealand  
 Tonga—*Asia*  
 Transkei—*Africa*: South African Homelands  
 Trinidad and Tobago—*Americas*  
 Tristan da Cunha—*Africa*: UK African Dependencies: St. Helena  
 Trust Territory of the Pacific Islands—*Asia*: Federated States of Micronesia; Marshall Islands; Palau; US Pacific Dependencies  
 Tuamotu Islands—*Asia*: French Asian Dependencies: French Polynesia  
 Tunisia—*Africa*  
 Turkey—*Asia*  
 Turkmenistan—*Asia*

- Turks and Caicos Islands—*Americas*: United Kingdom American Dependencies  
 Tuvalu—*Asia*
- Uganda—*Africa*  
 Ukraine—*Europe*  
 Umm al-Qaiwain—*Asia*: United Arab Emirates  
 Union of Soviet Socialist Republics (USSR)—*Asia*: Azerbaijan; Kazakhstan; Kyrgyzstan; Tajikistan; Turkmenistan; Uzbekistan; *Europe*: Armenia; Belarus; Estonia; Georgia; Latvia; Lithuania; Moldova; Russia; Ukraine  
 United Arab Emirates (UAE)—*Asia*  
 United Arab Republic—*Africa*: Egypt  
 United Kingdom (UK)—*Europe*  
 United Kingdom African Dependencies—*Africa*  
 United Kingdom American Dependencies—*Americas*  
 United Kingdom Asian and Pacific Dependencies—*Europe*: United Kingdom  
 United States of America (US)—*Americas*  
 United States Pacific Dependencies—*Asia*  
 Upper Volta—*Africa*: Burkina Faso  
 Uruguay—*Americas*  
 Uzbekistan—*Asia*
- Vanuatu—*Asia*  
 Vatican—*Europe*  
 Venezuela—*Americas*  
 Vietnam—*Asia*
- Vietnam, North—*Asia*: Vietnam  
 Vietnam, South—*Asia*: Vietnam  
 Virgin Islands, British—*Americas*: UK American Dependencies  
 Virgin Islands of the US—*Americas*: United States  
 Volcano Islands—*Asia*: Japan (Kazan Islands)
- Wake Island—*Asia*: US Pacific Dependencies  
 Wales—*Europe*: United Kingdom  
 Wallis and Futuna—*Asia*: French Asian Dependencies  
 Western Sahara—*Africa*: Morocco  
 Western Samoa—*Asia*: Samoa  
 West Germany—*Europe*: Germany, Federal Republic of  
 West Irian—*Asia*: Indonesia  
 Windward Islands—*Americas*: Dominica; St. Lucia; St. Vincent and the Grenadines
- Xisha Islands—*Asia*: China (Paracel Islands)
- Yemen, People's Democratic Republic of (PDRY)—*Asia*: Yemen  
 Yemen, Republic of—*Asia*  
 Yemen Arab Republic (YAR)—*Asia*: Yemen  
 Yugoslavia—*Europe*: Serbia and Montenegro  
 Yukon Territory—*Americas*: Canada
- Zaire—*Africa*: Congo, Democratic Republic of  
 Zambia—*Africa*  
 Zimbabwe—*Africa*